FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
SEC Accession No. 0000921929-01-500028

FILER

FRONTIER AIRLINES INC /CO/

CIK:**921929**| IRS No.: **841256945** | State of Incorp.:**CO** | Fiscal Year End: **0331**
Type: **10-Q** | Act: **34** | File No.: **001-12805** | Film No.: **1696754**
SIC: **4512** Air transportation, scheduled

Mailing Address
7001 TOWER ROAD
DENVER CO 80249

Business Address
7001 TOWER ROAD
DENVER CO 80249
7203744200

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 June 30, 2001

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

Commission file number: 0-24126

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

The number of shares of the Company's Common Stock outstanding as of July 31, 2001 was 28,352,102.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

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

	June 30, 2001	March 31, 2001
Assets		
Current assets:		

Cash and cash equivalents	$ 100,082,049	$ 109,251,426
Short-term investments	2,000,000	2,000,000
Restricted investments	11,700,000	9,100,000
Receivables, net of allowance for doubtful accounts of $387,000 and $368,000 at June 30, 2001 and March 31, 2001, respectively	21,390,685	32,380,943
Maintenance deposits	34,830,217	30,588,195
Prepaid expenses and other assets	11,355,713	10,849,080
Inventories	5,101,451	4,072,335
Deferred tax assets	2,006,759	1,506,218
Deferred lease and other expenses	27,684	45,621
Total current assets	188,494,558	199,793,818
Security, maintenance and other deposits	49,830,465	45,680,373
Property and equipment, net	88,674,660	38,100,126
Deferred lease and other expenses	304,730	58,621
Restricted investments	11,477,760	11,683,660
	$ 338,782,173	$ 295,316,598

Liabilities and Stockholders' Equity

Current liabilities:		
Accounts Payable	$ 17,418,750	$ 21,623,067
Air traffic liability	68,740,309	62,663,237
Other accrued expenses	20,231,726	18,236,479
Accrued maintenance expense	38,247,753	33,510,531
Current portion of long-term debt	1,024,623	-
Income taxes payable	891,563	-
Current portion of obligations under capital leases	128,857	125,552
Total current liabilities	146,683,581	136,158,866
Long-term debt	22,904,975	-
Accrued maintenance expense	12,242,711	12,175,225
Deferred tax liability	2,484,714	1,999,553
Deferred rent	618,151	-
Obligations under capital leases, excluding current portion	170,590	203,863
Total liabilities	185,104,722	150,537,507
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 40,000,000 shares; 28,339,602 and 28,194,602 shares issued and outstanding at June 30, 2001 and March 31, 2001, respectively	28,340	28,195
Additional paid-in capital	78,211,474	77,606,918
Unearned ESOP shares	(1,108,025)	(1,662,087)
Retained earnings	76,545,662	68,806,065
Total stockholders' equity	153,677,451	144,779,091
	$ 338,782,173	$ 295,316,598

FRONTIER AIRLINES, INC.
Statements of Income
(Unaudited)

	Three Months Ended June 30, 2001	2000
Revenues:		
Passenger	$ 120,727,839	$ 110,967,395
Cargo	1,965,573	1,225,494
Other	622,945	615,855
Total revenues	123,316,357	112,808,744
Operating expenses:		
Flight operations	49,736,454	39,631,087
Aircraft and traffic servicing	17,845,970	13,647,785
Maintenance	18,347,190	14,390,883
Promotion and sales	16,524,763	12,461,773
General and administrative	7,234,552	6,229,618
Depreciation and amortization	2,321,868	1,074,342
Total operating expenses	112,010,797	87,435,488
Operating income	11,305,560	25,373,256

Nonoperating income (expense):		
Interest income	1,530,758	1,624,434
Interest expense	(252,874)	(17,459)
Other, net	(49,683)	(15,900)
Total nonoperating income, net	1,228,201	1,591,075
Income before income tax expense	12,533,761	26,964,331
Income tax expense	4,794,164	10,516,089
Net income	$ 7,739,597	$ 16,448,242
Earnings per share:		
Basic	$0.27	$0.62
Diluted	$0.26	$0.57
Weighted average shares of common stock outstanding:		
Basic	28,288,629	26,616,671
Diluted	29,879,414	28,909,737

FRONTIER AIRLINES, INC.
Statement of Cash Flows
(Unaudited)

	Three Months Ended June 30, 2001	2000
Cash flows from operating activities:		
Net income	$ 7,739,597	$ 16,448,242
Adjustments to reconcile net income to net cash provided by operating activities:		
Employee stock option plan compensation expense	554,062	285,938
Depreciation and amortization	2,365,341	1,115,224
Deferred tax expense (benefit)	(15,380)	-
Changes in operating assets and liabilities:		
Restricted investments	(2,600,000)	-
Trade receivables	10,990,258	(5,990,567)
Security, maintenance and other deposits	(4,282,507)	(2,057,911)
Prepaid expenses and other assets	(778,278)	(801,688)
Inventories	(1,029,116)	(447,045)
Accounts payable	(4,204,317)	(1,600,283)
Air traffic liability	6,077,072	5,694,207
Other accrued expenses	1,995,247	4,517,957
Income taxes payable	891,563	5,403,008
Accrued maintenance expense	4,804,708	1,953,845
Increase in deferred rent	618,151	-
Net cash provided by operating activities	23,126,401	24,520,927
Cash flows from investing activities:		
Decrease in short-term investments, net	-	13,760,000
Increase in aircraft lease and purchase deposits, net	(4,109,607)	(3,830,500)
Decrease in restricted investments	205,900	-
Capital expenditures	(52,896,402)	(3,683,553)
Net cash (used) provided by investing activities	(56,800,109)	6,245,947
Cash flows from financing activities:		
Net proceeds from issuance of common stock	604,701	488,244
Proceeds from long-term borrowings	24,000,000	-
Principal payments on long-term borrowings	(70,402)	-
Principal payments on obligations under capital leases	(29,968)	(26,985)
Net cash provided by financing activities	24,504,331	461,259
Net (decrease) increase in cash and cash equivalents	(9,169,377)	31,228,133
Cash and cash equivalents, beginning of period	109,251,426	67,850,933
Cash and cash equivalents, end of period	$ 100,082,049	$ 99,079,066

FRONTIER AIRLINES, INC.
Notes to Financial Statements
June 30, 2001

(1) Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended March 31, 2001. 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 months ended June 30, 2001 are not necessarily indicative of the results that will be realized for the full year.

