FRONTIER AIRLINES INC /CO/
Form 10-Q
February 17, 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 December 31, 2003.

[ ] 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 February 9, 2004 was 35,527,942.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
FRONTIER AIRLINES, INC.
Balance Sheets
(Unaudited)

	December 31, 2003	March 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 184,323,539	$ 102,880,404
Short-term investments	2,000,000	2,000,000
Restricted investments	23,415,901	14,765,000
Receivables, net of allowance for doubtful accounts of $298,000 and $237,000 at December 31, 2003 and March 31, 2003, respectively	26,998,522	25,856,692
Income taxes receivable	389,192	24,625,616
Security and other deposits	515,000	912,399
Prepaid expenses and other assets	11,271,500	9,050,671
Inventories, net of allowance of $2,428,000 and $2,478,000 at December 31, 2003 and March 31, 2003, respectively	6,206,370	5,958,836
Deferred tax asset	7,669,732	4,788,831
Total current assets	262,789,756	190,838,449
Property and equipment, net	444,366,268	334,492,983
Security and other deposits	14,998,851	6,588,023
Aircraft pre-delivery payments	24,276,079	30,531,894
Restricted investments	8,161,000	9,324,066
Deferred loan fees and other assets, net	5,494,202	16,068,361
	$ 760,086,156	$ 587,843,776
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 27,649,190	$ 26,388,621
Air traffic liability	72,991,948	58,875,623
Other accrued expenses (note 4)	40,866,829	22,913,659
Current portion of long-term debt (note 6)	16,042,842	10,473,446
Deferred revenue and other liabilities	1,330,000	1,396,143

Total current liabilities	158,880,809	130,047,492
Long-term debt (note 6)	284,994,343	261,738,503
Deferred tax liability	32,221,473	20,017,787
Deferred revenue and other liabilities	21,261,354	17,072,868
Total liabilities	497,357,979	428,876,650
Stockholders' equity:		
Preferred stock, no par value, authorized 1,000,000 shares; none issued	-	-
Common stock, no par value, stated value of $.001 per share, authorized 100,000,000 shares; 35,229,768 and 29,674,050 shares issued and outstanding at December 31, 2003 and March 31, 2003, respectively	35,230	29,674
Additional paid-in capital	181,833,352	96,424,525
Other comprehensive loss	(40,609)	-
Retained earnings	80,900,204	62,512,927
	262,728,177	158,967,126
	760,086,156	587,843,776
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See accompanying notes to financial statements.

FRONTIER AIRLINES, INC.
Statements of Operations
(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 31, 2003	December 31, 2002	December 31, 2003	Decemb 20
Revenues:				
Passenger	$ 159,174,576	$ 117,752,421	$ 458,130,130	$ 343,7
Cargo	2,036,132	1,353,403	6,094,379	4,2
Other	2,349,767	1,147,464	7,322,528	3,3
Total revenues	163,560,475	120,253,288	471,547,037	351,4
Operating expenses:				
Flight operations	26,097,278	22,100,419	75,417,872	62,8
Aircraft fuel expense	27,486,807	21,709,633	75,988,127	60,4
Aircraft lease expense	17,246,551	17,868,787	52,359,272	52,4
Aircraft and traffic servicing	29,626,177	22,440,145	79,701,143	63,0
Maintenance	17,324,224	19,343,863	52,322,200	53,2
Promotion and sales	17,322,739	11,664,781	48,312,687	39,8
General and administrative	9,560,740	6,684,541	28,280,752	19,3
Depreciation and amortization	6,295,489	4,558,342	17,352,987	12,4
Total operating expenses	150,960,005	126,370,511	429,735,040	363,8
Operating income (loss)	12,600,470	(6,117,223)	41,811,997	(12,4
Nonoperating income (expense):				
Interest income	590,206	328,303	1,528,037	1,5
Interest expense	(3,195,924)	(1,993,971)	(11,064,704)	(5,1
Emergency Wartime Supplemental Appropriations Act compensation	-	-	15,024,188	
Early extinguishment of debt	(1,073,028)	(1,774,311)	(9,815,517)	(1,7
Aircraft lease and facility				

exit costs	(26,446)	-	(5,371,799)	
Loss on sale-leaseback of aircraft	(85,376)	-	(1,323,094)	
Other, net	(39,802)	(240,000)	(892,113)	(6
Total nonoperating expense, net	(3,830,370)	(3,679,979)	(11,915,002)	(6,0
Income (loss) before income tax expense (benefit) and cumulative effect of change in method of accounting for maintenance	8,770,100	(9,797,202)	29,896,995	(18,4
Income tax expense (benefit)	3,314,236	(3,429,369)	11,509,718	(6,6
Income (loss) before cumulative effect of change in method of accounting for maintenance	5,455,864	(6,367,833)	18,387,277	(11,8
Cumulative effect of change in method of accounting for maintenance, net of tax	-	-	-	2,0
Net income (loss)	$ 5,455,864	$ (6,367,833)	$ 18,387,277	$ (9,8

(continued)

See accompanying notes to financial statements.

FRONTIER AIRLINES, INC.
Statements of Operations
(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 31, 2003	December 31, 2002	December 31, 2003	Decemb 20
Earnings (loss) per share:				
Basic:				
Income (loss) before cumulative effect of change in accounting principle	$0.15	($0.21)	$0.58	
Cumulative effect of change in method of accounting for maintenance checks	-	-	-	
Net income (loss)	$0.15	($0.21)	$0.58	
Diluted:				
Income (loss) before cumulative effect of change in accounting principle	$0.14	($0.21)	$0.53	
Cumulative effect of change in method of accounting for maintenance checks	-	-	-	

Net income (loss)	$0.14	($0.21)	$0.53	
Weighted average shares of common stock outstanding:				
Basic	35,203,458	29,648,077	31,829,010	29,6
Diluted	38,509,350	29,648,077	34,554,105	29,6

See accompanying notes to financial statements.

FRONTIER AIRLINES, INC.
Statements of Stockholders' Equity and Other Comprehensive Loss
For the Year Ended March 31, 2003 and the Nine Months Ended December 31, 2003

	Common stock	Additional paid-in capital	Unearned ESOP shares	Accumulated other comprehensive loss	Retai earni
Balances, March 31, 2002	$ 29,422	85,867,486	(2,119,670)	-	85,356
Net loss	-	-	-	-	(22,843
Exercise of common stock options	252	616,695	-	-	
Warrants issued in conjunction with debt agreement	-	9,282,538	-	-	
Tax benefit from exercises of common stock options	-	657,806	-	-	
Amortization of employee stock compensation	-	-	2,119,670	-	
Balances, March 31, 2003	29,674	96,424,525	-	-	62,512
Net income	-	-	-	-	18,387
Other comprehensive loss - Unrealized loss on derivative instruments	-	-	-	(40,609)	
Total comprehensive income					
Sale of common stock, net of offering costs of $257,000	5,050	81,072,096	-	-	
Exercise of common stock options	158	939,620	-	-	
Tax benefit from exercises of common stock options	-	987,650	-	-	
Equity adjustment for the repricing of warrants issued in conjunction with a debt agreement	-	116,701	-	-	
Contribution of common stock to employees stock					

ownership plan	348	2,292,760	(2,293,108)	-	
Amortization of employee stock compensation	-	-	2,293,108	-	
Balances, December 31, 2003	$35,230	$181,833,352	$ -	$ (40,609	$80,900

See accompanying notes to financial statements.

FRONTIER AIRLINES, INC.
Statements of Cash Flows
For the Nine Months Ended December 31, 2003 and 2002
(Unaudited)

	2003	2002
Cash flows from operating activities:		
Net income (loss)	$ 18,387,277	$ (9,884,076)
Adjustments to reconcile net income to net cash and cash equivalents provided (used) by operating activities:		
Employee stock option plan compensation expense	1,771,156	2,119,670
Depreciation and amortization	17,352,987	12,489,981
Loss on disposal of equipment	1,631,405	234,797
Accelerated amortization of deferred loan costs	9,815,517	177,924
Unrealized derivative gain, net	(580,005)	(237,933)
Deferred tax expense	9,322,785	6,683,479
Changes in operating assets and liabilities:		
Restricted investments	(9,931,335)	(3,809,834)
Receivables	(1,141,830)	2,416,697
Income taxes receivable	24,236,424	(6,495,325)
Security and other deposits	(2,556,741)	(3,924,364)
Prepaid expenses and other assets	(2,220,829)	2,816,232
Inventories	(247,534)	(1,385,935)
Deferred loan and other assets	2,486,574	(174,209)
Accounts payable	1,260,569	(1,570,274)
Air traffic liability	14,116,325	(10,238,143)
Accrued maintenance expense	-	(3,196,618)
Other accrued expenses	18,525,475	(484,470)
Deferred stabilization act compensation	-	(4,835,381)
Deferred revenue and other liabilities	4,122,343	4,408,747
Net cash and cash equivalents provided (used) by operating activities	106,350,563	(14,889,035)
Cash flows from investing activities:		
Decrease in aircraft lease and purchase deposits, net	799,127	4,792,059
Decrease in restricted investments	2,443,500	617,700
Proceeds from the sale of aircraft	-	29,750,000
Capital expenditures	(128,857,677)	(197,880,599)
Net cash and cash equivalents used by investing activities	(125,615,050)	(162,720,840)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	83,121,275	1,184,019

Proceeds from long-term borrowings	98,500,000	147,100,000
Payment of financing fees	(1,238,889)	(1,786,064)
Principal payments on long-term borrowings	(79,674,764)	(26,941,612)
Net cash and cash equivalents provided by financing activities	100,707,622	119,556,343
Net increase (decrease) in cash and cash equivalents	81,443,135	(58,053,532)
Cash and cash equivalents, beginning of period	102,880,404	87,555,189
Cash and cash equivalents, end of period	$184,323,539	$ 29,501,657

See accompanying notes to financial statements.

FRONTIER AIRLINES, INC.
Notes to Financial Statements
December 31, 2003

(1) **Basis of Presentation**

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended March 31, 2003. 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 nine months ended December 31, 2003 are not necessarily indicative of the results that will be realized for the full year.

