

Frontier Airlines Holdings, Inc.
Form 10-Q
October 29, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

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

Commission file number: 000-51890

FRONTIER AIRLINES HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of incorporated or organization)

20-4191157

(I.R.S. Employer Identification No.)

7001 Tower Road, Denver, CO

(Address of principal executive offices)

80249

(Zip Code)

(720) 374-4200

(Registrant's telephone number including area code)

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 October 25, 2007 was 36,641,744.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

FRONTIER AIRLINES HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

(In thousands, except share data)

	September 30, 2007	March 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 181,103	\$ 202,981
Restricted investments	72,044	42,844
Receivables, net of allowance for doubtful accounts of \$670 and \$632 at September 30, 2007 and March 31, 2007, respectively	54,563	50,691
Prepaid expenses and other assets	29,051	26,163
Inventories, net of allowance of \$368 and \$329 at September 30, 2007 and March 31, 2007, respectively	13,842	15,685
Assets held for sale	1,615	2,041
Total current assets	352,218	340,405
Property and equipment, net (note 4)	737,843	605,131
Security and other deposits	19,982	20,850
Aircraft pre-delivery payments	43,197	52,453
Restricted investments	2,845	2,845
Deferred loan fees and other assets	19,230	21,184
Total Assets	\$ 1,175,315	\$ 1,042,868
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 59,538	\$ 52,001
Air traffic liability	196,425	183,754
Other accrued expenses (note 6)	85,796	80,324
Current portion of long-term debt (note 7)	30,836	26,847
Short-term borrowings (note 7)	31,817	
Deferred revenue and other current liabilities (note 5)	17,104	16,400
Total current liabilities	421,516	359,326
Long-term debt related to aircraft notes (note 7)	411,321	359,908
Convertible notes	92,000	92,000
Deferred revenue and other liabilities (note 5)	25,189	22,138
Total Liabilities	\$ 950,026	\$ 833,372
Stockholders' equity:		
Preferred stock, no par value, authorized 1,000,000 shares; none issued		
Common stock, no par value, stated value of \$.001 per share, authorized 100,000,000 shares; 36,641,744 and 36,627,455 shares issued and outstanding at September 30, 2007 and March 31, 2007, respectively	37	37

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Treasury stock, stated at cost (note 8)		(1,838)	
Additional paid-in capital	194,524		193,943
Unearned ESOP shares	(460)		
Accumulated other comprehensive loss, net of tax (note 8)	(22)		(22)
Retained earnings	31,210		17,376
Total Stockholders Equity	225,289		209,496
Total Liabilities and Stockholders Equity	\$ 1,175,315	\$	1,042,868

See accompanying notes to consolidated financial statements.

FRONTIER AIRLINES HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

For the Three and Six Months Ended September 30, 2007 and 2006

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2007	2006	2007	2006
Revenues:				
Passenger- mainline	\$ 327,369	\$ 277,720	\$ 631,049	\$ 546,084
Passenger- regional partners	32,927	25,132	61,749	52,461
Cargo	1,653	1,962	3,163	3,581
Other	11,017	7,656	21,775	15,152
Total revenues	372,966	312,470	717,736	617,278
Operating expenses:				
Flight operations	45,932	39,148	92,256	78,984
Aircraft fuel	107,372	101,450	212,084	191,864
Aircraft lease	28,247	27,326	56,577	53,208
Aircraft and traffic servicing	42,164	39,120	86,802	77,108
Maintenance	27,373	22,068	52,171	42,664
Promotion and sales	36,081	28,854	70,378	58,275
General and administrative	14,695	15,419	30,027	28,713
Operating expenses - regional partners	36,666	28,033	71,023	57,516
Aircraft lease and facility exit costs				(14)
Loss (gains) on sales of assets, net	26	(341)	4	(647)
Depreciation	11,863	8,304	22,264	15,836
Total operating expenses	350,419	309,381	693,586	603,507
Business interruption insurance proceeds	300	868	300	868
Operating income	22,847	3,957	24,450	14,639
Nonoperating income (expense):				
Interest income	3,649	4,203	7,196	8,156
Interest expense	(9,170)	(7,840)	(17,637)	(14,672)
Other, net	(9)	29	(175)	74
Total nonoperating income (expense), net	(5,530)	(3,608)	(10,616)	(6,442)
Income before income taxes	17,317	349	13,834	8,197
Income tax expense (benefit)		(160)		3,731
Net income	\$ 17,317	\$ 509	\$ 13,834	\$ 4,466
Earnings per share (note 10):				
Basic	\$ 0.47	\$ 0.01	\$ 0.38	\$ 0.12