(2) Note Payable

In May 2001, the Company entered into a credit agreement to borrow up to $72,000,000 for the purchase of three Airbus aircraft with a maximum borrowing of $24,000,000 per aircraft. Each aircraft loan will have a term of 120 months and will be payable in equal monthly installments, including interest, payable in arrears. The loans are secured by the aircraft. At the end of the term, there is a balloon payment for each aircraft loan that is not to exceed $10,200,000. As of June 30, 2001, we have borrowed $24,000,000 for the purchase of the first Airbus aircraft. The loan provides for monthly principal and interest payments of $218,109, bears interest at 6.714%, and matures in May 2011 with a balloon payment of $10,200,000.

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. ("Frontier" or the "Company") 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-looking statements. When used in this document, the words "estimate," "anticipate," "project" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. These risks and uncertainties include, but are not limited to: the timing of, and expense associated with, expansion and modification of our operations in accordance with our business strategy or in response to competitive pressures or other factors; general economic factors and behavior of the fare-paying public; increased federal scrutiny of low-fare carriers generally that may increase our operating costs or otherwise adversely affect us; actions of competing airlines, such as increasing capacity and pricing actions of United Airlines and other competitors; the availability of suitable aircraft, which may inhibit our ability to achieve operating economies and implement our business strategy; the unavailability of, or inability to secure upon acceptable terms, financing necessary to purchase aircraft which we have ordered; issues relating to our transition to an Airbus aircraft fleet; and uncertainties regarding aviation fuel prices. Because our business, like that of the airline industry generally, is characterized by high fixed costs relative to revenues, small fluctuations in our yield per RPM or expense per ASM can significantly affect operating results. See "Risk Factors" in our Form 10-K for the year ended March 31, 2001 as they may be modified by the disclosures contained in this report. Additional information regarding these and other factors may be contained in the Company's Form 10-K for its fiscal year ended March 31, 2001; the Company's Form 8-K filed May 7, 2001 and the Company's Form 8-K filed Jan. 22, 2001, as amended by the Company's Form 8-K/A filed July 11, 2001.

Share, per share and common stock information contained in this report has been adjusted to reflect a fifty percent common stock dividend to shareholders of record on February 19, 2001, which we paid on March 5, 2001.

General

We are a scheduled airline based in Denver, Colorado. 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 to 26 leased jets and one purchased Airbus aircraft, including seven Boeing 737-200s, 18 Boeing 737-300s, and two Airbus A319s. Beginning in May 2001, we began a fleet replacement plan by which we will replace our Boeing aircraft with new purchased and leased Airbus jet aircraft, a transition we expect to complete by approximately the first quarter of calendar year 2005. We expect to take delivery of our third, fourth and fifth Airbus A319 aircraft in August and September 2001. We have advanced the return of a leased Boeing 737-300 aircraft to its owner from April 2002 to September 2001.

As of July 31, 2001, we operate routes linking our Denver hub to 22 cities in 18 states spanning the nation from coast to coast. We plan to commence service between Denver and Reno/Lake Tahoe, Nevada and Austin, Texas, on October 1, 2001, each with two daily nonstop round-trip flights. Effective July 9, 2001, we began a codeshare agreement with Great Lakes Aviation, Ltd. ("Great Lakes") by which Great Lakes provides daily service to seven regional markets from our Denver hub. The codeshare agreement currently includes Casper, Cody, Gillette, and Cheyenne, Wyoming, Amarillo, Texas, Santa Fe, New Mexico, and Hayden, Colorado. We expect this agreement may expand our service, in the future, into additional small to mid-size markets currently served by Great Lakes in Colorado, Wyoming, Nebraska, South Dakota, North Dakota, Kansas, New Mexico, Utah, Arizona and Texas.

We currently use up to nine gates at our hub, Denver International Airport ("DIA"), where we operate approximately 124 daily system flight departures and arrivals. We added Houston, Texas to our route system on May 16, 2001.

Small fluctuations in our yield per revenue passenger mile ("RPM") or expense per available seat mile ("ASM") can significantly affect operating results because we, like other airlines, have high fixed costs in relation to revenues. Airline operations are highly sensitive to various factors, including the actions of competing airlines and general economic factors, which can adversely affect our liquidity, cash flows and results of operations.

As a result of the expansion of our operations and transition costs associated with the fleet replacement plan during the quarter ended June 30, 2001, as well as hail storms that damaged five of our aircraft, our results of operations are not necessarily indicative of future operating results or comparable to the prior quarter ended June 30, 2000.

Results of Operations

We had net income of $7,740,000 or $.26 per diluted share for the quarter ended June 30, 2001 as compared to net income of $16,448,000 or $.57 per diluted share for the quarter ended June 30, 2000. During the quarter ended June 30, 2001, as compared to the prior comparable period, we experienced lower fares as a result of the slowing economy. During the quarter ended June 30, 2000, we experienced an increase in the number passengers that a major competitor directed to us because of delays and cancellations that airline experienced. We estimate that the additional passenger traffic received from that airline had the effect of increasing each of our average fare and load factor by approximately 1%. Additionally, during the quarter ended June 30, 2000, we were able to increase our fare levels to offset increased fuel costs. The cost of fuel during the quarter ended June 30, 2001 was higher than the quarter ended June 30, 2000, and because of the slowing economy, we were not able to maintain fares at levels necessary to offset these costs. During the quarter ended June 30, 2001, we also were forced to cancel a significant number of flights as a result of weather conditions in the Denver area. We believe that this also had an adverse effect on our revenue during the quarter.