(2) **Summary of Significant Accounting Policies**

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 Interpretati 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 accounte for its employee stock options under the fair value method of that Statement. Had compensat 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 (los per share would be as follows:

	Three Months Ended		Three Months Ended	
	December 31, 2003	December 31, 2002	December 31, 2003	Decemb 20
Net income (loss):				
As Reported	$ 5,455,864	$ (6,367,833)	$ 18,387,277	$ (9,8
Pro Forma	$ 4,970,766	$ (6,825,508)	$ 16,830,293	$ (12,8

Earnings (loss) per share, basic:				
As Reported	$ 0.15	$ (0.21)	$ 0.58	$
Pro Forma	$ 0.14	$ (0.23)	$ 0.53	$
Earnings (loss) per share, diluted:				
As Reported	$ 0.14	$ (0.21)	$ 0.53	$
Pro Forma	$ 0.13	$ (0.23)	$ 0.49	$

FRONTIER AIRLINES, INC.
Notes to Financial Statements
December 31, 2003

Interest Rate Hedging Program

During the nine months ending December 31, 2003, the Company designated certain interest swaps as qualifying cash flow hedges. Under these hedging arrangements, the Company is hed the interest payments associated with a portion of its LIBOR-based borrowings. Under the agreements, the Company pays a fixed rate of interest on the notional amount of the contra of $27,000,000, and it receives a variable rate of interest based on the three month LIBOR which is reset quarterly. Interest expense for the three and nine months ended December 31, includes $90,000 and $263,000 of settlement amounts payable to the counter party for the pe Changes in the fair value of interest rate swaps designated as hedging instruments are repo in accumulated other comprehensive income. These amounts are subsequently reclassified interest expense as a yield adjustment in the same period in which the related interest paym on the LIBOR-based borrowings affects earnings. Approximately $41,000 of unrealized lo are included in accumulated other comprehensive loss for the nine months ended December 2003 and are expected to be reclassified into interest expense as a yield adjustment of the interest payments over the next 12 months.

(3) **Government Assistance**

The Emergency Wartime Supplemental Appropriations Act (the "Appropriations Act"), enacted April 2003, made available approximately $2.3 billion to U.S. flag air carriers for expens and revenue foregone related to aviation security. The payment received by each carrier w for the reimbursement of the TSA security fees, the September 11th Security Fee and/or the Aviation Security Infrastructure Fee paid by the carrier as of the date of enactment of t Appropriations Act. According to the Appropriations Act, an air carrier may use the am received as the carrier determines. Pursuant to the Appropriations Act, the Company recei $15,573,000 in May 2003, of which $549,000 was paid to Mesa Air Group for the revenue passen Mesa carried as Frontier JetExpress.

The Appropriations Act provides for additional reimbursements to be made to U.S. flag ai carriers for costs incurred related to the FAA requirements for enhanced flight deck door security measures that were mandated as a result of the September 11 terrorist attacks. Pursuant to the Appropriations Act, the Company received $889,000 in September 2003 for expe related to the installation of enhanced flight deck doors on its aircraft, $275,000 of whi was recorded as a reduction to property and equipment, net, and $614,000 was recorded as a reduction to maintenance expense.

(4) **Other Accrued Expenses**

The December 31, 2003 and March 31, 2003 other accrued expenses are comprised of the followi

	December 31, 2003	March 31, 2003

Accrued salaries and benefits	$22,313,946	$14,103,103
Federal excise and other passenger taxes payable	9,463,071	6,651,108
Other	9,089,812	2,159,448
	$40,866,829	$22,913,659

FRONTIER AIRLINES, INC.
Notes to Financial Statements
December 31, 2003

(5) **Stockholders' Equity**

Common Stock

The Company completed a secondary public offering of 5,050,000 shares of common stock in September 2003. The Company received $81,077,000, net of offering expenses, from the sale of these shares. See note 6 for a discussion of the required prepayment of the Company's government guaranteed loan as a result of this issuance of common stock. Additionally, the government guaranteed loan includes certain anti-dilution adjustments in the event of any sale of the Company's common stock. As a result, the exercise price of the warrants issued in connection with the loan was adjusted from $6.00 per share to $5.92 per share. The Company recorded $117,000 as additional debt issuance costs in conjunction with this repricing. There are 3,833,945 warrants to purchase common stock outstanding at December 31, 2003, which were issued in connection with the loan.

(6) **Long-Term Debt**

Government Guaranteed Loan

In July 2003, the Company received a federal income tax refund totaling $26,574,000 from the Internal Revenue Service. The Company prepaid $10,000,000 on its government guaranteed loan upon receipt of this refund, as required by the terms of the loan agreement.

The government guaranteed loan also required a prepayment equal to 60% of the net proceeds from any sales of common stock. As a result of the sale of common stock in September 2003 (see note 5), the Company prepaid approximately $48,418,000 on the loan. In December 2003, the Company repaid the remaining loan balance of $11,582,000.

Other Long-Term Debt

During the nine months ended December 31, 2003, the Company borrowed $98,500,000 for the purchase of four Airbus A318 aircraft. Each aircraft loan has a term of 12 years and is payable in monthly installments, including interest, payable in arrears, with a floating interest rate adjusted quarterly based on LIBOR plus a margin of 2.25% for three of the loans, and LIBOR plus a margin of 1.95% for the fourth. At the end of the term, there is a balloon payment of $3,060,000 each for three of the aircraft loans and $2,640,000 for the fourth. The loans are secured by the aircraft.

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, other than statements of historical facts, 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-lookin statements. When used in this document, the words "estimate," "anticipate," "project" and simi expressions are intended to identify forward-looking statements. Forward-looking statements ar inherently subject to risks and uncertainties, many of which cannot be predicted with accurac 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 ou operations in accordance with our business strategy or in response to competitive pressures o other factors; 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 inciden 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 otherwi adversely affect us; actions of competing airlines, such as increasing capacity and pricing actions of United Airlines and other competitors and other actions taken by United Airlines either in or out of bankruptcy protection; the availability of suitable aircraft, which ma inhibit our ability to achieve operating economies and implement our business strategy; the unavailability of, or inability to secure upon acceptable terms, financing necessary to purchase aircraft that we have ordered or lease aircraft we anticipate adding to our fleet through lease financing; issues relating to our transition to an Airbus aircraft fleet; uncertainties regarding aviation fuel prices; and uncertainties as to when and how fully consumer confidence in the airline industry will be restored, if ever. Because our busines 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 availab seat mile ("CASM") can significantly affect operating results. See "Risk Factors" in our For 10-K for the year ended March 31, 2003 and our Form 8-K filed September 19, 2003, which updates o risk factors.

General

We are a scheduled passenger airline based in Denver, Colorado. We are the second larges jet service carrier at Denver International Airport ("DIA"). As of February 9, 2004, we, in conjunction with Frontier JetExpress operated by Horizon Air Industries, Inc. ("Horizon"), operate routes linking our Denver hub to 37 cities in 22 states spanning the nation from coas to coast and to five cities in Mexico. We are a low cost, affordable fare airline operating primarily in a hub and spoke fashion connecting points coast to coast through our hub at DIA. We were organized in February 1994 and we began flight operations in July 1994 with two leased Boeing 737-200 jets. We have since expanded our fleet in service to 39 jets (26 of which we lease and 13 of which we own), consisting of 12 Boeing 737-300s, 23 Airbus A319s, and 4 Airbus A3 In May 2001, we began a fleet replacement plan to replace our Boeing aircraft with new purchase and leased Airbus jet aircraft, a transition we expect to complete by approximately the end of calendar year 2005. As of November 1, 2003, we no longer operate Boeing 737-200 aircraft. During the three and nine months ended December 31, 2003, we increased capacity by 19.1% and 17.0% over the prior comparable periods, respectively. In the three and nine months ended December 31, 2003, we increased passenger traffic by 45.3% and 39.8% over the prior comparable periods, respectively, outpacing our increase in capacity during the periods.

We currently operate on 14 gates on Concourse A at DIA on a preferential basis. Together with our regional jet codeshare partner, Frontier Jet Express, we use these 14 gates and share use of up to seven common use regional jet parking positions to operate approximately 188 daily system flight departures and arrivals and 22 Frontier JetExpress daily system flight departures and arrivals.

We began service to Orange County, California and Milwaukee, Wisconsin on August 31, 2003 with two and three daily round-trips, respectively, and we added a third round-trip to Orange County, California on October 1, 2003. Additionally, on November 1, 2003 we began service to St. Louis, Missouri with two daily round-trip flights, resumed our seasonal service to Mazatlan, Mexico with one weekly round-trip frequency, that we increased to three weekly round-trip frequencies to Mazatlan, Mexico on November 22, 2003 and began service to Cabo San Lucas with one weekly round-trip frequency that we increased to three weekly round-trip frequencies on November 22, 2003. On November 22, 2003, we began service to Puerto Vallarta, Mexico with three weekly round-trip flights. We began service to Ixtapa/Zihuatanejo, Mexico, on January 31, 2004 with two weekly round-trip frequencies. On February 8, we replaced our service between DIA and El Paso, Texas via Albuquerque, New Mexico, with two direct daily round-trip frequencies. We intend to begin service to Washington Dulles International Airport on April 11, 2004 with two daily round-trip frequencies from DIA and seasonal service to Anchorag Alaska on May 9, 2004 with one daily round-trip frequency from DIA. We received authority to add a third frequency at New York's LaGuardia Airport, which we intend to begin on March 2, 2004.

Beginning April 11, 2004, we intend to begin our first significant point-to-point routes outside of our DIA hub. We will begin service from Los Angeles International Airport with two daily round-trip frequencies to Minneapolis/St. Paul, Minnesota, Kansas City, Missouri and St. Louis, Missouri.

In June 2003, we entered into an agreement with Kinetics, Inc., a provider of enterpris and self-service technology to the U.S. airline industry, to deploy its new automated check-in system. The launch of "FlexCheck," our suite of airport and web-based automated check-in service utilizes Kinetics' TouchPort self-service terminals and associated Kinetics software solutio for airport and Internet check-in. FlexCheck became available via the Internet in early August 2003 with deployment of self-service kiosks at our hub at DIA in September 2003. The system allows our customers to check in for their flights using a standard credit card for identificatio purposes only, their EarlyReturns frequent flyer number, E-ticket number or confirmation numbe

On September 18, 2003, we signed a 12 year agreement with Horizon Air Industries, In ("Horizon"), under which Horizon will operate up to nine 70-seat CRJ 700 aircraft under our Fron JetExpress brand. The service began on January 1, 2004 with three aircraft. A fourth aircraf was put into the schedule effective January 31, 2004 and a fifth aircraft began service on Februa 8, 2004. The remaining aircraft will be added to service periodically through May 2004. W control the scheduling of this service. We reimburse Horizon for its expenses related to the ope 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 February 9, 2004, Frontier JetExpress provides service to Ontario, California, Boise, Idaho, Tucson, Arizona, Oklahoma City, Oklahoma and supplements our mainline service to San Jose, California, Albuquerqu New Mexico, Minneapolis/St. Paul, Minnesota and El Paso and Austin, Texas. This service replaced our codeshare arrangement with Mesa Airlines, which terminated on December 31, 2003.

