FRONTIER AIRLINES INC /CO/
Form 10-Q
August 01, 2005

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended June 30, 2005

o 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 ý No o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in rule 12b-2 of the Exchange Act). Yes ý No o

The number of shares of the Company s Common Stock outstanding as of July 22, 2005 was 36,172,342.

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PART I. FINANCIAL INFORMATION

FRONTIER AIRLINES, INC.

Balance Sheets

(Unaudited)

		June 30, 2005		March 31, 2005
Assets				
Current assets:				
Cash and cash equivalents	$	174,284,385	$	171,794,772
Short-term investments				3,000,000
Restricted investments		35,589,340		28,011,395
Receivables, net of allowance for doubtful accounts of $862,000 and $927,000 at June 30, 2005 and March 31, 2005, respectively		43,710,295		37,748,785
Security and other deposits		1,900,250		1,900,250
Prepaid expenses and other assets		23,579,660		18,740,220
Inventories, net of allowance of $0 and $3,973,000 at June 30, 2005 and March 31,2005, respectively		8,340,789		7,564,342
Assets held for sale (note 10)		5,989,297		1,317,334
Deferred tax assets		6,235,001		5,472,643
Total current assets		299,629,017		275,549,741
Property and equipment, net (note 3)		487,067,397		455,813,682
Security and other deposits		18,290,064		18,662,421
Aircraft pre-delivery payments		21,494,061		22,976,090
Restricted investments		5,815,772		11,126,307
Deferred loan expenses and other assets		6,711,277		7,882,430
Total Assets	$	839,007,588	$	792,010,671
Liabilities and Stockholders Equity				
Current liabilities:				
Accounts payable	$	43,175,958	$	37,240,376
Air traffic liability		137,322,827		112,688,811
Other accrued expenses (note 5)		56,154,292		55,337,203
Current portion of long-term debt (note 6)		19,645,705		18,222,539
Short-term borrowings				5,000,000
Deferred revenue and other current liabilities (note 4)		6,583,308		5,361,422
Total current liabilities		262,882,090		233,850,351
Long-term debt (note 6)		301,512,302		282,792,222
Deferred tax liability		16,511,033		17,331,125
Deferred revenue and other liabilities (note 4)		21,130,100		20,116,667
Total liabilities		602,035,525		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, authorized 100,000,000; 36,109,342 and 35,995,342 issued and outstanding at June 30, 2005 and March 31, 2005, respectively		36,109		35,995
Additional paid-in capital		189,255,763		188,165,820
Unearned ESOP shares		(1,513,768)		(2,270,652)
Other comprehensive income		209,831		271,267

Retained earnings		48,984,128		51,717,876
Total stockholders equity		236,972,063		237,920,306
Total liabilities and stockholders equity	$	839,007,588	$	792,010,671

See accompanying notes to financial statements.

FRONTIER AIRLINES, INC.

Statements of Operations

For the Three Months Ended June 30, 2005 and 2004

(Unaudited)

		June 30, 2005		June 30, 2004
Revenues:				
Passenger	$	208,067,483	$	169,437,481
Passenger- regional partner		22,954,030		19,126,445
Cargo		1,218,934		1,427,495
Other		4,169,614		2,431,649
Total revenues		236,410,061		192,423,070
Operating expenses:				
Flight operations		34,793,709		31,789,164
Aircraft fuel expense		59,829,548		40,003,182
Aircraft lease expense		23,108,954		18,890,826
Aircraft and traffic servicing		31,753,244		31,692,204
Maintenance		20,010,658		18,956,086
Promotion and sales		21,871,913		19,838,676
General and administrative		12,251,067		10,294,244
Operating expenses - regional partner		24,117,887		21,293,435
Aircraft lease exit costs (note 8)		3,311,888		
(Gains) loss on sales of assets, net		(88,038)		529,828
Impairments and other related charges				326,146
Depreciation		6,672,077		6,618,439
Total operating expenses		237,632,907		200,232,230
Operating loss		(1,222,846)		(7,809,160)
Nonoperating income (expense):				
Interest income		1,364,398		570,570
Interest expense		(4,118,118)		(2,908,016)
Other, net		(102,639)		(65,363)
Total nonoperating expense, net		(2,856,359)		(2,402,809)
Loss before income tax benefit		(4,079,205)		(10,211,969)
Income tax benefit		(1,345,457)		(3,638,251)
Net loss	$	(2,733,748)	$	(6,573,718)
Loss per share - basic and diluted	$	(0.08)	$	(0.18)
Weighted average shares of common stock outstanding basic and diluted		36,027,655		35,603,426

See accompanying notes to financial statements.