During the quarter ended June 30, 2001, we took delivery of our first two Airbus aircraft. As this was a new aircraft type for us, we were required by the Federal Aviation Administration ("FAA") to demonstrate that our crews were proficient in flying this type aircraft and that we were capable of properly maintaining the aircraft and related maintenance records before we placed these aircraft in scheduled passenger service. This process took longer than we originally had anticipated and, as a result, we were required to cancel scheduled service flights that the first aircraft was scheduled to perform. Because of this delay in receiving necessary FAA approvals, we believe that our passenger revenues were adversely effected during the three months ended June 30, 2001.

Our cost per ASM for the quarters ended June 30, 2001 and 2000 were 9.75(cent)and 8.59(cent), respectively, an increase of 1.16(cent)or 13.5%. Cost per ASM excluding fuel for the quarters ended June 30, 2001 and 2000 were 8.22(cent)and 7.16(cent), respectively, an increase of 1.06(cent)or 14.8%. Our cost per ASM increased during the quarter ended June 30, 2001 because of an increase in flight operations expenses (including fuel) which accounted for .44(cent)per ASM, an increase in aircraft and traffic servicing expenses of .21(cent), and an increase in maintenance expenses of .19(cent)per ASM. These expenses were impacted by the hail damage to five of our aircraft during the quarter ended June 30, 2001, or approximately 20% of our fleet. We incurred short-term lease expenses for substitute aircraft to minimize the number of flight cancellations while our aircraft were being repaired, additional maintenance expenses for the repair of the hail damage, and interrupted trip expenses as a result of the number of flight cancellations related to the aircraft out of service for repair. During April 2001, the Denver area also experienced an unusual blizzard which caused flight cancellations as well as expenses associated with deicing our aircraft. We estimate that the total adverse impact on our cost per ASM associated with these unusual weather conditions was .16(cent), or approximately $1,800,000. Additionally, due to the number of flight cancellations as a result of these weather conditions, our ASMs were less than we had planned, which caused our fixed costs to be spread over fewer ASMs and, we believe, distorted our cost per ASM for the quarter. During the quarter ended June 30, 2001, we incurred approximately $2,000,000 in transition expenses associated with the induction of the Airbus aircraft which had an adverse effect on our CASM of approximately .15(cent). These include crew salaries; travel, training and induction team expenses; and depreciation expense. We also experienced an increase in advertising expenses to stimulate traffic in a weak economy of .22(cent)per ASM. An increase in pilots' salaries effective in May 2001 also contributed to the increase in cost per ASM during the quarter ended June 30, 2001.

An airline's break-even load factor is the passenger load factor that will result in operating revenues being equal to operating expenses, assuming constant revenue per passenger mile and expenses. For the quarter ended June 30, 2001, our break-even load factor was 60.6% compared to our achieved passenger load factor of 67.6%. For the quarter ended June 30, 2000, our break-even load factor was 49.6% compared to our achieved passenger load factor of 65.5%. Our break-even load factor increased from the prior comparable period largely as a result of a decrease in our average fare to $134 during the quarter ended June 30, 2001 from $149 during the quarter ended June 30, 2000, compounded by an increase in our expense per ASM to 9.75(cent)for the quarter ended June 30, 2001 from 8.59(cent)for the quarter ended June 30, 2000.

The following table provides certain of our financial and operating data for the year ended March 31, 2001 and the quarters ended June 30, 2001 and 2000.

	Year Ended March 31, 2001	Quarters Ended June 30, 2001	2000
Passenger revenue (000s) (1)	462,609	120,728	110,967
Revenue passengers carried (000s)	3,017	846	712
Revenue passenger miles (RPMs) (000s) (2)	2,773,833	776,764	666,755
Available seat miles (ASMs) (000s) (3)	4,260,461	1,148,546	1,017,555
Passenger load factor (4)	65.1%	67.6%	65.5%
Break-even load factor (5)	52.7%	60.6%	49.6%
Block hours (6)	83,742	22,660	20,025
Departures	38,556	10,190	9,129
Average seats per departure	132	132	131
Average stage length	837	854	851
Average length of haul	919	918	936
Aircraft miles (000s)	32,276	8,701	7,768
Average daily block hour utilization (7)	9.4	9.9	9.4
Yield per RPM (cents) (8)	16.68	15.54	16.64
Total yield per RPM (cents) (9)	17.05	15.88	16.92
Total yield per ASM (cents) (10)	11.10	10.74	11.09
Expense per ASM (cents)	9.20	9.75	8.59
Expense per ASM excluding fuel (cents)	7.54	8.22	7.16
Passenger revenue per block hour	5,524	5,328	5,541
Average fare (11)	146	134	149
Average aircraft in fleet	24.5	25.2	23.5
Aircraft in fleet at end of period	25.0	27.0	24.0
Average age of aircraft at end of period	11.4	10.8	10.8
EBITDAR (000s) (12)	147,179	29,896	41,199
EBITDAR as a % of revenue	31.1%	24.2%	36.5%

(1) "Passenger revenue" includes revenues for non-revenue passengers, administrative fees, and revenue 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 for passengers by the number of miles flown.
(4) "Passenger load factor" is determined by dividing revenue passenger miles by available seat miles.
(5) "Break-even load factor" is the passenger load factor that will result in operating revenues being equal to operating expenses, assuming constant revenue per passenger mile and expenses
(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 weighted average number of aircraft days in service.
(8) "Yield per RPM" is determined by dividing passenger revenues by revenue passenger miles.
(9) "Total Yield per RPM" is determined by dividing total revenues by revenue passenger miles.
(10) "Total Yield per ASM" is determined by dividing passenger revenues by available seat miles.
(11) "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 year from issuance date.
(12) "EBITDAR", or "earnings before interest, income taxes, depreciation, amortization and aircraft rentals," is a supplemental financial measurement many airline industry analysts and we use in the evaluation of our business. However, EBITDAR should only be read in conjunction with all of our financial statements appearing elsewhere herein, and should not be construed as an alternative either to operating income (as determined in accordance with generally accepted accounting principles) as an indicator of our operating performance or to cash flows from operating activities (as determined in accordance with generally accepted accounting principles) as a measure of liquidity.

The following table provides our operating revenues and expenses expressed as cents per total ASMs and as a percentage of total operating revenues, as rounded, for the year ended March 31, 2001 and the quarters ended June 30, 2001 and 2000.