In March 2003, we entered into an agreement with Juniper Bank (www.juniperbank.com), a full-service credit card issuer, to offer exclusively Frontier MasterCard products to consume customers and Frontier's EarlyReturns frequent flyer members. We launched the co-branded credit in May 2003. As of February 9, 2004, Juniper Bank has issued approximately 35,000 of these cre cards. We believe that the Frontier/Juniper Bank co-branded MasterCard offers one of the aggressive affinity card programs because free travel can be earned for as little as 15,000 miles

In October 2002, we signed a purchase and long-term services agreement with LiveTV bring DIRECTV AIRBORNE(TM) satellite programming to every seatback in our Airbus fleet. In Fe 2003, we completed the installation of the LiveTV system on all Airbus A319 aircraft. We are forward with the installation of the LiveTV systems in our Airbus A318 aircraft and anticipat these systems will become operational by April 2004. We have implemented a $5 per segment us charge for access to the system to offset the costs for the system equipment, programming a services. We are also in discussions with film distributors to offer current-run pay-per-view m on four additional channels to be added to our basic LiveTV service. We cannot anticipate w any certainty whether or when this service will become available. We believe the DIRECTV(TM)pro represents a significant value to our customers and offers a competitive advantage for our compa

Effective July 9, 2001, we began a codeshare agreement with Great Lakes Aviation Ltd. (" Lakes"). We added two additional markets under the codeshare agreement: Rapid City, South Dako on July 30, 2003 and to Grand Junction, Colorado on August 1, 2003. Additionally, Great Lakes replaced Frontier JetExpress service to Wichita, Kansas on November 1, 2003. Including these cities, Great Lakes provides service to 35 regional markets located in Arizona, Colorado, Kansas Mexico, Nebraska, North Dakota, South Dakota, Texas, and Wyoming under this codeshare agreement.

Our filings with the Securities and Exchange Commission are available at cost on our website, www.frontierairlines.com, in the Investor Relations folder contained in section titled "About Frontier". These reports include our annual report on Form 10-K, our quar reports on Form 10-Q, current reports on Form 8-K, Section 16 reports on Forms 3, 4 and 5, and 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 numbe is 800-432-1359.

Results of Operations

We had net income of $5,456,000 or 14(cent)per diluted share for the three months ended December 31, 2003 as compared to a net loss of $6,368,000, or 21(cent)per share for the three mon ended December 31, 2002. Included in our net income for the three months ended December 31, 20 on a pre-tax and profit sharing basis was a special item for the write-off of deferred loan cos of $1,073,000 associated with the prepayment of the remaining principal of the government guaran loan. This item, net of income taxes and profit sharing, reduced net income by 2(cent)per diluted

We had net income of $18,387,000 or 53(cent)per diluted share for the nine months ended December 31, 2003 as compared to a net loss of $11,895,000, before cumulative effect of change accounting for maintenance checks, or 40(cent)per share for the nine months ended December 3 2002. Included in our net income for the nine months ended December 31, 2003 were the follow special items on a pre-tax and profit sharing basis: $15,024,000 of compensation received under Appropriations Act; an unrealized derivative gain of $539,000 offset by the write-off of deferr loan costs of $9,816,000 associated with the prepayment of all of the government guaranteed lo a charge for Boeing aircraft and facility lease exit costs of $5,372,000; and a loss of $1,806,0 on the sale of one Airbus aircraft in a sale-leaseback transaction and from the sale of a spare e These items, net of income taxes and profit sharing, reduced net income by 3(cent)per diluted sh During the three and nine months ended December 31, 2002, we completed a sale-leaseback transact of one of our purchased aircraft and paid off the loan that was collateralized by this aircraf We incurred $1,774,000 in costs associated with the early extinguishment of this debt. This it net of income taxes, reduced net income by 4(cent)per share.

The following table provides certain of our financial and operating data for the three month and nine month periods ended December 31, 2003 and 2002.

	Three Months Ended Dec. 31, 2003	2002	Nine Months Ended 2003	
Selected Operating Data:				
Passenger revenue (000s) (1)	$ 159,175	$ 117,752	$ 458,130	$
Revenue passengers carried (000s)	1,444	999	4,127	
Revenue passenger miles (RPMs)				

(000s) (2)	1,317,227	906,801	3,760,480	
Available seat miles (ASMs) (000s) (3)	1,815,751	1,524,638	5,212,198	
Passenger load factor (4)	72.5%	59.5%	72.1%	
Break-even load factor (5)	68.5%	64.4%	67.4%	
Block hours (6)	36,304	30,472	103,339	
Departures	15,726	13,522	45,414	
Average aircraft stage length	877	852	864	
Average passenger length of haul	912	908	911	
Average daily fleet block hour utilization (7)	10.3	9.5	10.2	
Yield per RPM (cents) (8) (9)	12.01	12.93	12.12	
Yield per ASM (cents) (9) (10)	8.71	7.69	8.75	
Total yield per ASM (cents) (11)	9.01	7.89	9.05	
Cost per ASM (cents)	8.31	8.29	8.24	
Fuel cost per ASM (cents)	1.51	1.42	1.46	
Cost per ASM excluding fuel (cents) (12)	6.80	6.86	6.79	
Average fare (13)	$ 104	$ 111	$ 104	$
Average aircraft in fleet	38.2	34.8	36.9	
Aircraft in fleet at end of period	39.0	37.0	39.0	
Average age of aircraft at end of period	4.2	7.9	4.2	

(1) "Passenger revenue" includes revenues for non-revenue passengers, administrative fees, and r recognized for unused tickets that are greater than one year from issuance date.

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

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

(4) "Passenger load factor" is determined by dividing revenue passenger miles by available seat

(5) "Break-even load factor" is the passenger load factor that will result in operating revenues equal to operating expenses, assuming constant revenue per passenger mile and expenses. The break-even load factor for the three months ended December 31, 2003 includes the write-off o deferred loan costs net of profit-sharing of $1,053,000 associated with the prepayment of th remaining principal of the government guaranteed loan. The break-even load factor for the n months ended December 31, 2003 includes the following special items net of profit-sharing: $13,842,000 of compensation received under the Appropriations Act; an unrealized derivative of $497,000 offset by the write-off of deferred loan costs of $9,677,000 associated with the prepayment of all of the government guaranteed loan; a charge for Boeing aircraft and facili lease exit costs of $4,949,000; and a loss of $1,664,000 on the sale of one Airbus aircraft sale-leaseback transaction and from the sale of a spare engine. The break-even load factor the three and nine months ended December 31, 2002 includes a special item of $1,774,000 asso with the early extinguishment of debt which we incurred when we paid off the loan that was collateralized by one our aircraft for which we had completed a sale-leaseback transaction d the period.

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

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

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

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

is as follows:

	Three Months Ended Dec 31, 2003	Three Months Ended Dec 31, 2002	Nine Months Ended Dec. 31, 2003	Nine Months Ended Dec. 31, 2002
Passenger revenues, as reported	$ 159,175	$ 117,752	$ 458,130	$ 343,754
Charter revenue	1,023	471	2,217	1,249
Passenger revenues, excluding charter revenue	158,152	117,281	455,913	342,505

(10) "Yield per ASM" is determined by dividing passenger revenues (excluding charter revenue) by available seat miles.
(11) "Total yield per ASM" is determined by dividing passenger revenues by available seat miles.
(12) This may be deemed a non-GAAP financial measure under regulations issued by the Securities a Exchange Commission. We believe the presentation of financial information excluding fuel expense is useful to investors because we believe that fuel expense tends to fluctuate more than other operating expenses, it facilitates comparison of results of operations between current and past periods and enables investors to better forecast future trends in our opera Furthermore, in preparing operating plans and forecasts, we rely, in part, on trends in our historical results of operations excluding fuel expense. However, our presentation of non-G financial measures should not be viewed as a substitute for our financial results determined in accordance with GAAP.
(13) "Average fare" excludes revenue included in passenger revenue for non-revenue passengers, administrative fees, and revenue recognized for unused tickets that are greater than one yea from issuance date.

The following table provides our operating revenues and expenses expressed as cents per t ASMs and as a percentage of total operating revenues, for the three and nine month periods ended December 31, 2003 and 2002.

	Three Months Ended December 31, 2003 Per Total ASM	2003 % of Revenue	2002 Per total ASM	2002 % of Revenue	Nine Months Ended December 31, 2003 Per total ASM	2003 % of Revenue	2002 Per total ASM	2002 R
Passenger	8.77	97.3%	7.72	97.9%	8.79	97.2%	7.72	
Cargo	0.11	1.3%	0.09	1.1%	0.12	1.3%	0.10	
Other	0.13	1.4%	0.08	1.0%	0.14	1.6%	0.07	
Total revenues	9.01	100.0%	7.89	100.0%	9.05	100.0%	7.89	1
Operating expenses:								
Flight operations	1.44	16.0%	1.45	18.4%	1.45	16.0%	1.41	
Aircraft fuel expense	1.51	16.8%	1.42	18.0%	1.46	16.1%	1.36	
Aircraft lease expense	0.95	10.5%	1.17	14.9%	1.00	11.1%	1.18	
Aircraft and traffic servicing	1.63	18.1%	1.47	18.7%	1.53	16.9%	1.42	
Maintenance	0.95	10.6%	1.27	16.1%	1.00	11.1%	1.20	
Promotion and sales	0.95	10.6%	0.77	9.7%	0.93	10.2%	0.89	
General and administrative	0.53	5.8%	0.44	5.5%	0.54	6.0%	0.43	
Depreciation and amortization	0.35	3.9%	0.30	3.8%	0.33	3.7%	0.28	

Total operating	8.31	92.3%	8.29	105.1%	8.24	91.1%	8.17	1

Our passenger yield per RPM was 12.01(cent)and 12.93(cent)for the three months e December 31, 2003 and 2002, respectively, or a decrease of 7.1%. Our length of haul was 912 a miles for the three months ended December 31, 2003 and 2002, respectively, or an increase of Our average fare was $104 for the three months ended December 31, 2003 as compared to $111 fo three months ended December 31, 2002, a decrease of 6.3%. Our passenger yield per RPM was 12.12(and 12.74(cent)for the nine months ended December 31, 2003 and 2002, respectively, or a decrease Our length of haul was 911 and 923 miles for the nine months ended December 31, 2003 and 200 respectively, or a decrease of 1.3%. Our average fare was $104 for the nine months ended Dec 31, 2003 as compared to $109 for the nine months ended December 31, 2002, a decrease of 4.6%. of our new fare structure, which we implemented in February 2003, our highest-level busine were initially reduced by 25 to 45 percent, and our lowest available walk-up fares were reduced b 77 percent. The February 2003 fare structure was comprised of six fare categories and capped fares to and from Denver at $399 or $499 one-way, excluding passenger facility, security or segme depending on length of haul. In January 2004, we capped all fares to and from Denver at $309 one- excluding passenger facility, security or segment fees, with the exception of flights to Mex and Anchorage, Alaska. The $309 fare is a base fare of $299 plus a $10 fuel surcharge, which i temporarily in place. The new fare cap is a 25 to 50 percent reduction from the February 20 of $399 and $499. Unlike some other airlines, these fares can be booked each way, allowing cust to get the best price on both the inbound and outbound portion of their itinerary with no round-t purchase required. Our new fare structure reinstated some of the advance purchase requirement past pricing structures. Although this has created downward pressure on our passenger yield RPM and average fare, we believe the effect on our revenues was offset by an increase in pass traffic. We also believe that the January 2004 fare structure adjustments will tend to slightly our average fare. Our revenue per available seat mile ("RASM") for the three months ended Dece 2003 and 2002 was 8.71(cent)and 7.69(cent), an increase of 13.3%. Our RASM for the nine months December 31, 2003 and 2002 was 8.75(cent)and 7.69(cent), an increase of 13.8%. Additional we believe that our average fare during the three and nine months ended December 31, 2003 was neg impacted as a result of intense competition from United Airlines, a carrier operating u Chapter 11 bankruptcy protection, which is our principal competitor at DIA.