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FRONTIER AIRLINES, INC.

Statements of Cash Flows

For the Three Months Ended June 30, 2005 and 2004

(Unaudited)

	Three Months Ended	
	June 30, 2005	**June 30, 2004**
Cash flows from operating activities:		
Net loss	$ (2,733,748)	$ (6,573,718)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Compensation expense under long-term incentive plans and employee ownership plans	791,457	727,545
Depreciation and amortization	6,875,569	6,769,046
Impairment recorded on inventories		387,635
Deferred tax benefit	(1,337,216)	(3,675,807)
Unrealized derivative loss	1,006,779	476,928
Loss (gain) on disposal of equipment	(1,893)	525,722
Changes in operating assets and liabilities:		
Restricted investments	(2,687,410)	(3,531,333)
Receivables	(5,961,510)	302,884
Security and other deposits	(60,768)	(207,239)
Prepaid expenses and other assets	(4,839,440)	(3,868,723)
Inventories	(1,473,164)	(1,136,368)
Other assets	231,229	271,706
Accounts payable	5,935,582	2,034,817
Air traffic liability	24,634,016	14,790,643
Other accrued expenses	817,089	1,848,304
Deferred revenue and other liabilities	2,235,317	(119,813)
Net cash provided by operating activities	23,431,889	9,022,229
Cash flows from investing activities:		
Decrease in short-term investments	3,000,000	2,000,000
Aircraft lease and purchase deposits made	(7,325,932)	(6,441,090)
Aircraft lease and purchase deposits returned or applied	9,241,086	22,336,824
Decrease in restricted investments	420,000	1,295,800
Proceeds from the sale of aircraft and equipment	431,035	63,625,010
Capital expenditures	(42,408,666)	(103,068,885)
Net cash used in investing activities	(36,642,477)	(20,252,341)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	844,360	63,363
Proceeds from long-term borrowings	24,900,000	22,000,000
Principal payments on long-term borrowings	(4,756,754)	(5,626,295)
Payment of financing fees	(287,405)	(257,837)
Principal payments on short-term borrowings	(5,000,000)	
Net cash provided by financing activities	15,700,201	16,179,231
Net increase in cash and cash equivalents	2,489,613	4,949,119
Cash and cash equivalents, beginning of period	171,794,772	130,008,729
Cash and cash equivalents, end of period	$ 174,284,385	$ 134,957,848

See accompanying notes to financial statements.

FRONTIER AIRLINES, INC.

Notes to Financial Statements

June 30, 2005

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 results of operations for the three months ended June 30, 2005 are not necessarily indicative of the results that will be realized for the full year.

Financial results for the Company, and airlines in general, are seasonal in nature. Historically, the Company s first and second fiscal quarters have been more profitable than its third and fourth fiscal quarters. Operating results for the three months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ended March 31, 2006.

Reclassifications

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

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 plan 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 be as follows:

		Three months ended June 30, 2005		Three months ended June 30, 2004
Net loss, as reported	$	(2,733,748)	$	(6,573,718)
Add: stock-based compensation expense included in reported net loss, net of tax		23,268		
Less: total compensation expense determined under fair value method for all awards, net of tax		(204,424)		(406,518)
Pro forma net loss	$	(2,914,904)	$	(6,980,236)
Loss per share, basic and diluted:				
As reported	$	(0.08)	$	(0.18)
Pro forma	$	(0.08)	$	(0.20)

For a detailed description regarding the assumptions used to calculate the compensation expense noted above, refer to Note 13 of the Financial Statements included in the Company s Annual Report on Form 10-K for the year ended March 31, 2005. The Company changed the weighted-average risk-free interest rate to 4.05% and the expected volatility to 74.4% from what was disclosed in the Company s Annual Report on Form 10-K for the year ended March 31, 2005 for grants made during the three months ended June 30, 2005.