	Year Ended March 31,		Quarters Ended June 30,			
	2001		2001		2000	
	Per total ASM	% of Revenue	Per total ASM	% of Revenue	Per total ASM	% of Revenue
Revenues:						
Passenger	10.86	97.8%	10.51	97.9%	10.91	98.4%
Cargo	0.18	1.6%	0.17	1.6%	0.12	1.1%
Other	0.06	0.6%	0.06	0.5%	0.06	0.5%
Total revenues	11.10	100.0%	10.74	100.0%	11.09	100.0%
Operating expenses:						
Flight operations	4.21	37.9%	4.33	40.3%	3.89	35.1%
Aircraft and traffic servicing	1.42	12.8%	1.55	14.4%	1.34	12.1%
Maintenance	1.54	13.8%	1.60	14.9%	1.41	12.8%
Promotion and sales	1.31	11.8%	1.44	13.4%	1.22	11.0%
General and administrative	0.59	5.4%	0.63	5.9%	0.61	5.5%
Depreciation and amortization	0.13	1.2%	0.20	1.9%	0.11	1.0%
Total operating expenses	9.20	82.9%	9.75	90.8%	8.59	77.5%
Total ASMs (000s)	4,260,461		1,148,546		1,017,555	

Revenues

Our revenues are highly sensitive to changes in fare levels. Fare pricing policies have a significant impact on our revenues. Because of the elasticity of passenger demand, we believe that increases in fares may result in a decrease in passenger demand in many markets. We cannot predict future fare levels, which depend to a substantial degree on actions of competitors. When sale prices or other price changes are initiated by competitors in our markets, we believe that we must, in most cases, match those competitive fares in order to maintain our market share. Passenger revenues are seasonal in leisure travel markets depending on the markets' locations and when they are most frequently patronized.

Our average fare for the quarters ended June 30, 2001 and 2000 was $134 and $149, respectively, a decrease of 10.1%. We believe that the decrease in the average fare during the quarter ended June 30, 2001 from the prior comparable period was a result of the slowing economy. During the quarter ended June 30, 2000 we experienced an increase in the number of passengers that a major competitor directed to us because of delays and cancellations that airline experienced. We estimate that the additional passenger traffic received from that airline had the effect of increasing each of our average fare and load factor by approximately 1%. Additionally, during the quarter ended June 30, 2000, we were able to increase our fare levels to offset increased fuel costs. The cost of fuel during the quarter ended June 30, 2001 was higher than the quarter ended June 30, 2000, and because of the slowing economy, we were not able to maintain fares at levels necessary to offset these costs.

Passenger Revenues. Passenger revenues totaled $120,728,000 for the quarter ended June 30, 2001 compared to $110,967,000 for the quarter ended June 30, 2000, an increase of 8.8%. Passenger revenue includes revenues for non-revenue passengers, administrative fees, and revenue recognized for tickets that are not used within one year from their issue dates. We carried 846,000 revenue passengers during the quarter ended June 30, 2001 compared to 712,000 in the quarter ended June 30, 2000, an increase of 18.8%. We had an average of 25.2 aircraft in our fleet during the quarter ended June 30, 2001 compared to an average of 23.5 aircraft during the quarter ended June 30, 2000, an increase of 7.2%. ASMs increased to 1,148,546,000 for the quarter ended June 30, 2001 from 1,017,555,000 for the quarter ended June 30, 2000, an increase of 12.9%. RPMs for the quarter ended June 30, 2001 were 776,764,000 compared to 666,755,000 for the quarter ended June 30, 2000, an increase of 16.5%. The increase in RPMs outpaced the increase in capacity (ASMs) resulting in an increase in our load factor of 2.1 points from 65.5% for the quarter ended June 30, 2000 to 67.6% for the quarter ended June 30, 2001. During the quarter ended June 30, 2001, we had to cancel numerous flights as a result of the weather conditions the Denver area experienced. We believe that this had an adverse effect on our revenue during the quarter.

Cargo revenues, consisting of revenues from freight and mail service, totaled $1,966,000 and $1,225,000 for the quarters ended June 30, 2001 and 2000, representing 1.6% and 1.1% of total operating revenues, respectively, or an increase of 60.4%. During July 2000 an audit was performed on our contract cargo sales and services provider. The audit disclosed that for a 15 month period between January 1, 1999 and March 31, 2000 both cash and credit card sales were remitted to us by our services provider, even though we had collected for the cash sales directly from our customer. We therefore adjusted cargo revenue downward $423,000 during the quarter ended June 30, 2000. Excluding the effect of this adjustment, on the prior comparable period, cargo revenue would have been $1,648,000 for the quarter ended June 30, 2000 and the year over year increase would have been 19.3%. This adjunct to the passenger business is highly competitive and depends heavily on aircraft scheduling, alternate competitive means of same day delivery service and schedule reliability.

Other revenues, comprised principally of interline handling fees, liquor sales and excess baggage fees, totaled $623,000 and $616,000 or .5% of total operating revenues for each of the quarters ended June 30, 2001 and 2000, respectively.

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 were $112,011,000 and $87,435,000 for the quarters ended June 30, 2001 and 2000 and represented 90.8% and 77.5% of total revenue, respectively. Operating expenses increased as a percentage of revenue during the quarter ended June 30, 2001 as a result of the decrease in the average fare from $149 during the quarter ended June 30, 2000 to $134 during the quarter ended June 30, 2000, a decrease of 10.1%, and an increase in flight operations expenses associated with pilot training on the Airbus aircraft, increased pilot salaries, short-term aircraft lease expenses, and hail storm damage to five of our aircraft.

Flight Operations. Flight operations expenses of $49,736,000 and $39,631,000 were 40.3% and 35.1% of total revenue for the quarters ended June 30, 2001 and 2000, respectively. Flight operations expenses include all expenses related directly to the operation of the aircraft including fuel, lease and insurance expenses, pilot and flight attendant compensation, in-flight catering, crew overnight expenses, flight dispatch and flight operations administrative expenses.