Our cost per available seat mile ("CASM") for the three months ended December 31, 2003 2002 was 8.31(cent)and 8.29(cent), respectively, an increase of .02(cent)or .2%. CASM excludin fuel for the three months ended December 31, 2003 and 2002 was 6.80(cent)and 6.86(cent), respecti a decrease of .06(cent)or .9%. Our CASM increased during the three months ended December 31, 2003 result of an increase in the average price of fuel per gallon from .96(cent)to $1.03 or an incre ..09(cent)per ASM; an increase in aircraft and traffic servicing expenses combined with sales and promotions expenses of .35(cent)as a result of the increase in the number of passengers we serve general increases in DIA facility charges as well as related increases in sales and promotion exp for booking fees associated with the increase in passengers, the ongoing costs of LiveTV se of .05(cent); and an increase in general and administrative expenses of .09(cent)as a result of bonus accrual associated with our return to profitability and an increase in health insurance c These increases were partially offset by a decrease of .32(cent)in maintenance expense prima as a result of the reduction in the number of aircraft in our Boeing fleet that were replaced w new Airbus A319 and A318 aircraft. Our CASM for the nine months ended December 31, 2003 and 2 was 8.24(cent)and 8.17(cent), respectively, an increase of .07(cent)or .9%. CASM excluding fu for the nine months ended December 31, 2003 and 2002 was 6.79(cent)and 6.81(cent), respectively, decrease of .02(cent)or .3%.

An airline's break-even load factor is the passenger load factor that will result in oper revenues being equal to operating expenses, assuming constant revenue per passenger mile. the three months ended December 31, 2003, our break-even load factor was 68.5% compared to ou achieved passenger load factor of 72.5%. The break-even load factor for the three months ended December 31, 2003 includes a special item net of profit-sharing for the write-off of deferred l costs of $1,053,000 associated with the prepayment of the remaining principal of the government guaranteed loan. These items, net of profit sharing, accounted for .5 load factor points of t break-even load factor amount. For the nine months ended December 31, 2003, our break-even load factor was 67.4% compared to our achieved passenger load factor of 72.1%. The break-eve load factor for the nine months ended December 31, 2003, net of profit-sharing, was negatively affected by $13,842,000 of compensation received under the Appropriations Act; write-off of deferred loan costs of $9,677,000 associated with the prepayment of all of our government guarant loan; a charge for Boeing aircraft and facility lease exit costs of $4,949,000; loss of $1,664,00 on the sale of one Airbus aircraft in a sale-leaseback transaction and from the sale of a spa engine, and positively affected by an unrealized derivative gain of $497,000. These items, net o profit sharing, accounted for .2 load factor points of the break-even load factor amount.

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

Our operations during the three and nine months ended December 31, 2003, are not necessari indicative of future operating results or comparable to the prior periods ended December 31, 2002

Revenues

Our revenues are highly sensitive to changes in fare levels. Competitive fare pricing poli have a significant impact on our revenues. Because of the elasticity of passenger demand, w believe that increases in fares may at certain levels result in a decrease in passenger demand many markets. We cannot predict future fare levels, which depend to a substantial degree on competitive factors and the economy. When sale prices or other price changes are initiate competitors in our markets, we believe that we must, in most cases, match those competitive f in order to maintain our market share. Passenger revenues are seasonal in some markets.

We believe that our new fare structure that was implemented in February 2003 has had a dow effect on the average fare and passenger yield offset by an increase in passenger traffic. load factor increased to 72.5% for the three months ended December 31, 2003 from 59.5% for prior comparable period, an increase of 13.0 points, or 21.8%. This represents a record loa factor for us as compared to prior comparable quarters. We cannot predict whether or for how these higher load factors will continue. In addition, we recently further modified our fare structure in January 2004 to reduce the cap on the highest fares charged, as discussed above. new fare structure also reinstated some of the advance purchase requirements of past pricing stru We also believe that the January 2004 fare structure adjustments will tend to slightly increa average fare. At this time it is to early to determine whether our fare reduction has had the d effect on increased passenger traffic, and there is no certainty that short-term gains in passen traffic, if any, will continue into the future.

Passenger Revenues. Passenger revenues totaled $159,175,000 for the three months ended December 31, 2003 compared to $117,752,000 for the three months ended December 31, 2002, or an increase of 35.2%, on increased ASMs of 291,113,000 or 19.1%. Passenger revenues totaled $458,13 for the nine months ended December 31, 2003 compared to $343,754,000 for the nine months ended De 31, 2002, or an increase of 33.3%, on increased ASMs of 758,282,000 or 17.0%. Passenger revenues include revenues for reduced rate standby passengers, administrative fees, and revenue recogn for tickets that are not used within one year from their issue dates. We carried 1,444,000 reve passengers during the three months ended December 31, 2003 compared to 999,000 revenue passenge during the three months ended December 31, 2002, an increase of 44.5%. We had an average of 38. aircraft in our fleet during the three months ended December 31, 2003 compared to an average of aircraft during the three months ended December 31, 2002, an increase of 9.8%. RPMs for the th months ended December 31, 2003 were 1,317,227,000 compared to 906,801,000 for the three month ended December 31, 2002, an increase of 45.3%. Our load factor increased to 72.5% for the thr months ended December 31, 2003 from 59.5% for the prior comparable period, an increase of 13.0 points, or 21.8%. We carried 4,127,000 revenue passengers during the nine months ended December 3 2003 compared to 2,915,000 during the nine months ended December 31, 2002, an increase of 41.6%. We had an average of 36.9 aircraft in our fleet during the nine months ended December 31 2003 compared to an average of 33.1 aircraft during the nine months ended December 31, 2002, a increase of 11.5%. RPMs for the nine months ended December 31, 2003 were 3,760,480,000 compare 2,689,222,000 for the nine months ended December 31, 2002, an increase of 39.8%. Our load fact increased to 72.1% for the nine months ended December 31, 2003 from 60.4% for the prior comparabl period, an increase of 11.7 points, or 19.4%.

Cargo revenues, consisting of revenues from freight and mail service, totaled $2,036,000 and $1,353,000 for the three months ended December 31, 2003 and 2002, respectively, representi 1.3% and 1.1%, respectively, of total revenues, an increase of 50.5%. Cargo revenues total $6,094,000 and $4,300,000 for the nine months ended December 31, 2003 and 2002, respectively, representing 1.3% and 1.2%, respectively, of total revenues, an increase of 41.7%. Cargo revenue increased over the prior comparable periods as a result of our new contract to carry mail und the United States Postal Service Commercial Air 2003 Air System (CAIR-03) program. IN APR 2003, WE WERE SELECTED AS ONE OF ONLY 18 AIRLINES IN THE UNITED STATES AND THE CARIBBEAN TO BE OFFERED A 3-YEAR CONTRACT TO CARRY PRODUCTS FOR THE UNITED STATES POSTAL SERVICE (USPS) UNDER T CAIR-03 PROGRAM. THIS PROGRAM ALLOWED THE USPS TO REQUEST BIDS FROM AIR CARRIERS THAT WOULD BE ACCEPTED AND THEN LOCKED IN FOR THE 3-YEAR TERM. IN RETURN FOR PROVIDING COMPETITIVE BIDS, THE IS REQUIRED TO USE ONLY THOSE CARRIERS SELECTED FOR THE 3-YEAR TERM. THE NEW PROGRAM BEGAN ON JUNE 28, 2003. AS A LOW COST CARRIER, WE WERE ABLE TO AGGRESSIVELY BID ON THE CONTRACT, WH ALLOWS US TO USE EXCESS CARGO SPACE ON OUR AIRCRAFT. This adjunct to the passenger business is competitive and depends heavily on aircraft scheduling, alternate competitive means of sa day delivery service and schedule reliability.

Other revenues, comprised principally of interline handling fees, liquor sales, LiveTV s co-branded credit card revenue, and excess baggage fees totaled $2,350,000 and $1,147,000, or and 1.0% of total revenues for the three months ended December 31, 2003 and 2002, respectively, increase of 104.9%. Other revenues totaled $7,323,000 and $3,367,000 or 1.6% and 1.0% of total operating revenues for the nine months ended December 31, 2003 and 2002, respectively, an incre of 117.5%. Other revenues increased over the prior comparable period primarily due to the Mesa codeshare agreement and LiveTV sales. The three and nine months ended December 31, 2002 did no include these revenues from LiveTV, which commenced in the fourth fiscal quarter for the yea ended March 31, 2003.

Operating Expenses

Operating expenses include those related to flight operations, aircraft and traffic servicing, maintenance, promotion and sales, general and administrative and depreciation and amortization. Total operating expenses for the three months ended December 31, 2003 and 2002 were $150,960,000 and $126,371,000, an increase of 20.2%, and represented 92.3% and 105.1% of revenue, respectively. Total operating expenses were $429,735,000 and $363,838,000 for the nine months ended December 31, 2003 and 2002, an increase of 18.1%, and represented 91.1% and 103.5% of revenue, respectively. Operating expenses decreased as a percentage of revenue during the three and nine months ended December 31, 2003 as a result of an increase in total revenues as compared to the nine months ended December 31, 2002.

Salaries, Wages and Benefits. We record salaries, wages and benefits within the specific expense category identified in our statements of operations to which they pertain. Salaries, wag and benefits totaled $41,168,000 and $32,248,000 and were 25.2% and 26.8% of total revenues for the three months ended December 31, 2003 and 2002, respectively, an increase of 27.7%. Salaries, wages and benefits totaled $117,822,000 and $93,062,000 and were 25.0% and 26.5% of t revenues for the nine months ended December 31, 2003 and 2002, respectively, an increase of 26 Salaries, wages and benefits increased over the prior comparable periods largely as a result o our bonus accrual due to our return to profitability, overall wage increases, and an increase the number of employees to support our ASM growth of 17.0% during the nine months ended Dec 31, 2003 as well as the ASM growth that we expect for 2004. Our employees increased from approxi 3,000 in December 2002 to approximately 3,800 in December 31, 2003, an increase of 26.7%.