In March 2005, the Company adopted a new annual bonus and long-term incentive plan for the Company s officers and directors. The long-term incentive plan included the issuance of 172,578 stock-only stock appreciation rights, 63,994 restricted stock units and a three-year cash incentive pool for the fiscal year ending March 31, 2006. Annual bonuses and three-year cash incentive pools are paid out based upon pre-tax profits and a modifier based on our annual pre-tax profit performance relative to peer group companies. There was no bonus accrual for the three months ended June 30, 2005 as the Company incurred a loss.

The restricted stock award vests, if the executive is still employed by the Company at the time, in five years from the grant date. The fair value of the restricted shares on the date of the grant is recorded as compensation expense over the vesting period. The stock-only stock appreciation rights vest 20% a year over five years. Compensation expense is based on the difference between the market price on the date of grant and the current market price of the award. As of June 30, 2005, compensation expense of $35,000 has been recognized for these awards.

3. Property and Equipment, Net

As of June 30, 2005 and March 31, 2005 property and equipment consisted of the following:

		June 30, 2005		March 31, 2005
Aircraft, spare aircraft parts, and improvements to leased aircraft	$	515,343,860	$	489,324,022
Ground property, equipment and leasehold improvements		39,690,879		38,524,096
Construction in progress		919,428		231,397
		555,954,167		528,079,515
Less accumulated depreciation		(68,886,770)		(72,265,833)
Property and equipment, net	$	487,067,397	$	455,813,682

4. Deferred Revenue and Other Liabilities

At June 30, 2005 and March 31, 2005, deferred revenue and other liabilities is comprised of the following:

	June 30, 2005	March 31, 2005
Deferred revenue related to co-branded credit card	$ 8,110,261	$ 6,557,945
Deferred rent	18,949,641	18,271,668
Other	653,506	648,476
Total deferred revenue and other liabilities	27,713,408	25,478,089
Less current portion	(6,583,308)	(5,361,422)
	$ 21,130,100	$ 20,116,667

5. Other Accrued Expenses

At June 30, 2005 and March 31, 2005, other accrued expenses is comprised of the following:

	June 30, 2005	March 31, 2005
Accrued salaries and benefits	$ 28,626,908	$ 30,340,793
Federal excise and other passenger taxes payable	19,637,924	17,251,283
Property tax payable	3,440,411	2,279,718
Remaining lease payments for aircraft and facilities abandoned before lease termination date	771,918	1,063,022
Other	3,677,131	4,402,387
	$ 56,154,292	$ 55,337,203

6. Long-term Debt

During the quarter ended June 30, 2005, the Company borrowed an additional $24,900,000 for the purchase of one Airbus A319 aircraft. The aircraft loan has a term of 12 years and is payable in quarterly installments of $625,000 as of June 30, 2005, including interest, payable in arrears, with a floating interest rate adjusted quarterly based on LIBOR. The loan currently bears interest at an overall rate of 5.40% at June 30, 2005. At the end of the term, there is a balloon payment of $5,558,000. A security interest in the aircraft secures the loan.

In March 2005, the Company entered into a 42-month revolving credit facility, (Credit Facility) to be used in support of letters of credit and for general corporate purposes. Under this facility, the Company may borrow the lesser of $13,000,000 (maximum commitment amount) or 50% of the current market value of pledged eligible spare parts. The amount of letters of credit available is equal to the amount available under the facility less current borrowings. The amount available under the Credit Facility at June 30, 2005 was $10,244,000, which was reduced by letters of credit issued during the quarter of $6,500,000 for a net amount available for borrowings of $3,744,000. There were no amounts borrowed under the Credit Facility as of June 30, 2005.