Aircraft fuel expenses are comprised of both the direct cost of fuel, including taxes and the cost of delivering fuel into the aircraft. Aircraft fuel costs of $17,633,000 for 18,207,000 gallons used and $14,537,000 for 15,700,000 gallons used resulted in an average fuel cost of 96.9(cent)and 92.6(cent)per gallon and represented 35.4% and 36.7% of total flight operations expenses for the quarters ended June 30, 2001 and 2000, respectively. The average fuel cost per gallon increased for the quarter ended June 30, 2001 from the comparable prior period due to an overall increase in the market price of fuel. Fuel prices are subject to change weekly, as we do not purchase supplies in advance for inventory. Fuel consumption for the quarters ended June 30, 2001 and 2000 averaged 804 and 784 gallons per block hour, respectively. Fuel consumption increased over the prior comparable period as a result of increased flight speeds to improve on-time performance.

Aircraft lease expenses totaled $16,318,000 (13.2% of total revenue) and $14,768,000 (13.1% of total revenue) for the quarters ended June 30, 2001 and 2000, respectively, or an increase of 10.5%. The increase is largely due to an increase in the average number of aircraft to 25.2 from 23.5, an increase of 7.2%. During the quarter ended June 30, 2001, to minimize the number of flight cancellations while our aircraft were being repaired, we incurred short-term lease expenses of $541,000 for aircraft to partially replace our aircraft damaged by hail. During the first quarter of June 30, 2001 we also added our first purchased Airbus aircraft to our fleet. This aircraft does not have lease expense associated with it.

Aircraft insurance expenses totaled $859,000 (.7% of total revenue) and $802,000 (.7% of total revenue) for the quarters ended June 30, 2001 and 2000, respectively. Aircraft insurance expenses were .11(cent)and .12(cent)per RPM for the quarters ended June 30, 2001 and 2000, respectively.

Pilot and flight attendant salaries before payroll taxes and benefits totaled $7,775,000 and $4,923,000 or 6.4% and 4.4% of passenger revenue for each of the quarters ended June 30, 2001 and 2000, or an increase of 57.9%. In November 1998, our pilots voted to be represented by an independent union, the Frontier Airline Pilots Association. The first bargaining agreement for the pilots, which has a 5-year term, was ratified and made effective in May 2000. In May 2001, we agreed to reconsider the current rates of pay under our collective bargaining agreement with our pilots. During the past year, several pilot unions at other air carriers received wage increases which caused our pilot salaries to be substantially below those paid by certain of our competitors. We submitted a revised pilot pay proposal to the Frontier Airline Pilots Association, and its members accepted this proposal and was made effective May 2001. Pilot and flight attendant compensation also increased as a result of a 7.2% increase in the average number of aircraft in service, an increase of 13.2% in block hours, a general wage increase in flight attendant salaries, and additional crew required to replace those who were attending training on the Airbus equipment. We pay pilot and flight attendant salaries for training, consisting of approximately six and three weeks, respectively, prior to scheduled increases in service which can cause the compensation expense during such periods to appear high in relationship to the average number of aircraft in service.

Aircraft and Traffic Servicing. Aircraft and traffic servicing expenses were $17,846,000 and $13,648,000 (an increase of 30.8%) for the quarters ended June 30, 2001 and 2000, respectively, and represented 14.5% and 12.1% of total revenue. Aircraft and traffic servicing expenses include all expenses incurred at airports including landing fees, facilities rental, station labor, ground handling expenses, and interrupted trip expenses associated with delayed or cancelled flights. Interrupted trip expenses are amounts paid to other airlines to protect passengers as well as hotel, meal and other incidental expenses. Aircraft and traffic servicing expenses will increase with the addition of new cities to our route system. During the quarter ended June 30, 2001, we served 23 cities compared to 21 during the quarter ended June 30, 2000, or an increase of 9.5%. During the quarter ended June 30, 2001, our departures increased to 10,190 from 9,129, or 11.6%. Aircraft and traffic servicing expenses were $1,751 per departure for the quarter ended June 30, 2001 as compared to $1,495 per departure for the quarter ended June 30, 2000, or an increase of 17.1%. Aircraft and traffic servicing expenses increased as a result of expenses associated with deicing in April 2001 as a result of an unusual spring blizzard, a general wage rate increase, and an increase in interrupted trip expenses as a result of the number of flight cancellations related to the aircraft out of service for repair of hail damage. Additionally, due to the number of flight cancellations as a result of these weather conditions, the number of departures were less than we had planned, which caused our fixed costs to be spread over fewer departures and, we believe, distorted our expenses per departure for the quarter.

Maintenance. Maintenance expenses of $18,347,000 and $14,391,000 were 14.9% and 12.8% of total revenue for the quarters ended June 30, 2001 and 2000, respectively. These include all labor, parts and supplies expenses related to the maintenance of the aircraft. Routine maintenance is charged to maintenance expense as incurred while major airframe, engine, landing gear and auxiliary power unit overhauls are accrued monthly. Maintenance cost per block hour was $810 and $719 for the quarters ended June 30, 2001 and 2000, respectively. Maintenance costs per block hour increased as a result of hail damage to five of our aircraft during the quarter ended June 30, 2001, estimated at $560,000 ($25 per block hour), excluding in house labor, and a general wage rate increase effective April 2001. Additionally, due to the number of flight cancellations as a result of these weather conditions, the number of block hours were less than we had planned, which caused our fixed costs to be spread over fewer block hours and, we believe, distorted our cost per block hour for the quarter. During the quarter ended June 30, 2000, we performed heavy maintenance checks on two of our leased aircraft for which we were reimbursed by the aircraft owner, thereby reducing our labor costs by $695,000, or $35 per block hour. We did not perform anyheavy maintenance checks on our aircraft during the quarter ended June 30, 2001.

Promotion and Sales. Promotion and sales expenses totaled $16,525,000 and $12,462,000 and were 13.4% and 11% of total revenue for the quarters ended June 30, 2001 and 2000, respectively. These include advertising expenses, telecommunications expenses, wages and benefits for reservationists and reservations supervision as well as marketing management and sales personnel, credit card fees, travel agency commissions and computer reservations costs. During the quarter ended June 30, 2001, promotion and sales expenses per passenger increased to $19.53 from $17.50 for the quarter ended June 30, 2000. Promotion and sales expenses increased largely as a result of an increase in advertising expenses to stimulate traffic in a slowing economy. Additionally, we have incurred costs associated with the start-up and promotion of our frequent flyer program as well as the redesign of our web site.