Flight Operations. Flight operations expenses of $26,097,000 and $22,100,000 were 16. and 18.4% of total revenue for the three months ended December 31, 2003 and 2002, respectively, increase of 18.1%. Flight operations expenses of $75,418,000 and $62,820,000 were 16.0% and of total revenue for the nine months ended December 31, 2003 and 2002, respectively, an incr of 20.0%. Flight operations expenses include all expenses related directly to the operation the aircraft including lease and insurance expenses, pilot and flight attendant compensation in-flight catering, crew overnight expenses, flight dispatch and flight operations administrative expenses.

Aircraft insurance expenses totaled $2,429,000 (1.5% of total revenue) for the thr months ended December 31, 2003. Aircraft insurance expenses for the three months ended Decem 31, 2002 were $3,161,000 (2.6% of total revenue). Aircraft insurance expenses were .18(cent) ..35(cent)per RPM for the three months ended December 31, 2003 and 2002, respectively. Aircraft insurance expenses totaled $7,433,000 (1.6% of total revenue) for the nine months ended Decemb 31, 2003. Aircraft insurance expenses for the nine months ended December 31, 2002 were $8,327, (2.4% of total revenue). Aircraft insurance expenses were .20(cent)and .31(cent)per RPM for th nine months ended December 31, 2003 and 2002, respectively. Aircraft insurance expenses decrease per RPM as a result of less expensive war risk coverage that is presently provided by the FAA com to the coverage that was previously provided by commercial underwriters combined with a 30% decr in our basic hull and liability insurance rates effective June 7, 2003. The current FAA war policy is in effect until August 31, 2004. We do not know whether the government will extend coverage beyond August 2004, and if it does, how long the extension will last. We expect tha the government stops providing excess war risk coverage to the airline industry, the premiums cha by aviation insurers for this coverage will be substantially higher than the premiums currently c by the government or the coverage will not be available from reputable underwriters.

Pilot and flight attendant salaries before payroll taxes and benefits totaled $13,596,00 $11,108,000 or 8.5% and 9.4% of passenger revenue for the three months ended December 31, 20 2002, an increase of 22.4%. Pilot and flight attendant salaries before payroll taxes and ben totaled $38,760,000 and $31,542,000 or 8.5% and 9.2% of passenger revenue for the nine months December 31, 2003 and 2002, an increase of 22.9%. Pilot and flight attendant compensation for three and nine months ended December 31, 2003 also increased as a result of a 9.8% and 11.5% in in the average number of aircraft in service, respectively, an increase of 19.1% and 16.1% in b hours, respectively, a general wage increase in flight attendant and pilot salaries and addit crew required to replace those who were attending training on the Airbus equipment. We pay pil flight attendant salaries for training, consisting of approximately six and three weeks, respect prior to scheduled increases in service, which can cause the compensation expense during such p to appear high relative to the average number of aircraft in service. We expect these additi costs to continue as we place additional aircraft into service and continue to retire Boeing equi

Aircraft Fuel Expenses. Aircraft fuel expenses include both the direct cost of fuel, in taxes, as well as the cost of delivering fuel into the aircraft. Aircraft fuel expenses $27,487,000 for 26,790,000 gallons used and $21,710,000 for 22,577,000 gallons used result average fuel expense $1.03 and 96.2(cent)per gallon for the three months ended December 31, 2003 respectively. Aircraft fuel expenses represented 16.8% and 18.0% of total revenue for the three December 31, 2003 and 2002, respectively. Aircraft fuel expenses of $75,988,000 for 76,745,000 and $60,438,000 for 66,606,000 gallons used resulted in an average fuel cost of 99.0(cent)and 9 gallon for the nine months ended December 31, 2003 and 2002, respectively. Aircraft fuel expense 16.1% and 17.2% of total revenue for the nine months ended December 31, 2003 and 2002, resp Fuel prices are subject to change weekly, as we purchase a very small portion in advance for We initiated a fuel hedging program in late November 2002, which decreased fuel expense by $5 the three months ended December 31, 2003 and decreased fuel expense $1,055,000 for the nine m December 31, 2003. Fuel consumption for the three months ended December 31, 2003 and 2002 avera 741 gallons per block hour, respectively, or a decrease of .4%. Fuel consumption for the nine mo December 31, 2003 and 2002 averaged 743 and 748 gallons per block hour, respectively, or a de ..7%. Fuel consumption per block hour decreased during the three and nine months ended Decemb from the prior comparable periods because of the more fuel-efficient Airbus aircraft added t coupled with the reduction in our Boeing fleet, which had higher fuel burn rates, offset by the in our load factors.

Aircraft Lease Expenses. Aircraft lease expenses totaled $17,247,000 (10.5% of total re $17,869,000 (14.9% of total revenue) for the three months ended December 31, 2003 and 2002, re a decrease of 3.5%. Aircraft lease expenses totaled $52,359,000 (11.1% of total revenue) and $5 (14.9% of total revenue) for the nine months ended December 31, 2003 and 2002, respectively, a ..2%. The average number of leased aircraft decreased 16.5% from 29.6 to 25.4 during the thre ended December 31, 2003. The average number of leased aircraft decreased 7.4% from 28.3 to the nine months ended December 31, 2003. The marginal decrease in lease expenses is du replacement of leased Boeing 737 aircraft that had unfavorable lease rates with Airbus A31 aircraft with more favorable lease rates.

Aircraft and Traffic Servicing. Aircraft and traffic servicing expenses were $29,626,000 $22,440,000, an increase of 32.0%, for the three months ended December 31, 2003 and 2002, re and represented 18.1% and 18.7% of total revenue. Aircraft and traffic servicing expenses were $ and $63,063,000, an increase of 26.4%, for the nine months ended December 31, 2003 and 2002, resp and represented 16.9% and 17.9% of total revenue. Aircraft and traffic servicing expenses i expenses incurred at airports including landing fees, facilities rental, station labor, grou expenses (passenger and cargo) and interrupted trip expenses associated with delayed or cancel Interrupted trip expenses are amounts paid to other airlines to reaccommodate passengers as w meal and other incidental expenses. Aircraft and traffic servicing expenses will increase with of new cities to our route system. During the three months ended December 31, 2003, our departur to 15,726 from 13,522 for the three months ended December 31, 2002, or 16.3%. Aircraft and traff expenses were $1,884 per departure for the three months ended December 31, 2003 as compared to departure for the three months ended December 31, 2002, or an increase of $224 per departur the nine months ended December 31, 2003, our departures increased to 45,414 from 39,289 for months ended December 31, 2002, or 15.6%. Aircraft and traffic servicing expenses were $1,755 pe for the nine months ended December 31, 2003 as compared to $1,605 per departure for the nine mont December 31, 2002, or an increase of $150 per departure. Aircraft and traffic servicing expense per departure as a result of general increases in airport rents and landing fees and a 44.5% and increase in passengers for the three and nine months ended December 31, 2003, respectively, as the prior periods. Certain airport facility rent charges are calculated using the numbers of o and departing passengers, as well as additional personnel required to handle the increased number passengers. Additionally, cargo (including mail) revenue increased 50.4% and 41.7% for the t months ended December 31, 2003, respectively, as compared to prior periods. Aircraft and traffi expenses increase with increases in passengers and cargo handling. We also experienced high fees associated with the Airbus aircraft, which have higher landing weights than the Boeing air

Maintenance. Maintenance expenses of $17,324,000 and $19,344,000 were 10.6% and 16.1% o revenue for the three months ended December 31, 2003 and 2002, respectively, a decrease of Maintenance expenses of $52,322,000 and $53,287,000 were 11.1% and 15.2% of total revenue f months ended December 31, 2003 and 2002, respectively, a decrease of 1.8%. These expenses all labor, parts and supplies expenses related to the maintenance of the aircraft. Maint per block hour for the three months ended December 31, 2003 and 2002 were $477 and $635, resp Maintenance cost per block hour for the nine months ended December 31, 2003 and 2002 were $506 respectively. Maintenance cost per block hour decreased as a result of a decrease in our Boe coupled with the additional new Airbus aircraft that are less costly to maintain than our older aircraft.

Promotion and Sales. Promotion and sales expenses totaled $17,323,000 and $11,665,000, an of 48.5%, and were 10.6% and 9.7% of total revenue for the three months ended December 31, 2003 a respectively. Promotion and sales expenses totaled $48,313,000 and $39,889,000, an increase of 2 were 10.2% and 11.3% of total revenue for the nine months ended December 31, 2003 and 2002, respe These include advertising expenses, telecommunications expenses, wages and benefits for reservati well as marketing management and sales personnel, credit card fees, travel agency commissions and reservations costs. During the three months ended December 31, 2003, promotion and sales expense passenger increased to $12.00 compared to $11.68 for the three months ended December 31, 2002. D three months ended December 31, 2002, we reduced advertising expenditures in order to apply those our new branding campaign that was scheduled to begin in March 2003. Due to the commencement of hostilities in Iraq, we postponed the roll out of our branding campaign until May 2003. Addition during the three months ended December 31, 2003, we became heavily involved in sports team sponso part of our branding awareness initiative. During the nine months ended December 31, 2003, promo expenses per passenger decreased to $11.71 compared to $13.68 for the nine months ended December Promotion and sales expenses per passenger decreased as a result of variable expenses that are ba average fares, the elimination of substantially all travel agency commissions effective on ticket May 31, 2002, and economies of scale associated with our growth.

General and Administrative. General and administrative expenses for the three months end 31, 2003 and 2002 totaled $9,561,000 and $6,685,000, an increase of 43.0%, and were 5.8% and 5.5 revenue, respectively. General and administrative expenses for the nine months ended Decemb and 2002 totaled $28,281,000 and $19,381,000, an increase of 45.9%, and were 6.0% and 5.5%

revenue for each of the nine months ended December 31, 2003 and 2002, respectively. During the t ended December 31, 2003, we accrued $819,000 for employee performance bonuses, or .5%of total r During the nine months ended December 31, 2003, we accrued $3,242,000 for employee performance or .7% of total revenue. Bonuses are based on profitability. As a result of our pre-tax loss and nine months ended December 31, 2002, we did not accrue bonuses. General and administrative include the wages and benefits for several of our executive officers and various other admini personnel including legal, accounting, information technology, aircraft procurement, corporate co training and human resources and other expenses associated with these departments. Employee heal accrued vacation and bonus expenses, general insurance expenses including worker's compensat write-offs associated with credit card and check fraud are also included in general and adm expenses. Our employees increased from approximately 3,000 in December 2002 to approximatel December 2003, or 26.7%. Accordingly, we experienced increases in our human resources, training, technology, and health insurance benefit expenses. General and administrative expenses also with a general increase in the cost of providing health insurance.