7. Comprehensive Income (Loss)

A summary of the comprehensive income (loss) is as follows:

		June 30, 2005		June 30, 2004
Net loss	$	(2,733,748)	$	(6,573,718)
Other comprehensive income:				
Unrealized gain (loss) on derivative instrument, net of tax		(61,436)		297,952
Total comprehensive loss	$	(2,795,184)	$	(6,275,766)

8. Aircraft Lease and Facility Exit Costs

In April 2005, the Company ceased using three of its Boeing 737-300 leased aircraft with original lease termination dates in June 2005, August 2005 and May 2006. The Company negotiated an early return and one-time payment for the one aircraft with an original lease termination date of May 2006. This resulted in a charge of $3,311,888, representing the estimated fair value of the remaining lease payments and a negotiated one-time termination payment. This charge is included in the Statement of Operations as aircraft lease exit costs. The aircraft facility exit cost liability of $1,277,901 is included in the following Balance Sheet accounts: $771,918 in other accrued expenses; $98,733 in other long-term liabilities and $407,250 in accounts payable.

A summary of the activity charged to these liabilities are as follows:

		Aircraft		Facility		Total
Balance, March 31, 2005	$	932,800	$	249,568	$	1,182,368
Additions		3,311,888				3,311,888
Lease payments		(3,183,146)		(33,209)		(3,216,355)
Balance, June 30, 2005	$	1,061,542	$	216,359	$	1,277,901

9. Retirement Health Plan

In conjunction with the Company s collective bargaining agreement with its pilots, retired pilots and their dependents may retain medical benefits under the terms and conditions of the Health and Welfare Plan for Employees of Frontier Airlines, Inc. (the Retirement Health Plan) until age 65. The costs of retiree medical benefits are continued under the same contribution schedule as active employees.

Net periodic benefit cost for the three months ended June 30, 2005 and 2004 include the following components:

		June 30, 2005		June 30, 2004
Service cost	$	238,479	$	239,913
Interest cost		67,821		54,598
Recognized net actuarial loss		15,171		22,358
Net periodic benefit cost	$	321,471	$	316,869

10. Assets Held for Sale

In April 2005, the Company retired the remaining Boeing aircraft and has classified all remaining Boeing 737-300 aircraft rotable spare parts and expendable inventories as assets held for sale . As such, this disposal group has been valued at the lower of the carrying amount or the market value less selling costs.

In August 2004, the Company began selling Boeing spare parts and entered into agreements with vendors to sell these parts on a consignment basis. The Company monitors resale values for Boeing parts quarterly using estimates obtained from outside vendors. Based on the current market prices and recent sales history, the Company has determined that there is currently no additional impairment required for the Boeing rotable spare parts and expendable inventories.

11. Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, Share-Based Payment . SFAS No. 123R is a revision of SFAS No. 123, Accounting for Stock Based Compensation , and supersedes APB 25. Among other items, SFAS 123R eliminates the use of APB 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The effective date of SFAS 123R will be the beginning of the fiscal year that begins after June 15, 2005. Early adoption, however, is allowed.

SFAS 123R permits companies to adopt its requirements using either a modified prospective method, or a modified retrospective method. Under the modified prospective method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after that date, and based on the requirements of SFAS 123 for all unvested awards granted prior to the effective date of SFAS 123R. Under the modified retrospective method, the requirements are the same as under the modified prospective method, but also permits entities to restate financial statements of previous periods based on proforma disclosures made in accordance with SFAS 123.

The Company currently utilizes a standard option pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to Employees. While SFAS 123R permits entities to continue to use such a

model, the standard also permits the use of a lattice model. The Company has not yet determined which model it will use to measure the fair value of employee stock options upon the adoption of SFAS 123R.

SFAS 123R also requires that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date. These future amounts cannot be estimated because they depend on, among other things, when employees exercise stock options.

The Company currently expects to adopt SFAS 123R effective April 1, 2006, based on the new effective date announced by the SEC using the modified-prospective method; however, the Company has not yet determined which of the aforementioned option pricing models it will use. In addition, the Company has not yet determined the financial statement impact of adopting SFAS 123R for periods beyond fiscal year 2006.