General and Administrative. General and administrative expenses for the quarters ended June 30, 2001 and 2000 totaled $7,234,000 and $6,230,000, respectively, and were 5.9% and 5.5% of total revenue, respectively. During the quarters ended June 30, 2001 and 2000, we accrued for employee performance bonuses totaling $1,065,000 and $1,951,000, respectively, or .9% and 1.7% of total revenue for each of these quarters. General and administrative expenses include the wages and benefits for several of our executive officers and various other administrative personnel including legal, accounting, information technology, aircraft procurement, corporate communications, training and human resources and other expenses associated with these departments. Employee health benefits, accrued vacation and bonus expenses, general insurance expenses including worker's compensation, and write-offs associated with credit card and check fraud are also included in general and administrative expenses. We experienced increases in our human resources, training and information technology expenses as a result of an increase in employees from approximately 2,200 in June 2000 to approximately 2,500 in June 2001, an increase of 13.6%. Because of the increase in personnel, our health insurance benefit expenses and accrued vacation expense increased accordingly. During the quarter ended June 30, 2001, our accrued vacation expense increased by approximately $336,000 as a result of higher pilot salaries.

Depreciation and Amortization. Depreciation and amortization expenses of $2,322,000 and $1,074,000, an increase of 116.1%, were approximately 1.9% and 1% of total revenue for the quarters ended June 30, 2001 and 2000, respectively. These expenses include depreciation of aircraft and aircraft components, office equipment, ground station equipment, other fixed assets. Amortization of start-up and route development costs are not included as these expenses have been expensed as incurred. Depreciation expense increased over the prior year as a result of depreciation expense associated with our first purchased aircraft, an increase in our spare parts inventory including spare engines and parts for the Airbus fleet, ground handling equipment, and computers to support new employees as well as replacement computers for those with outdated technology.

Nonoperating Income (Expense). Net nonoperating income totaled $1,228,000 for the quarter ended June 30, 2001 compared to $1,591,000 for the quarter ended June 30, 2000. Interest income decreased to $1,531,000 from $1,624,000 during the quarter ended June 30, 2001 from the prior comparable period as a result of a decrease in interest rates. Interest expense increased to $253,000 for the quarter ended June 30, 2001 from $17,000 as a result of interest expense associated with the financing of the first purchased Airbus aircraft received in May 2001.

Income Tax Expense. We accrued income taxes of $4,794,000 and $10,516,000 or 38.25% and 39% of taxable income during the quarters ended June 30, 2001 and 2000, respectively.

Liquidity and Capital Resources

Our balance sheet reflected cash and cash equivalents and short-term investments of $102,100,000 and $111,251,000 at June 30, 2001 and March 31, 2001, respectively. At June 30, 2001, total current assets were $188,495,000 as compared to $146,684,000 of total current liabilities, resulting in working capital of $41,811,000. At March 31, 2001, total current assets were $199,794,000 as compared to $136,159,000 of total current liabilities, resulting in working capital of $63,635,000. The decrease in our working capital is largely a result of cash flows used by investing activities, principally the purchase of our first aircraft and spare parts for the new Airbus fleet

Cash provided by operating activities for the quarter ended June 30, 2001 was $23,126,000. This is attributable to our net income for the period, decreases in trade receivables, increases in air traffic liability, other accrued expenses, income taxes payable, and accrued maintenance expense, offset by increases in restricted investments, security, maintenance and other deposits, prepaid expenses and inventories, and a decrease in accounts payable. Cash provided by operating activities for the quarter ended June 30, 2000 was $24,521,000. This is attributable to our net income for the period, increases in air traffic liability, other accrued expenses, income taxes payable, and accrued maintenance expense, offset by increases in trade receivables, security, maintenance and other deposits, prepaid expenses and inventories, and a decrease in accounts payable.

Cash used by investing activities for the quarter ended June 30, 2001 was $56,800,000. We used $4,110,000 for pre-delivery payments, net of those applied to the purchase of our first Airbus aircraft, for future purchases of Airbus aircraft and a cash security deposit on the first leased Airbus aircraft. During the quarter ended June 30, 2001, we converted two purchase options into firmly ordered Airbus A319 aircraft, and advanced their delivery dates from the third and fourth calendar quarters of 2004 to May and June 2002 which required deposits of $9,203,000. We also used $52,896,000 for the purchase of this aircraft and to purchase rotable aircraft components to support the Airbus fleet, as well as a spare engine for the Boeing fleet, and other general equipment purchases. Cash provided by investing activities for the quarter ended June 30, 2000 was $6,246,000. We had maturities of $13,760,000 in short-term investments, net of purchases, comprised of certificates of deposit and government-backed agencies with maturities of one year or less. During the quarter ended June 30, 2000, we made cash security deposits totaling $3,831,000 associated with a leased Boeing 737-300 delivered during that quarter and 16 Airbus aircraft we have agreed to lease with delivery dates which began in June 2001. During the quarter ended June 30, 2000, we used $3,684,000 for capital expenditures for rotable aircraft components, maintenance equipment and tools, aircraft leasehold costs and improvements, computer equipment and software for enhancements to our internet booking site and our reservation system.

Cash provided by financing activities for the quarters ended June 30, 2001 and 2000 was $24,504,000 and $461,000, respectively. During the quarters ended June 30, 2001 and 2000, we received $605,000 and $488,000, respectively, from the exercise of common stock options and warrants. During the quarter ended June 30, 2001, we borrowed $24,000,000 to finance the purchase of our first Airbus aircraft.