Depreciation and Amortization. Depreciation and amortization expenses of $6,295,000 and were approximately 3.9% and 3.8% of total revenue the three months ended December 31, 2003 respectively, an increase of 38.1%. Depreciation and amortization expenses of $17,353,000 and $12 approximately 3.7% and 3.6% of total revenue for the nine months ended December 31, 2003 and 2002 respectively, an increase of 38.9%. These expenses include depreciation of aircraft and aircraft office equipment, ground station equipment and other fixed assets. Depreciation expense i over the prior year largely as a result of an increase in the average number of Airbus A318 aircraft owned from an average of 7.2 during the December 2002 quarter to an average of 12. the December 2003 quarter, an increase of 77.8%.

Nonoperating Income (Expense). Net nonoperating expense totaled $11,915,000 for the n ended December 31, 2003 compared to net nonoperating expense totaling $6,079,000 for the nine mon December 31, 2002.

Interest income increased slightly to $1,528,000 from $1,523,000 during the nine months December 31, 2003 from the prior period due to an increase in cash offset by a decrease in rates. Interest expense increased to $11,065,000 for the nine months ended December 31, 2003 $5,149,000 as a result of interest expense associated with the financing of additional aircraft p since December 31, 2002 and the government guaranteed loan we obtained in February 2003.

During the nine months ended December 31, 2003, we ceased using three of our Boeing 737-2 aircraft, two of which had lease terminations in October 2003 and one with a lease terminatio October 2005. In August 2003, we closed our maintenance facility in El Paso Texas, which h termination date in August 2007. As a result of these transactions we recorded a pre-tax charg $5,372,000. This amount includes the estimated fair value of the remaining lease payments and off of the unamortized leasehold improvements on the aircraft and the facility.

We completed a public offering of 5,050,000 shares of common stock in September the terms of our government guaranteed loan, we were required to make a prepayment of the lo 60% of the net proceeds from the offering. As a result, we prepaid approximately $48,418,00 loan. In December 2003, we repaid the remaining loan balance due of $11,582,000. As a result o off the government guaranteed loan, we wrote off approximately $9,816,000 of deferred loan costs with the prepayment amount. Of this amount, approximately $8,053,000 represented the unamor portion of the value assigned to the warrants issued to the ATSB and to two other guarantors in c with the loan transaction.

During the nine months ended December 31, 2003, we incurred a loss totaling $1,323,000 sale-leaseback of an Airbus A319 aircraft and a loss totaling $483,000 on the sale of an aircraft

Offsetting these nonoperating expenses during the nine months ended December 31, 2003 compensation of $15,024,000 as a result of payments under the Appropriations Act for expens foregone revenue related to aviation security. We received a total of $15,573,000 in May 20 which we paid $549,000 to Mesa Airlines for the revenue passengers Mesa carried as Frontier

Income Tax Expense. Income tax expense totaled $11,510,000 during the nine months ended 31, 2003 at a 38.5% rate, compared to an income tax benefit of $6,601,000 for the nine months December 31, 2002, at a 35.7% rate. The expected benefit for the nine months ended December at a federal rate of 35.7% plus the blended state rate of 2.6% (net of federal tax benefit) is the tax effect of permanent differences of 2.0%.

Liquidity and Capital Resources

Our liquidity depends to a large extent on the number of passengers who fly with us, the f charge, our operating and capital expenditures, and our financing activities. We depend on leas mortgage-style financing to acquire all of our aircraft, including 37 firm additional Airbu aircraft as of December 31, 2003 scheduled for delivery through 2008. We may seek to obtain addi aircraft in connection with our fleet expansion.

We had cash and cash equivalents and short-term investments of $186,324,000 at December 31 2003 and $104,880,000 at March 31, 2003, respectively. At December 31, 2003, total current as were $262,790,000 as compared to $158,881,000 of total current liabilities, resulting in wor capital of $103,909,000. At March 31, 2003, total current assets were $190,838,000 as compa $130,047,000 of total current liabilities, resulting in working capital of $60,791,000. The inc in our cash and working capital from March 31, 2003 is largely a result of cash provided by our income for the nine months ended December 31, 2003 adjusted for reconciling items to net cash and equivalents totaling $47,886,000: the common stock offering in September 2003, which netted $81,0 after offering expenses; an income tax refund from the Internal Revenue Service totaling $26,57 and the net proceeds from a sale-leaseback transaction of one of our aircraft purchase commitme These were offset by required prepayments of principal on our government guaranteed loan tot $58,418,000 as a result of the income tax refund and a portion of the proceeds from the stock of our decision to pay the remaining balance due of $11,582,000 on the government guaranteed loan the required prepayments, and an increase in restricted investments totaling $9,931,000, whic largely a result of the increase in our collateral requirements to our bankcard processor associ with the increase in our air traffic liability

Cash provided by operating activities for the nine months ended December 31, 200 $106,351,000. This is attributable to our net income adjusted for reconciling items to net cas cash equivalents. Our air traffic liability increased as a result in the growth of our busin associated with the increase in the number of aircraft in our fleet coupled with the increa in the number of passengers we carried in excess of our increased capacity. Our accrued liabil increased as a result of increases in employee benefits associated with the increase in the numbe employees and increases in health care expenses, the bonus accrual for our employees as a result our profitability and increases in passenger related taxes associated with our increase in rev and passengers carried. Cash used by operating activities for the nine months ended Decembe 2002 was $14,889,000. This is attributable to a decrease in our air traffic liability larg result of the decrease in the average fare during the period and seasonality, and a $4,835,000 re of excess amounts received under the Stabilization Act.

Cash used in investing activities for the nine months ended December 31, 2003 was $125,615 Net aircraft lease and purchase deposits decreased by $799,000 during this period. We used $128,858,000 for the purchase of four additional Airbus aircraft, aircraft leasehold improvemen ground equipment to support increased below-wing operations, and computer equipment, including scanning equipment for our new mail transportation requirements. During the nine months ended De 31, 2003, we took delivery of four purchased Airbus A318 aircraft and applied their respective delivery payments to the purchase of those aircraft. Additionally, we completed a sale-leaseb transaction on one of our purchased aircraft that was delivered to us in September 2003, genera cash proceeds of approximately $4,374,000 from the sale and the return of the pre-delivery paym relating to the purchase commitment. We agreed to lease the aircraft over a 12 year term. Cash by investing activities for the nine months ended December 31, 2002 was $162,721,000. We used $197,881,000 for the purchase of six Airbus aircraft and to purchase rotable aircraft compon leasehold improvements and other general equipment purchases. Net aircraft lease and purchas deposits and restricted deposits decreased by $4,792,000 during this period.

Cash provided by financing activities for the nine months ended December 31, 2003 and 200 $100,708,000 and $119,556,000, respectively. During the nine months ended December 31, 2003 completed a public offering of 5,050,000 shares of our common stock. We received $81,077,000, of offering expenses, from the sale of these shares. During the nine months ended December 31, and 2002, we received $940,000 and $578,000, respectively, from the exercise of common stock opt

During the nine months ended December 31, 2003 and 2002, we borrowed $98,500,000 and $147,100 respectively, to finance the purchase of Airbus aircraft. Principal repayments were $79,675,00 and $26,942,000 during the respective periods. In July 2003, we received an income tax refund the Internal Revenue Service totaling $26,574,000 and prepaid $10,000,000 on our governmen guaranteed loan upon receipt of this refund. In September 2003, we used $48,418,000 of th proceeds from the stock offering to prepay a portion of the government guaranteed loan. Both prep were required by the loan agreement. In December 2003, we repaid the remaining loan balance of $11,582,000. In December 2002, we entered into a sale-leaseback transaction for one of our purchased aircraft. We received net proceeds of approximately $5,300,000 from the sale of this aircraft, net of repayment of debt that collateralized this aircraft totaling $22,772,000 and pa of fees associated with the early extinguishments of the debt.

We have been working closely with DIA, our primary hub for operations, and the offices the Mayor of the City and County of Denver, in which DIA is located, to develop plans for expan Concourse A where our aircraft gates are located and also improving efficient use of existing in order to accommodate our anticipated growth over the next several years. At this time, DIA commenced construction of two additional gates to Concourse A for our preferential use. We ex that these gates will become available in late spring of 2004. We are examining other expansi options that could add up to an additional six gates and five regional jet parking positions the west side of Concourse A. As new gates are constructed, we would enter into long-term lease arrangements to use those gates on a preferential basis. On November 9, 2003, the City and County Denver and United Airlines announced that they had reached agreement with respect to the restruct of United's lease of gates and other facilities at DIA. The agreement will permit United to proce with the assumption of the restructured lease as part of its bankruptcy reorganization process. part of that settlement, United has agreed to relinquish to DIA one gate on Concourse A for imme lease to us on a permanent basis. In addition, United would make available two additional ga for use by us until the earlier of the construction of the two additional gates for us on the end of Concourse A or October 31, 2005. Plans for our expansion of Concourse A are still in deve and the final scope of the project, if any, and a firm estimate of the project costs is yet to determined. It is impossible at this time to estimate with any certainty the increased rates charges that we would incur as the result of the construction and leasing of newly constructed ga on Concourse A.

As part of the lease restructure between the City and County of Denver and United Airlines believe that United has been provided certain concessions and reductions in the rents, rates and charges arising from their lease of facilities at DIA. We have been advised by the City and County of Denver that they will seek to prevent the reduced rates and charges being paid by Uni from increasing the rates and charges being paid by other airlines. However, the City and C of Denver has also made it clear that in certain circumstances it will have no choice but to incr rates and charges being paid by other airlines in order to comply with their own cash flow, reserve account and bond financing requirements. Because we are the second largest airline operat out of Denver, we may incur a larger impact of any increase in rates and charges imposed by DIA this time, it is impossible to quantify what the increase in our rates and charges would be, i any, due to the concessions being provided to United.