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

Special Note About Forward-Looking Statements - This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 that describe the business and prospects of Frontier Airlines, Inc. and the expectations of our company and management. All statements included in this report that address activities, events or developments that we expect, believe, intend or anticipate will or may occur in the future, are forward-looking statements. When used in this document, the words estimate, anticipate, project and similar expressions are intended to identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. These risks and uncertainties include, but are not limited to: the timing of, and expense associated with, expansion and modification of our operations in accordance with our business strategy or in response to competitive pressures or other factors; failure of our new markets to perform as anticipated; the inability to achieve a level of revenue through fares sufficient to obtain profitability due to competition from other air carriers and excess capacity in the markets we serve; the inability to obtain sufficient gates at Denver International Airport to accommodate the expansion of our operations; general economic factors and behavior of the fare-paying public and its potential impact on our liquidity; terrorist attacks or other incidents that could cause the public to question the safety and/or efficiency of air travel; operational disruptions, including weather; industry consolidation; the impact of labor disputes; enhanced security requirements; changes in the government s policy regarding relief or assistance to the airline industry; the economic environment of the airline industry generally; unforeseen costs of satisfying the return conditions imposed by lessors of Boeing aircraft; increased federal scrutiny of low-fare carriers generally that may increase our operating costs or otherwise adversely affect us; actions of competing airlines, such as increasing capacity and pricing actions of United Airlines (United) and other competitors and other actions taken by United either in or out of bankruptcy protection; the availability of suitable aircraft, which may inhibit our ability to achieve operating economies and implement our business strategy; the unavailability of, or inability to secure upon acceptable terms, debt or operating lease financing necessary to acquire aircraft which we have ordered; uncertainties regarding aviation fuel prices, and various risk factors to our business discussed elsewhere in this report. Because our business, like that of the airline industry generally, is characterized by high fixed costs relative to revenues, small fluctuations in our revenue per available seat mile (RASM) or cost per available seat mile (CASM) can significantly affect operating results. *These risks and factors are not exclusive, and we undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this filing. A discussion of some of these risk factors is included in the Company s Annual Report on Form 10-K for the year ended March 31, 2005. These reports should be read in their entirety since no single section deals with all aspects of these matters.*

Our Business

Now in our 12th year of operations, we are a low cost, affordable fare airline operating primarily in a hub and spoke fashion connecting cities coast to coast through our hub at Denver International Airport (DIA). We are the second largest jet service carrier at DIA based on departures. As of July 22, 2005, we, in conjunction with Frontier JetExpress operated by Horizon Air Industries, Inc. (Horizon), operate routes linking our Denver hub to 46 U.S. cities spanning the nation from coast to coast and to five cities in Mexico. During the year ended March 31, 2005, we began certain point-to-point routes to Mexico from non-hub cities. As of July 22, 2005, we provided jet service to Cancun, Mexico directly from four non-hub cities.

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 49 jets as of July 25, 2005 (33 of which we lease and 16 of which we own), consisting of 42 Airbus A319s and seven Airbus A318s. In April 2005 we completed our plan to replace our Boeing aircraft with new purchased and leased Airbus jet aircraft. During the quarters ended June 30, 2005 and 2004, we increased year-over-year capacity by 6.1% and 32.0%, respectively. During the quarter ended June 30, 2005, we increased mainline passenger traffic by 17.6% over the prior year, outpacing our increase in capacity during the period. We intend to continue our growth strategy and will add frequency to new markets and existing markets that we believe are underserved.

In September 2003, we signed a 12-year agreement with Horizon, under which Horizon operates up to

nine 70-seat CRJ 700 aircraft under our Frontier JetExpress brand. The service began on January 1, 2004 with three aircraft. We have increased JetExpress aircraft to a total of eight aircraft in service and one spare aircraft as of July 22, 2005. We control the scheduling of this service. We reimburse Horizon for its expenses related to the operation plus a margin. The agreement provides for financial incentives, penalties and changes to the margin based on the performance of Horizon and our financial performance. As of July 22, 2005, Frontier JetExpress provides service to Albuquerque, New Mexico; Boise, Idaho; Billings, Montana; El Paso, Texas; Little Rock, Arkansas; Oklahoma City, Oklahoma; Spokane, Washington; Tucson, Arizona; and Tulsa, Oklahoma, and supplements our mainline service to San Jose, California; Omaha, Nebraska; and Austin, Texas.

