

FRONTIER AIRLINES INC /CO/
Form 10-Q
January 30, 2006

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2005
- 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
(State or other jurisdiction of incorporated or
organization)

84-1256945
(I.R.S. Employer Identification No.)

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

80249
(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 No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer or large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The number of shares of the Company's Common Stock outstanding as of January 25, 2006 was 36,189,705.

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PART I. FINANCIAL INFORMATION**FRONTIER AIRLINES, INC.****Balance Sheets****(Unaudited)**

	December 31, 2005	March 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 222,680,115	\$ 171,794,772
Short-term investments	-	3,000,000
Restricted investments	39,917,028	28,011,395
Receivables, net of allowance for doubtful accounts of \$1,239,000 and \$927,000 at December 31, 2005 and March 31, 2005, respectively	46,168,251	37,748,785
Security and other deposits	-	1,900,250
Prepaid expenses and other assets	19,904,842	18,740,220
Inventories, net of allowance of \$373,000 and \$3,973,000 at December 31, 2005 and March 31, 2005, respectively	6,714,950	7,564,342
Assets held for sale (note 11)	4,069,131	1,317,334
Deferred tax assets	6,696,449	5,472,643
Total current assets	346,150,766	275,549,741
Property and equipment, net (note 4)	512,855,619	455,813,682
Security and other deposits	18,466,495	18,662,421
Aircraft pre-delivery payments	27,530,507	22,976,090
Restricted investments	3,689,465	11,126,307
Deferred loan expenses and other assets	8,293,048	7,882,430
Total assets	\$ 916,985,900	\$ 792,010,671
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 33,523,049	\$ 37,240,376
Air traffic liability	109,744,065	112,688,811
Other accrued expenses (note 6)	56,527,372	55,337,203
Current portion of long-term debt (note 7)	21,984,429	18,222,539
Short-term borrowings	-	5,000,000
Deferred revenue and other current liabilities (note 5)	10,459,415	5,361,422
Total current liabilities	232,238,330	233,850,351
Long-term debt related to aircraft (note 7)	318,866,303	282,792,222
Long-term debt - Convertible Notes (note 7)	92,000,000	-
Deferred tax liability	15,859,690	17,331,125
Deferred revenue and other liabilities (note 5)	22,104,797	20,116,667
Total liabilities	681,069,120	554,090,365
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,

100,000,000 shares authorized; 36,189,705 and 35,995,342 issued and

outstanding at December 31, 2005 and March 31,

2005, respectively	36,190	35,995
Additional paid-in capital	190,100,752	188,165,820
Unearned ESOP shares	-	(2,270,652)
Other comprehensive income (note 8)	180,578	271,267
Retained earnings	45,599,260	51,717,876
Total stockholders' equity	235,916,780	237,920,306
Total liabilities and stockholders' equity	\$ 916,985,900	\$ 792,010,671

See accompanying notes to financial statements.

**FRONTIER AIRLINES,
INC.**

Statements of Operations

For the three and nine months ended December 31, 2005 and 2004

(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
Revenues:				
Passenger - mainline	\$ 217,812,040	\$ 182,360,545	\$ 655,276,441	\$ 539,971,428
Passenger - regional partner	23,489,827	21,582,231	69,834,655	62,618,444
Cargo	1,461,832	1,188,514	4,053,577	3,862,018
Other	4,198,861	3,106,181	12,631,427	8,643,425
Total revenues	246,962,560	208,237,471	741,796,100	615,095,315
Operating expenses:				
Flight operations	35,187,555	32,545,417	104,097,155	96,107,230
Aircraft fuel	77,649,123	53,806,536	208,391,165	138,524,787
Aircraft lease	23,370,956	23,034,636	70,273,868	64,232,862
Aircraft and traffic servicing	35,183,456	32,287,621	101,050,337	95,208,836
Maintenance	18,487,070	19,170,439	57,015,422	57,326,354
Promotion and sales	19,851,722	18,738,362	60,368,849	57,827,342
General and administrative	12,481,000	12,827,674	36,802,629	35,155,449
Operating expenses - regional partner	29,143,742	24,012,344	79,569,264	68,874,118
Aircraft lease and facility exit costs	-	-	3,364,515	-
(Gains) losses on sales of assets, net	(273,565)	(119,565)	(964,742)	484,666
Impairments	-	658,424	-	5,259,624
Depreciation	7,545,117	6,559,021	21,079,516	19,783,602
Total operating expenses	258,626,176	223,520,909	741,047,978	638,784,870
Operating income (loss)	(11,663,616)	(15,283,438)	748,122	(23,689,555)
Nonoperating income (expense):				
Interest income	2,559,727	1,049,917	5,835,209	2,406,186
Interest expense	(5,709,068)	(3,384,302)	(14,870,882)	(9,405,161)
Other, net	(53,016)	341,287	(203,441)	172,570
Total nonoperating income (expense), net	(3,202,357)	(1,993,098)	(9,239,114)	(6,826,405)
Loss before income tax benefit	(14,865,973)	(17,276,536)	(8,490,992)	(30,515,960)

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Income tax benefit	(4,575,753)	(6,218,492)	(2,372,376)	(10,802,228)
Net loss	\$ (10,290,220)	\$ (11,058,044)	\$ (6,118,616)	\$ (19,713,732)
Loss per share:				
Basic and diluted	\$ (0.28)	\$ (0.31)	\$ (0.17)	\$ (0.55)
Weighted average shares of common stock outstanding:				
Basic and diluted	36,187,528	35,623,855	36,127,533	35,612,440

See accompanying notes to financial statements.