We have been assessing our liquidity position in light of our aircraft purchase commitm and other capital needs, the economy, our competition, and other uncertainties surrounding the ai industry. Prior to applying for a government guaranteed loan under the Stabilization Act, we f a shelf registration with the Securities and Exchange Commission in April 2002 that allows us sell equity or debt securities from time to time as market conditions permit. In September we completed a public offering of 5,050,000 shares of our common stock. Although the stock offer has improved our liquidity, we may need to continue to explore avenues to enhance our liquid if our current economic and operating environment changes. As of February 9, 2004, $64,150,0 of the shelf registration remains available. We intend to continue to examine domestic or fo bank aircraft financing, bank lines of credit and aircraft sale-leasebacks, the sale of equity or securities, and other transactions as necessary to support our capital and operating needs. Fo further information on our financing plans and activities and commitments, see "Contra Obligations" and "Commercial Commitments" below.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2003:

	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt (1)	$ 16,043,000	$ 34,801,000	$ 38,779,000	$ 211,414,000
Operating leases (2)	92,526,000	188,695,000	188,253,000	609,005,000
Unconditional purchase obligations (3) (4)	104,188,000	214,468,000	235,108,000	
Total contractual cash obligations	212,757,000	437,964,000	462,140,000	820,419,000

(1) During the year ended March 31, 2002, we entered into two loan agreements for two Airbus A31 Each aircraft loan has a term of 10 years and is payable in equal monthly installments, incl payable in arrears. The aircraft secure the loans. The loans require monthly principal a payments of $215,000 and $218,110, bears interest with rates of 6.71% and 6.54%, with ma May and August 2011, at which time a balloon payment totaling $10,200,000 is due with each loan. During the year ended March 31, 2003, we entered into additional loans seven Airbus aircraft with interest rates based on LIBOR plus margins that adjust quarterly annually. At December 31, 2003 interest rates for these loans ranged from 2.44% to 2.89%. a term of 12 years, and each loan has balloon payments ranging from $4,800,000 to $7,770,0 of the term. The loans are secured by the aircraft. During the nine months ended December 3 borrowed an additional $98,500,000 for the purchase of four Airbus A318 aircraft. Ea loan has a term of 12 years and is payable in monthly installments, including interest, arrears, with a floating interest rate adjusted quarterly based on LIBOR plus a margin of 2 three of the loans, and LIBOR plus a margin of 1.95% for the fourth. At the end of the ter a balloon payment of $3,060,000 for three of the aircraft loans and $2,640,000 for the four December 31, 2003, interest rates for these loans ranged from 3.12% to 3.42%. The loans are the aircraft.

(2) As of December 31, 2003, we lease 14 Airbus A319 type aircraft and 13 Boeing 737 type aircr operating leases with expiration dates ranging from 2004 to 2015. One of the Boeing 737 ty is no longer in service and is being stored until the lease return date of October 2005. Un our leases, we have made cash security deposits or arranged for letters of credit represen approximately two months of lease payments per aircraft. At December 31, 2003, we had made security deposits of $7,916,000 and had arranged for letters of credit of $4,962,000 collat by restricted cash balances. Additionally, we are required to make supplemental rent paym cover the cost of major scheduled maintenance overhauls of these aircraft. These suppleme payments are based on the number of flight hours flown and/or flight departures and are not as an obligation in the table above.

As a complement to our Airbus purchase agreement, in April 2000 we signed an agreement, as s amended, to lease 15 new Airbus aircraft for a term of 12 years. As of December 31, 20 taken delivery of 11 of these aircraft and have letters of credit on the remaining four ai be delivered totaling $824,000, to secure these leases, collateralized by restricted cash

During the nine months ended December 31, 2003, we entered into additional aircraft lease a for two Airbus A318 aircraft and 16 Airbus A319 aircraft, one of which we took delivery of 2003 and the remaining are scheduled for delivery beginning in February 2004 through 2007. Two of the aircraft leases were a result of sale-leaseback transactions of tw aircraft. As of December 31, 2003, we have made $3,562,000 in security deposit payments fo aircraft.

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

(3) We have adopted a fleet replacement plan to phase out our Boeing aircraft and replace them combination of Airbus A319 and A318 aircraft. In March 2000, we entered into an agreement subsequently amended, to purchase up to 32 Airbus aircraft. Included in the purchase

are amounts for spare aircraft components to support the aircraft. We are not under any obligations with respect to spare parts. As of December 31, 2003, we had taken delivery o these aircraft, one of which we sold in December 2002. Prior to the delivery of the aircraf two of the purchase commitments to two lessors in February 2003 and September 2003. We agr two of these aircraft over a five-year term and the third for a 12 year term. Our purchase with Airbus also includes purchase rights for up to 23 additional aircraft, and allows us Airbus A318 or A320 aircraft in lieu of the A319 aircraft at our option. Under the terms of agreement, we have rights to modify some or all of these additional aircraft into A320 a providing Airbus notice prior to December 31, 2004. The agreement also requires us to least three new Airbus A319 or A320 aircraft from operating lessors for delivery in calenda Including these three aircraft, we intend to lease as many as 14 additional A318 or A319 ai third party lessors over the next five years. As of December 31, 2003, we have remainin purchase commitments for sixteen additional aircraft that have scheduled delivery dates in calendar year 2004 and continuing through 2008. Under the terms of the purchase agreem required to make scheduled pre-delivery payments for these aircraft. These payments are non with certain exceptions. As of December 31, 2003, we had made pre-delivery payments on fut deliveries totaling $24,276,000 to secure these aircraft.

We signed a term sheet with a European financial institution to provide debt financi of our five A318 aircraft scheduled for delivery from Airbus in fiscal year 2004, which was amended to add the fifth A318 aircraft scheduled for delivery in April 2004. As of December four of these A318 aircraft were purchased and financed under this facility. The terms per borrow $22,000,000 per aircraft over a period of either 120 or 144 months at floating inte with either a $6,600,000 balloon payment due at maturity if we elect a 120 month term or if we elect a 144 month term. The amendment to the term sheet requires us to prepay $1,2 loan for the A318 aircraft that we financed under this agreement in September 2004. At we can elect to prepay $2,500,000, which would allow us to reduce the interest rate on In January 2004, we executed an agreement for the sale-leaseback of two A319 aircraft s delivery in June and July 2004. There are no other purchased aircraft scheduled for deli June 2005. The inability to close on the A318 financing or the inability to obtain fi additional sale-leaseback transactions on our purchase commitments could result in dela inability to take delivery of Airbus aircraft we have agreed to purchase, which would have adverse effect on us.

(4) In October 2002, we entered into a purchase and 12 year services agreement with LiveTV to b AIRBORNE(TM)satellite programming to every seatback in our Airbus fleet. We have agreed to of 46 units; however, we have the option to cancel up to a total of five units by providing notice of cancellation at least 12 months in advance of installation. As of December 31, 20 purchased 24 units and have made deposits toward the purchase of eight units. The table abo the remaining purchase commitment amounts not yet paid for on the remaining firm nine units.

Commercial Commitments

As we enter new markets, increase the amount of space leased, or add leased aircraft, we required to provide the airport authorities and lessors with a letter of credit, bond or cash sec deposits. These generally approximate up to three months of rent and fees. As of December 31, outstanding letters of credit, bonds, and cash security deposits totaling $10,614,000, $4,26 $15,514,000, respectively. In order to meet these requirements, we have a credit agreement w financial institution for up to $1,500,000, which expires August 31, 2004, and another credit ag a second financial institution for up to $20,000,000, which expires December 1, 2004. These cred be used solely for the issuance of standby letters of credit. Any amounts drawn under the agreements are fully collateralized by certificates of deposit, which are carried as restricted i on our balance sheet. As of December 31, 2003, we have drawn $10,614,000 under these credit agr standby letters of credit that collateralize certain leases. In the event that these credit a are not renewed beyond their present expiration dates, the certificates of deposit would be and paid to the various lessors as cash security deposits in lieu of standby letters of cre result, there would be no impact on our liquidity if these agreements were not renewed. In the e the surety companies determined that issuing bonds on our behalf were a risk they were no longer underwrite, we would be required to collateralize certain of these lease obligations with ei security deposits or standby letters of credit, which would decrease our liquidity.

We have a contract with a bankcard processor that requires us to pledge a certificate equ certain percentage of our air traffic liability associated with bankcard customers. As of Decem that amount totaled $20,758,000. The amount is adjusted quarterly in arrears based on our air liability associated with bankcard transactions. As of February 9, 2004, we will be required the amount by approximately $2,000,000.

We use the Airline Reporting Corporation ("ARC") to provide reporting and settlement ser travel agency sales and other related transactions. In order to maintain the minimum bond irrevocable letter of credit) coverage of $100,000, ARC requires participating carriers to quarterly basis, certain financial tests such as, but not limited to, net profit margin perc working capital ratio, and percent of debt to debt plus equity. As of December 31, 2003, we financial tests and presently are only obligated to provide the minimum amount of $100,000 to ARC. If we were to fail the minimum testing requirements, we would be required to increase our coverage to four times the weekly agency net cash sales (sales net of refunds and agency commi Based on net cash sales remitted to us for the week ended February 6, 2004, the coverage would b to $8,787,000 if we failed the tests. If we were unable to increase the bond amount as a resul financial condition at the time, we could be required to issue a letter of credit that would r in an amount equal to the letter of credit.

In November 2002, we initiated a fuel hedging program comprised of swap and collar ag Under a swap agreement, we receive the difference between a fixed swap price and a price based upon published spot price for jet fuel. If the index price is higher than the fixed price, we re difference between the fixed price and the spot price. If the index price is lower, we pay the A collar agreement has a cap price, a primary floor price, and a secondary floor price. When Gulf Coast Pipeline Jet index price is above the cap, we receive the difference between the i cap. When the index price is below the primary floor but above the secondary floor, we pay the between the index and the primary floor. However, when the price is below the secondary fl only obligated to pay the difference between the primary and secondary floor prices. When between the cap price and the primary floor, no payments are required.

We entered into a three-way collar in November 2002 with a notional volume of 385,000 gal month for the period December 1, 2002 to November 30, 2003. The cap price for this agreemen cents per gallon, and the primary and secondary floor prices were at 72 and 64.5 cents per gallon respectively. This agreement represented approximately 5% of our fuel purchases for that pe April 2003, we entered into a swap agreement with a notional volume of 1,260,000 gallons per the period from July 1, 2003 to December 31, 2003. The fixed price of the swap was 71.53 cents and the agreement represented approximately 15% of our fuel purchases for that period. In Sept we entered into a swap agreement with a notional volume of 630,000 gallons per month for the January 1, 2004 to June 30, 2004. The fixed price of the swap is 74.50 cents per gallon and the is estimated to represent 7% of our fuel purchases for that period.

In March 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 agreement, w a fixed rate of 2.45% and receive a variable rate based on the three month LIBOR. At December our interest rate swap agreement had an estimated unrealized loss of $173,000, $41,000 of w recorded as accumulated other comprehensive loss and is included in the balance sheet. We did n interest rate swap agreements outstanding during the nine months ended December 31, 2002.