We currently operate on 16 gates on Concourse A at DIA on a preferential basis. We use these 16 gates and share use of up to four common use regional jet parking positions to operate approximately 248 daily mainline flight departures and arrivals and 52 Frontier JetExpress daily system flight departures and arrivals.

During the quarter ended June 30, 2005, we added departures from DIA to the following cities with commencement dates as follows:

Destination	**Commencement Date**
Detroit, Michigan	May 8, 2005
Tulsa, Oklahoma (1)	May 22, 2005
Akron-Canton, Ohio	June 15, 2005
San Antonio, Texas	June 26, 2005

(1) Operated exclusively by Frontier JetExpress.

We intend to begin Frontier JetExpress service to Dayton International Airport and Fresno Yosemite International Airport with two daily round-trip frequencies on August 31, 2005.

We have submitted applications to the United States Department of Transportation (DOT) for authority to provide jet transportation to Acapulco from our Denver hub. On June 30, 2005 we received approval from the DOT to fly non-stop from Kansas City to Puerto Vallarta, Mexico and we intend to offer three flights each week commencing December 17, 2005. We also received approval from the DOT in June to fly non-stop from DIA to Cozumel, Mexico and we intend to begin mainline service with round-trip frequencies three times per week in December 2005

Due to our increased traffic in the first part of fiscal year 2006, we increased frequencies in the following markets: Reno, Nevada; San Jose, San Francisco; Sacramento California; Nashville, Tennessee; Dallas, Texas; St. Louis, Missouri; Milwaukee, Wisconsin; and Minneapolis-St. Paul, Minnesota. In addition, we expanded the 2005 season for Anchorage, Alaska to January 3, 2006 and added another frequency on June 19, 2005.

In addition, we intend to increase service to other destinations in Mexico as follows: (1) resume seasonal service to Ixtapa/Zihuatanejo on November 19, 2005, adding an additional weekly frequency from the 2004 season for a total of three round-trip frequencies per week, (2) increase service from Denver to Cabo San Lucas and Puerto Vallarta beginning December 17, 2005, with daily service plus an additional Saturday frequency during peak periods to both destinations, and (3) increase to three flights each day to Cancun from Denver during the peak winter holiday periods, effective December 17, 2005. This represents an increase in our Cancun service from Denver and is part of our growing

Cancun operation, which currently includes non-stop service to Cancun from St. Louis, Kansas City, Salt Lake City, Nashville and Denver.

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

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

Overview of Operations and the Industry

We intend to continue our focused growth strategy, which included the completion of a fleet transition from a Boeing fleet to an all Airbus fleet in April 2005. One of the key elements of this strategy is to produce cost savings because crew training is standardized for aircraft of a common type, maintenance issues are simplified, spare parts inventory is reduced, and scheduling is more efficient. As of July 22, 2005, we have remaining firm purchase commitments for 11 Airbus 319 aircraft from Airbus, and intend to lease as many as five additional A319 aircraft from third party lessors over the next two years. We intend to use these additional aircraft to provide service to new markets and/or to add frequencies to existing markets that we believe are underserved.

We believe we have a proven management team and a strong company culture and will continue to focus on differentiating the product and service we provide to our passengers. We believe our affordable pricing, accommodating service and comfortable airplanes distinguish our product and service from our competitors. Safety is a primary concern, and we are proud that our maintenance staff has been awarded the FAA Diamond Award for Excellence for six straight years an award that recognizes our commitment to the ongoing training and education of our maintenance staff. Our product begins with the Airbus aircraft, which offers a comfortable passenger cabin that we configure with one-class of comfortable seating, superb leg room, and in-seat 24 channel live television entertainment. We also provide three additional channels that offer current-run pay-per-view movies. Augmenting our product is our team of dedicated employees who strive to offer friendly customer service and keep operations running efficiently, which we believe leads to lower operating costs.

The airline industry continues to operate in an intensely competitive market. We expect competition will remain intense, as adverse economic conditions continue to exist. Business and leisure travelers continue to reevaluate their travel budgets and remain highly price sensitive. Increased competition has prompted aggressive strategies from competitors through discounted fares and sales promotions. Additionally, the intense competition has created financial hardship for some of our competitors that have been forced to reduce capacity or have been forced into bankruptcy protection.