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FRONTIER AIRLINES, INC.
Statements of Cash Flows
For the Nine Months Ended December 31, 2005
and 2004
(Unaudited)

	Nine Months Ended	
	December 31,	December 31,
	2005	2004
Cash flows from operating activities:		
Net loss	\$ (6,118,616)	\$ (19,713,732)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Compensation expense under long-term incentive plans and employee ownership plans	2,376,792	2,182,634
Depreciation and amortization	21,782,355	20,243,474
Impairment recorded on long-lived assets	-	3,996,742
Impairment recorded on inventories	-	1,262,882
Deferred income taxes	(2,367,092)	(10,878,784)
Unrealized derivative loss (gain)	2,254,201	(432,009)
Losses (gains) on disposal of equipment and assets held for sale	(998,833)	563,319
Changes in operating assets and liabilities:		
Restricted investments	(4,502,791)	(9,353,583)
Receivables	(8,419,466)	1,651,279
Security and other deposits	108,509	(1,589,821)
Prepaid expenses and other assets	(1,164,622)	(5,749,344)
Inventories	299,922	(2,612,549)
Other assets	640,516	1,203,556
Accounts payable	(3,717,327)	(1,728,433)
Air traffic liability	(2,944,746)	3,640,943
Other accrued expenses	1,190,169	4,411,793
Deferred revenue and other liabilities	7,086,123	695,319
Net cash provided (used) by operating activities	5,505,094	(12,206,314)
Cash flows from investing activities:		
Proceeds from maturities of held-to-maturity investments	3,000,000	2,000,000
Proceeds from the sale of available-for-sale securities	-	41,250,000
Purchase of available-for-sale securities	-	(136,650,000)
Aircraft lease and purchase deposits made	(21,555,865)	(15,848,240)
Aircraft lease and purchase deposits returned or applied	18,989,115	24,330,934
Decrease in restricted investments	2,034,000	3,481,600
Proceeds from the sale of aircraft and equipment	9,080,386	77,706,640
Capital expenditures	(88,640,790)	(121,202,098)
Net cash used in investing activities	(77,093,154)	(124,931,164)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	1,551,188	348,799
Proceeds from long-term borrowings	146,700,000	22,000,000
Principal payments on long-term borrowings	(14,864,029)	(14,253,415)
Payment of financing fees	(3,913,756)	(966,635)
Payment to bank for compensating balance	(2,000,000)	-
Principal payments on short-term borrowings	(5,000,000)	-

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Net cash provided by financing activities	122,473,403	7,128,749
Net increase (decrease) in cash and cash equivalents	50,885,343	(130,008,729)
Cash and cash equivalents, beginning of period	171,794,772	130,008,729
Cash and cash equivalents, end of period	\$ 222,680,115	\$ -

See accompanying notes to financial statements.

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FRONTIER AIRLINES, INC.
Notes to Financial Statements
December 31, 2005 (Unaudited)

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 Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended March 31, 2005. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included.

The Company operates in one business segment that provides transportation to passengers and cargo and includes mainline operations and a regional partner.

Financial results for the Company and airlines in general, are seasonal in nature. More recently, results for the Company's first and second fiscal quarters have exceeded its third and fourth fiscal quarters. Results of operations for the three and nine months ended December 31, 2005 are not necessarily indicative of the results that may be expected for the year ended March 31, 2006.

Recently the Company's services to Cancun, Mexico and New Orleans, Louisiana were disrupted by hurricanes and other extreme weather impacting the Company's service levels to these destinations and also impacting revenues and cost of doing business. The Company maintains business interruption insurance to cover lost profits and has made claims to recover loss profits related to these events. The Company has not recorded any anticipated recoveries as a final settlement of the claims has not been reached.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation including the reclassification of investment securities of \$154,000,000 of auction rate securities, which were included in cash and cash equivalents at December 31, 2004. As a result of this reclassification, the Company's cash flow from investing activities for the nine months ended December 31, 2004 now includes the net change in auction rate securities in short-term investments.

2. Stock-Based Compensation

Stock options and other stock-based compensation awards are accounted for using the intrinsic value method prescribed under 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"). Accordingly, no compensation cost is recognized for options granted at a price equal to the fair market value of the common stock on the date of grant. Pro forma information regarding net income and earnings per share is required by SFAS 123, which also requires that the information be determined as if the Company has accounted for its employee stock options under the fair value method of that Statement. The fair value of each option grant was estimated on the date of grant using the

Black-Scholes option valuation model.

Had compensation cost for the Company's stock-based compensation plans had been determined using the fair value of the options at the grant date, the Company's pro forma net loss and loss per share would have been as follows:

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	Three months ended December 31,		Nine months ended December 31,	
	2005	2004	2005	2004 (1)
Net loss, as reported	\$ (10,290,220)	\$ (11,058,044)	\$ (6,118,616)	\$ (19,713,732)
Add: stock-based compensation expense included in reported net earnings, net of tax	27,051	-	66,231	-
Less: total compensation expense determined under fair value method for all awards, net of tax	(134,668)	(547,061)	(404,964)	(3,995,735)
Pro forma net loss	\$ (10,397,837)	\$ (11,605,105)	\$ (6,457,349)	\$ (23,709,467)
Loss per share, basic and diluted:				
As reported	\$ (0.28)	\$ (0.31)	\$ (0.17)	\$ (0.55)
Pro forma	\$ (0.29)	\$ (0.33)	\$ (0.18)	\$ (0.67)