As of July 31, 2001, we leased 25 Boeing 737 type aircraft and one Airbus A319 aircraft under operating leases with expiration dates ranging from 2001 to 2013. Under these leases, we were required to make cash security deposits or issue letters of credit to secure the lease obligations. At June 30, 2001, we had made cash security deposits and had arranged for issuance of letters of credit totaling $4,370,000 and $10,009,000, respectively. Accordingly, our restricted cash balance includes $10,009,000 that collateralize the outstanding letters of credit. Additionally, we make deposits for maintenance of these aircraft. At June 30, 2001 and 2000, we had maintenance deposits of $46,562,000 and $28,893,000, respectively.

We have adopted a fleet replacement plan to phase out our Boeing 737 aircraft and replace them with a combination of Airbus A319 and A318 aircraft. In March 2000, we entered into an agreement, as subsequently amended, to purchase up to 29 new Airbus aircraft. We have agreed to firm purchases of 14 of these aircraft, and have options to purchase up to an additional 15 aircraft. During the quarter ended June 30, 2001, we took delivery of the first purchased aircraft. Under the terms of the purchase agreement, we are required to make scheduled pre-delivery payments for these aircraft. These payments are non-refundable with certain exceptions. As of June 30, 2001, we had made pre-delivery payments on future deliveries totaling $32,209,000 to secure these aircraft and option aircraft. As a complement to this purchase, in April and May 2000 we signed two agreements to lease 16 new Airbus aircraft, one of which had been delivered to us as of June 30, 2001. As of June 30, 2001, we had made cash security deposits on the remaining 15 aircraft we agreed to lease and had arranged for issuance of letters of credit totaling $300,000 and $2,883,000, respectively, to secure these leases. The aggregate additional amounts due under this purchase commitment and estimated amounts for buyer-furnished equipment and spare parts for both the purchased and leased aircraft was approximately $386,200,000 as of June 30, 2001. We expect to be operating up to 37 purchased and leased Airbus aircraft by the first quarter of calendar 2005. As discussed below, we have secured a financing commitment for the first three purchased Airbus A319 aircraft. To complete the purchase of the remaining aircraft we must secure additional aircraft financing. We are exploring various financing alternatives, including, but not limited to, domestic and foreign bank financing, public debt financing such as enhanced equipment trust certificates, and leveraged lease arrangements. The additional amount of financing required will depend on the number of aircraft purchase options we exercise and the amount of cash generated by operations prior to delivery of the aircraft. While we believe that such financing will be available to us, there can be no assurance that financing will be available when required, or on acceptable terms. The inability to secure such financing could result in delays in or our inability to take delivery of Airbus aircraft we have agreed to purchase, which would have a material adverse effect on us.

Additionally, in order to maximize the efficiency of our fleet replacement plan, we will continue to endeavor to return certain leased B737 aircraft to their owners on dates other than the currently scheduled lease expiration dates for these aircraft. If we are unable to negotiate such different return dates with the aircraft owners, or sublease these aircraft to third parties, we may incur additional expense which may have a material adverse effect on us.

In May 2001, we entered into a credit agreement to borrow up to $72,000,000 for the purchase of three Airbus aircraft with a maximum borrowing of $24,000,000 per aircraft. Each aircraft loan will have a term of 120 months and will be payable in equal monthly installments, including interest, payable in arrears. At the end of the term, there is a balloon payment for each aircraft loan that is not to exceed $10,200,000. As of June 30, 2001, we have borrowed $24,000,000 for the purchase of the first Airbus aircraft. The loan provides for monthly principal and interest payments of $218,109, bears interest at 6.714%, and matures in May 2011 with a balloon payment of $10,200,000.

We also expect to incur significant costs, as well as realize certain cost savings, in connection with our transition from a Boeing to an Airbus fleet. Incident to our transition in fleet type, we incur costs in excess of our normal operations including additional crew and mechanics to replace these employees while attending Airbus training. Simulator training for pilot training is provided by Airbus at its expense. Accounting rules require that we treat this as a non-cash expense and reduce the capitalized value of the aircraft. We incur travel and other training expenses as we train our employees, as well as for aircraft deliveries. As the Airbus enter scheduled service, we expect to realize savings associated with improved fuel efficiency of these aircraft compared to our current Boeing fleet, as well as reduced maintenance expenses associated with newer aircraft compared to our present more mature fleet. We will pay maintenance reserves to lessors to cover long-term maintenance events on the airframe, engines, and landing gear under our Airbus leases at lower rates than under our current Boeing fleet. These cost savings are reduced by increased costs for landing fees as the Airbus aircraft weigh more than the Boeing aircraft.

During July 2001, our mechanics voted to be represented by the International Brotherhood of Teamsters. Negotiations have not yet begun.

We believe that our existing cash balances coupled with cash flows from operations are and will be adequate to fund our operations for the foreseeable future. However, as discussed above, we will require financing in order to fund future purchases of Airbus A319 and A318 aircraft. Cash necessary to finance aircraft acquisitions are expected to be obtained from internally generated funds from operations and external financing arrangements.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

The risk inherent in our market risk sensitive position is the potential loss arising from an adverse change in the price of fuel as described below. The sensitivity analysis presented does not consider either the effect that such an adverse change may have on overall economic activity or additional action management may take to mitigate our exposure to such a change. Actual results may differ from the amounts disclosed. At the present time, we do not utilize fuel price hedging instruments to reduce our exposure to fluctuations in fuel prices.

Our earnings are affected by changes in the price and availability of aircraft fuel. Market risk is estimated as a hypothetical 10 percent increase in the average cost per gallon of fuel for the year ended March 31, 2001. Based on fiscal year 2001 actual fuel usage, such an increase would have resulted in an increase to aircraft fuel expense of approximately $7,104,000 in fiscal year 2001. Comparatively, based on projected fiscal year 2002 fuel usage, such an increase would result in an increase to aircraft fuel expense of approximately $8,608,000 in fiscal year 2002. The increase in exposure to fuel price fluctuations in fiscal year 2002 is due to the increase of our average aircraft fleet size during the year ended March 31, 2001, projected increases to our fleet during the year ended March 31, 2002 and related gallons purchased.

Our average cost per gallon of fuel for the period ended June 30, 2001 increased 4.7% over the average cost for the quarter ended June 30, 2000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Operating Expenses."