On July 21, 2005 our flight attendants finalized the vote in which they decided not to be represented by the Association of Flight Attendants-CWA (AFA-CWA). This is the fourth unsuccessful attempt by the AFA-CWA to represent our flight attendants.

Quarter in Review

During the quarter ended June 30, 2005, we had a net loss of $2,734,000. This was driven by rising fuel costs and extremely challenging conditions in the industry with sustained widespread price competition. Fuel costs have risen sharply since January 2004 and may continue to increase. Our average fuel cost per gallon, including hedging activities, was $1.78 during the quarter ended June 30, 2005, compared to $1.25 during the quarter ended June 30, 2004, an increase of 42.4%. The average cost of fuel for the quarter ended June 30, 2005 includes unrealized hedging losses of $1,007,000 or $0.03 per gallon, as compared to $477,000 of unrealized hedging losses, or $0.01 per gallon, for the quarter ended June 30, 2004.

Highlights from the Quarter

Took delivery of four new Airbus A319 aircraft and retired three Boeing 737-300 aircraft.

Began mainline service to Detroit, Michigan; Akron, Ohio; San Antonio, Texas and Frontier JetExpress service to Tulsa, Oklahoma.

Expanded service to Reno, Nevada from one daily round-trip to two daily round-trips, service to/from San Jose from one regional jet flight, operated by Frontier JetExpress, to two mainline flights and one

regional jet flight and added mainline service to Omaha, Nebraska.

Signed pre-purchase seat agreements with Apple Vacations for flights between Denver and four vacation destinations in Mexico: Cancun, Puerto Vallarta, Mazatlan and Cabo San Lucas which began in June 2005.

Began providing a scheduled charter for Apple Vacations between Chicago, Illinois and Cancun, Mexico.

Unveiled the More Store (www.frontiermorestore.com), which is an online miles shopping experience designed to provide Ascent and Summit level EarlyReturn® members with the ability to purchase merchandise online with frequent flyer miles in an auction-style bidding process or with a stated amount of miles.

Results of Operations

We had a net loss of $2,734,000 or 8¢ per diluted share for the quarter ended June 30, 2005, as compared to a net loss of $6,574,000 or 18¢ per diluted share for the quarter ended June 30, 2004. Included in our net loss for the quarter ended June 30, 2005 were the following items before the effect of income taxes: a charge of $3,312,000 relating to three leased Boeing 737-300 aircraft we ceased using during the quarter and an unrealized loss on fuel hedges of $1,007,000. These items, net of income taxes, increased our net loss by 8¢ per share. Included in our net loss for the quarter ended June 30, 2004 were the following items before the effect of income taxes: a loss of $530,000 on the sale of two Airbus A319 aircraft in sale-leaseback transactions and other assets, a write down of $326,000 of the carrying value of expendable Boeing 737 inventory, and an unrealized loss on fuel hedges of $477,000. These items, net of income taxes, increased our net loss by 3¢ per share.

Our mainline passenger yield per RPM was 11.24¢ and 10.79¢ for the quarters ended June 30, 2005 and 2004, respectively, or an increase of 4.2%. Our mainline average fare was $102.06 for the quarter ended June 30, 2005 as compared to $100.50 for the quarter ended June 30, 2004, an increase of 1.6%. Our length of haul was 977 and 988 miles for the quarters ended June 30, 2005 and 2004, respectively, or a decrease of 1.1%. Our mainline load factor was 78.4% for the quarter ended June 30, 2005 as compared to 70.7% for the quarter ended June 30, 2004, an increase of 7.7 points. The decrease in our length of haul and increase in our average fare are primarily due to longer haul lengths in the quarter ended June 30,2004, and introductory fares in the quarter ended June 30, 2004 for our launch of the first non-hub focus city of Los Angeles International Airport. (LAX). Due to disappointing passenger loads and yields, all point-to-point route service from LAX was discontinued by February 2005. Our mainline passenger revenue per available seat mile (RASM) for the quarter ended June 30, 2005 and 2004 was 8.82¢ and 7.63¢, respectively, an increase of 15.6%.