Effective January 1, 2003, we entered into an engine maintenance agreement with GE Engine Inc. ("GE") covering the scheduled and unscheduled repair of our aircraft engines used on most aircraft. The agreement is for a 12 year period from the effective date for our owned aircraft 31, 2014, whichever comes first, and for each leased aircraft, the term coincides with the initia of 12 years. This agreement precludes us from using another third party for such services d term. This agreement requires monthly payments at a specified rate multiplied by the number o hours flown on the aircraft during that month. The amounts due based on flight hours are not i table above. As of December 31, 2003, the agreement covers 13 purchased Airbus aircraft a Airbus aircraft. The cost associated with this agreement for our purchased aircraft for the th ended December 31, 2003 and December 31, 2002 were $492,000 and $0, respectively. For our lease the lessors pay GE directly for the repair of aircraft engines in conjunction with this agreement lessors engine maintenance reserves on a monthly basis under the terms of our various lease ag

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally in the United States of America requires management to adopt accounting policies and make estima assumptions to develop amounts reported in our financial statements and accompanying notes. We that our estimates and judgments are reasonable; however, actual results and the timing of re of such amounts could differ from those estimates. In addition, estimates routinely require based on changing circumstances and the receipt of new or better information.

Critical accounting policies are defined as those that require management to exercise sig judgments, and potentially result in materially different results under different assumptions and Our most critical accounting policies and estimates are described briefly below. For addit information about these and our other significant accounting policies, see Note 1 of the Notes to Statements and our Form 10-K for the year ended March 31, 2003.

Revenue Recognition

Passenger, cargo, and other revenues are recognized when the transportation is provided the tickets expire, one year after date of issuance, and are net of excise taxes, passenger facil and security fees. Revenues that have been deferred are included in the accompanying balance sh traffic liability. In limited circumstances, we grant credit for tickets that have expired. recognize as revenue the amount of credits estimated to be granted after the date a ticket expi estimates are based upon the evaluation of historical ticket useage trends.

Impairment of Long-Lived Assets

In accounting for long-lived assets, we make estimates about the expected useful lives, residual values and the potential for impairment. In estimating useful lives and residual val aircraft, we have relied upon actual industry experience with the same or similar aircraft types anticipated utilization of the aircraft. Changing market prices of new and used aircraft, gov regulations and changes in our maintenance program or operations could result in changes to estimates. Our long-lived assets are evaluated for impairment when events and circumstances that the assets may be impaired. We record impairment losses on long-lived assets used in opera indicators of impairment are present and the undiscounted future cash flows estimated to be gener assets are less than the carrying amount of the assets. If an impairment occurs, the loss is comparing the fair value of the asset to its carrying amount.

Aircraft Maintenance

We operate under an FAA-approved continuous inspection and maintenance program. We account maintenance activities on the direct expense method. Under this method, major overhaul maintenan are recognized as expense as maintenance services are performed, as flight hours are flown for no maintenance payments required by lease agreements, and as the obligation is incurred for payme under service agreements. Routine maintenance and repairs are charged to operations as incurr to fiscal 2003 we accrued for major overhaul costs on a per-flight-hour basis in advance of p the maintenance services.

Effective January 1, 2003, we executed a 12-year engine services agreement with GE the scheduled and unscheduled repair of most of our Airbus engines. Under the terms of this agreement, we agreed to pay GE a fixed rate per-engine-hour, payable monthly, and GE assumed responsibility to overhaul our engines on Airbus aircraft as required during the term of the agreement, subject to certain exclusions. We believe the fixed rate per-engine hour approxim periodic cost we would have incurred to service those engines. Accordingly, these payments are as the obligation is incurred.

Fuel Derivative Instruments

We have entered into derivative instruments that are intended to reduce our exposure t in fuel prices. We account for the derivative instruments entered into as trading instruments FASB Statement No. 133, "Accounting for Derivative instruments and Hedging Activities" and the fair value of the derivatives as an asset or liability as of each balance sheet date. We rec settlements received or paid as an adjustment to the cost of fuel.

Interest Rate Hedging Program

During the nine months ending December 31, 2003, we designated certain interest rate s qualifying cash flow hedges. Under these hedging arrangements, we are hedging the interest pa associated with a portion of our LIBOR-based borrowings. Under the swap agreements, we pay a f of interest on the notional amount of the contracts of $27 million, and we receive a varia if interest based on the three month LIBOR rate, which is reset quarterly. Changes in the fair interest rate swaps designated as hedging instruments are reported in accumulated other compr income. These amounts are subsequently reclassified into interest expense as a yield adjustmen same period in which the related interest payments on the LIBOR-based borrowings affects earnings

Customer Loyalty Programs

We entered 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 each new accou varies based on the type of account, and a percentage of the annual renewal fees that the bank We receive an increased fee for new accounts solicited by us. We also receive fees for the purc frequent flier miles awarded to the credit card customers.

During the year ended March 31, 2003, we received a $10,000,000 advance from the issuing fees expected to be earned under the program. This advance was recorded as deferred revenue whe received. For the year ended March 31, 2003, we had not yet earned or recognized any revenue arrangement. Fees earned as credit cards are issued or renewed, and as points are awarded to t card customers are applied against this advance.

We account for all fees received under the co-branded credit card program by allocating between the portion that represents the estimated value of the subsequent travel award to and the portion that represents a marketing fee to cover marketing and other related costs to the program. This latter portion (referred to as the marketing component) represents the resid determination of the value of the travel component. The component representing travel is det reference to an equivalent restricted fare, which is used as a proxy for the value of travel o flyer mileage award. The travel component is deferred and recognized as revenue monthly o estimated usage period of the frequent flyer mileage awards of 20 months. We record the marketin of the revenue earned under this agreement as a reduction of sales and promotion expenses in the received.

Because of our limited history with our frequent flier program, we have estimated the p which the frequent flier mileage awards will be used based on industry averages adjusted dow take into account that most domestic airlines require 25,000 frequent flyer miles for a domestic ticket while we require only 15,000 frequent flyer miles for a domestic round-trip ticket.

For the nine months ended December 31, 2003, we earned total fees of $2,581,000, all were applied to the original $10,000,000 advance. Of that amount, $2,095,000 was deferred as award component, and the remaining marketing component of $486,000 was recognized in earnings. A of deferred revenue recognized in earnings in this period was $366,105.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Aircraft Fuel

Our earnings are affected by changes in the price and availability of aircraft fuel. is estimated as a hypothetical 10 percent change in the average cost per gallon of fuel for the March 31, 2003. Based on fiscal year 2003 actual fuel usage, such a change would have the effec increasing or decreasing our aircraft fuel expense by approximately $8,590,000 in fiscal year Comparatively, based on projected fiscal year 2004 fuel usage, such a change would have the eff increasing or decreasing our aircraft fuel expense by approximately $9,890,000 in fiscal year 200 the effects of our fuel hedging arrangements. The increase in exposure to fuel price fluctuati fiscal year 2004 is due to the increase of our average aircraft fleet size during the year ended 2004 and related gallons purchased.

In November 2002, we initiated a fuel hedging program comprised of swap, calls and coll agreements. Under a swap agreement, we receive the difference between a fixed swap price and a based on an agreed upon published spot price for jet fuel. If the index price is higher than the we receive the difference between the fixed price and the spot price. If the index price is lo the difference. A collar agreement has a cap price, a primary floor price, and a secondary fl When the U.S. Gulf Coast Pipeline Jet index price is above the cap, we receive the difference bet index and the cap. When the index price is below the primary floor but above the secondary floo the difference between the index and the primary floor. However, when the price is below th floor, we are only obligated to pay the difference between the primary and secondary floor p the price is between the cap price and the primary floor, no payments are required.

In September 2003, we entered into a swap agreement with a notional volume of 630,000 gal month for the period from January 1, 2003 to June 30, 2004. The fixed price of the swap is 74.5 gallon and the agreement is estimated to represent 7% of our fuel purchases for that period. of operations for the quarter ended December 31, 2003 include an unrealized derivative gain that is included in fuel expense and a realized gain of approximately $488,000 in cash settlement from a counter-party recorded as a decrease in fuel expense.

Interest

We are susceptible to market risk associated with changes in variable interest rates on lo obligations we incurred and will incur to finance the purchases of our Airbus aircraft. Interes on seven of our owned Airbus A319 aircraft is subject to interest rate adjustments every three to based upon changes in the applicable LIBOR rate. A change in the base LIBOR rate of 100 basis p percent) would have the effect of increasing or decreasing our annual interest expense by assuming the loans outstanding that are subject to interest rate adjustments at December 31, 20 $258,296,000 are outstanding for the entire period. As of December 31, 2003, approximately 85.8 loans had variable interest rates.

In March 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 agreement, paying a fixed rate of 2.45% and receive a variable rate based on the three month LIBOR over th the swap that expires in March 2007. As of December 31, 2003, we had hedged approximately variable interest rate loans. As of December 31, 2003, the fair value of the swap agreement is a of $173,000.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the and with the participation of our management, including our Chief Executive Officer and Chief Fi Officer, of the effectiveness of the design and operation of our disclosure controls and proce pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, our Chief Executiv and Chief Financial Officer concluded that our disclosure controls and procedures are effective. controls and procedures are controls and procedures that are designed to ensure that informatio to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, and completely and accurately reported within the time periods specified in the Securities and Ex Commission's rules and forms.

There have been no significant changes in our internal controls or in other factors that significantly affect internal controls subsequent to the date we carried out this evaluation.

PART II. OTHER INFORMATION

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit
Numbers

Exhibit 10 - Material Contracts

10.24 Aircraft Lease Agreement dated as of December 5, 2003 between International Finance Corporation, Inc., and Frontier Airlines, Inc., Lessee, in respect of 1 Aircraft. Frontier has signed leases for 4 additional Airbus 319 aircraft with under Aircraft Lease Agreements that are substantially identical in all materia this Exhibit. Portions of this Exhibit have been omitted and filed separately Securities and Exchange Commission in a confidential treatment request under Ru the Securities Exchange Act of 1934, as amended. (1)

Exhibit 31 - Rule 13a-14(a)/15d-14(a) Certifications

31.1 Section 302 certification of President and Chief Executive Officer, Jeffery S.

31.2 Section 302 certification of Chief Financial Officer, Paul H. Tate. (1)

Exhibit 32 - Section 1350 Certifications

32 Section 906 certification of President and Chief Executive Officer, Jeffery S and Chief Financial Officer, Paul H. Tate (1)

(1) Filed herewith.

(b) Reports on Form 8-K

During the quarter ended December 31, 2003, the Company furnished the following reports on Form 8

Date of Reports	Item Numbers	Financial Statements Required to be Filed
October 30, 2003	7 and 12	None
December 18, 2003	7 and 9	None
December 22, 2003	7 and 9	None

SIGNATURES

Pursuant to the requirements of the Exchange Act of 1934, the registrant has duly caused this rep signed on its behalf by the undersigned, thereunto duly authorized.

FRONTIER AIRLINES, INC.

Date: February 12, 2004

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

Chief Financial Officer

Date: February 12, 2004

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