We will also be susceptible to market risk associated with changes in interest rates on loans outstanding and long-term debt obligations to fund the purchases of our Airbus aircraft. In May 2001, we entered into a credit agreement to borrow up to $72,000,000 for the purchase of three Airbus aircraft with a maximum borrowing of $24,000,000 per aircraft. Each aircraft loan will have a term of 120 months and will be payable in equal monthly installments, including interest, payable in arrears. At the end of the term, there is a balloon payment for each aircraft loan that is not to exceed $10,200,000. As of June 30, 2001, we have borrowed $24,000,000 for the purchase of the first Airbus aircraft. The loan provides for monthly principal and interest payments of $218,109, bears interest at 6.714%, and matures in May 2011 with a balloon payment of $10,200,000.

PART II. OTHER INFORMATION

Item 6: Exhibits and Reports on Form 8-K

Exhibit Numbers

(a) Exhibits

10.51(c) Amendment No. 3 to Airbus A318/319 Purchase Agreement dated as of March 10, 2000 between AVSA, S.A.R.L., Seller, and Frontier Airlines, Inc., Buyer. Portions of this exhibit have been excluded from the publicly available document and an application for an order granting confidential treatment of the excluded material has been made.

(b) Reports on Form 8-K

During the quarter ended March 31, 2001, a report on Form 8-K was filed on January 22, 2001, which report was amended by Form 8-K/A filed on July 11, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FRONTIER AIRLINES, INC.

Date: August 2, 2001

By: /s/ Samuel D. Addoms

Samuel D. Addoms, President, Chief Executive Officer and Chief Financial Officer

Date: August 2, 2001

By: /s/ Elissa A. Potucek

Elissa A. Potucek, Vice President, Controller, Treasurer and Principal Accounting Officer

Amendment No. 3

To the A318/A319 Purchase Agreement
Dated as of March 10, 2000

between

AVSA, S.A.R.L.

and

FRONTIER AIRLINES, INC.

This Amendment No. 3 (hereinafter referred to as the "Amendment") is entered into as of June 18, 2001, between AVSA, S.A.R.L., a societe a responsabilite limitee organized and existing under the laws of the Republic of France, having its registered office located at 2, Rond-Point Maurice Bellonte, 31700 Blagnac, France (hereinafter referred to as the "Seller"), and Frontier Airlines, Inc., a corporation organized and existing under the laws of the State of Colorado, United States of America, having its principal corporate offices located at 7001 Tower Road, Denver, CO 80249, USA (hereinafter referred to as the "Buyer").

WITNESSETH

WHEREAS, the Buyer and the Seller entered into an A318/A319 Purchase Agreement, dated as of March 10, 2000, relating to the sale by the Seller and the purchase by the Buyer of certain Airbus Industrie A318-100 and A319-100 model aircraft (the "Aircraft") which, together with all Exhibits, Appendices and Letter Agreements attached thereto, and as amended by Amendment No. 1 dated as of July 17, 2000 and Amendment No. 2 dated as of November 6, 2000 is hereinafter called the "Agreement".

WHEREAS, the Buyer and the Seller have agreed to make changes to the delivery schedule of the Aircraft and;

WHEREAS, the Buyer wishes to exercise two options,

NOW, THEREFORE, IT IS AGREED AS FOLLOWS

1. DEFINITIONS

Capitalized terms used herein and not otherwise defined herein will have the meanings assigned to them in the Agreement. The terms "herein", "hereof" and "hereunder" and words of similar import refer to this Amendment.

2. CLAUSE 9: DELIVERY SHEDULE

2.1 The Buyer and the Seller agree to * .

2.2 In addition, the Buyer hereby exercises its option under * .

2.3 As a consequence of Paragraphs 2.1 and 2.2 above, the delivery schedule set forth in Clause 9.1.1 of the Agreement is hereby canceled and replaced by the following quoted provisions:

QUOTE

Firm Aircraft No.	A/C ID	Aircraft Type	Delivery
1	*	*	*
2	*	*	*
3	*	*	*
4	*	*	*
5	*	*	*
6	*	*	*
7	*	*	*
8	*	*	*
9	*	*	*
10	*	*	*
11	*	*	*
12	*	*	*
13	*	*	*
14	*	*	*

Option Aircraft No.	A/C ID	Aircraft Type	Delivery
1	*	*	*
2	*	*	*
3	*	*	*
4	*	*	*
5	*	*	*
6	*	*	*
7	*	*	*
8	*	*	*
9	*	*	*

UNQUOTE

2.4 With regard to the A319 Firmly Ordered Option Aircraft No. 5, the Seller will use its reasonable efforts subject to its, and the Manufacturer's, industrial and commercial constraints to deliver the Aircraft by *.

3. PREDELIVERY PAYMENTS

The schedule of Predelivery Payments for the Aircraft is hereby amended to reflect the changes detailed above in Paragraph 2. On signature of this Amendment, the Buyer will make all Predelivery Payments then due to the Seller.

4. CLAUSE 5.3: DEPOSIT

On signature of this Amendment, the Buyer will pay the Seller the sum of US$* (US dollars--*), which represents the nonrefundable deposit of US$* (the "Option fee") for each of the two (2) A319 Additional Option Aircraft. The Option Fee paid will be credited without interest against the first Predelivery Payment for such A319 Additional Option Aircraft.

5. EFFECT OF THE AMENDMENT

The Agreement will be deemed amended to the extent herein provided, and, except as specifically amended hereby, will continue in full force and effect in accordance with its original terms. This Amendment supersedes any previous understandings, commitments, or representations whatsoever, whether oral or written, related to the subject matter of this Amendment.

Both parties agree that this Amendment will constitute an integral, nonseverable part of the Agreement and be governed by its provisions, except that if the Agreement and this Amendment have specific provisions that are inconsistent, the specific provisions contained in this Amendment will govern.

6. CONFIDENTIALITY

This Amendment is subject to the confidentiality provisions set forth in Clause 22.5 of the Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers or agents on the dates written below.

AVSA, S.A.R.L.

By: _________________

Its: _________________

Date: ________________

FRONTIER AIRLINES, INC.

By: __________________

Its: __________________

Date: ________________