Our mainline cost per available seat mile, (CASM) for the quarters ended June 30, 2005 and 2004 was 9.10¢ and 8.09¢, respectively, an increase of 12.5%. The increase in CASM was largely due to an increase in fuel expense of 2.55¢ per ASM from 1.81¢ per ASM for the periods ending June 30, 2005 and 2004, respectively, an increase of 40.9%. Our mainline CASM excluding fuel for the quarter ended June 30, 2005 was 6.55¢ compared to 6.28¢ for the comparable period last year, an increase of 4.3%. Included in our mainline CASM in the quarter ended June 30, 2005 was 0.14¢ for early return of three leased Boeing aircraft and 0.05¢ per ASM for rents associated with the late return of certain aircraft which. General wage increases and increases in health insurance also caused CASM to increase by 0.05¢. The increase in CASM was partially offset by an estimated 0.11¢ in credits expected as a result of the 2004 Denver International Airport landing fee and facilities calendar 2004 cost reconciliation.

An airline s mainline 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, 2005, our mainline break-even load factor was 79.5% compared to our achieved passenger load factor of 78.4%. Our mainline break-even load factor for the quarter ended June 30, 2004, was 74.1% compared to our achieved passenger load factor of 70.7%. Our mainline break-even load factor increased from the prior comparable period as a result of an increase in our mainline CASM to 9.10¢ during the

period ended June 30, 2005 (primarily due to increases in fuel costs) from 8.09¢ during the period ended June 30, 2004, or 12.5%, partially offset by a increase in our mainline RASM of 15.6%.

Small fluctuations in our RASM or CASM 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.

The following table provides certain of our financial and operating data for the year ended March 31, 2005 and the quarters ended June 30, 2005 and 2004.

	Year Ended March 31, 2005	Quarters Ended June 30, 2005	2004
Selected Operating Data:			
Passenger revenue (000s) (1)			
Mainline	$ 731,822	$ 208,067	$ 169,437
Regional Partner	84,269	22,954	19,126
System Combined	$ 816,091	$ 231,021	$ 188,563
Revenue passengers carried (000 s)			
Mainline	6,653	1,884	1,584
Regional Partner	872	233	203
System Combined	7,525	2,117	1,787
Revenue passenger miles (RPMs) (000 s) (2)			
Mainline	6,587,589	1,840,099	1,564,587
Regional Partner	527,205	136,757	131,554
System Combined	7,114,794	1,976,856	1,696,141
Available seat miles (ASMs) (000 s) (3)			
Mainline	9,115,868	2,345,897	2,211,652
Regional Partner	736,287	188,685	177,578
System Combined	9,852,155	2,534,582	2,389,230
Passenger load factor (4)			
Mainline	72.3%	78.4%	70.7%
Regional Partner	71.6%	72.5%	74.1%
System Combined	72.2%	78.0%	71.0%
Mainline break-even load factor (5)	75.0%	79.5%	74.1%
Mainline block hours (6)	182,581	47,379	43,974
Mainline departures	72,888	19,314	17,650
Mainline average seats per departure	130	129	131
Mainline average stage length	962	940	957
Mainline average length of haul	990	977	988
Mainline average daily block hour utilization (7)	11.1	11.5	11.7

	Year Ended March 31, 2005	Quarters Ended June 30, 2005	2004
Selected Operating Data (continued):			
Yield per RPM (cents) (8) (9)			
Mainline	11.03	11.24	10.79
Regional Partner	15.98	16.78	14.54
System Combined	11.39	11.63	11.08
Total yield per RPM (cents) (10)			
Mainline	11.38	11.60	11.08
Regional Partner	15.98	16.78	14.54
System Combined	11.72	11.96	11.34
Yield per ASM (cents) (9) (11)			
Mainline	7.97	8.82	7.63
Regional Partner	11.45	12.17	10.77
System Combined	8.23	9.07	7.86
Total yield per ASM (cents) (12)			
Mainline	8.22	9.10	7.84
Regional Partner	11.45	12.17	10.77
System Combined	8.46	9.33	8.05
Cost per ASM (cents)			
Mainline	8.42		