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Diluted	\$	0.39	\$	0.01	\$	0.33	\$	0.12
Weighted average shares of common stock outstanding								
Basic		36,642		36,600		36,638		36,595
Diluted		45,654		37,317		45,676		37,229

See accompanying notes to consolidated financial statements.

FRONTIER AIRLINES HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Six Months Ended	
	September 30, 2007	September 30, 2006
Cash flows from operating activities:		
Net income	\$ 13,834	\$ 4,466
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:		
Compensation expense under long-term incentive plans and employee ownership plans	1,469	1,873
Depreciation and amortization	23,036	16,605
Provisions recorded on inventories and write-off of assets beyond economic repair	764	182
Loss (gain) on disposal of assets	4	(647)
Mark to market derivative losses, net	2,177	3,700
Deferred tax expense		3,520
Changes in operating assets and liabilities:		
Restricted investments	(29,200)	(24,685)
Receivables	(3,872)	(2,354)
Security and other deposits	(29)	(122)
Prepaid expenses and other assets	(2,887)	(855)
Inventories	1,805	(5,230)
Other assets	(116)	(3)
Accounts payable	7,537	(3,689)
Air traffic liability	12,671	(1,590)
Other accrued expenses	5,932	(5,354)
Deferred revenue and other liabilities	3,754	4,633
Net cash provided by (used in) operating activities	36,879	(9,550)
Cash flows from investing activities:		
Aircraft lease and purchase deposits made	(18,054)	(23,369)
Proceeds from the sale of property and equipment and assets held for sale	440	43,316
Capital expenditures	(127,655)	(102,561)
Net cash used in investing activities	(145,269)	(82,614)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	32	57
Payment to bank for compensating balances		(750)
Proceeds from short-term and long-term borrowings	101,481	52,400
Principal payments on aircraft notes	(14,263)	(10,957)
Payment of financing fees	(738)	(184)
Net cash provided by financing activities	86,512	40,566
Net decrease in cash and cash equivalents	(21,878)	(51,598)
Cash and cash equivalents, beginning of period	202,981	272,840
Cash and cash equivalents, end of period	\$ 181,103	\$ 221,242

Supplemental disclosure of investing activities:

In the six-months ended September 30, 2007 and 2006, the Company applied pre-delivery payments of \$28,206,000 and \$26,522,000, respectively towards the purchase price of aircraft and LiveTV.

See accompanying notes to consolidated financial statements.

FRONTIER AIRLINES HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2007

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Frontier Airlines Holdings, Inc., a Delaware corporation (Frontier Holdings or the Company), have been prepared in accordance with generally accepted accounting principles for interim financial reporting 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, 2007. 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.

Certain prior period amounts have been reclassified to conform to the current year presentation. The marketing component of the sale of the Company s *EarlyReturns* miles, previously reported as a reduction of promotion and sales expense in the amount of \$2,613,000 and \$5,359,000, have been reclassified as other revenue for the three and six month periods ended September 30, 2006, respectively.

The consolidated financial statements include the accounts of Frontier Holdings, Frontier Airlines, Inc. (Frontier), and Lynx Aviation, Inc. (Lynx Aviation), which are wholly owned subsidiaries of Frontier Holdings. The financial results of Frontier Holdings include the financial results of Frontier and start-up costs for Lynx Aviation. In addition to mainline service, Frontier has entered into capacity purchase agreements with two partners to supplement its mainline operations (Regional Partners). See Note 11 for operating segment information.

Financial results, as measured by net income, for the Company, and airlines in general, are seasonal in nature. More recently, the financial results for Frontier s first and second fiscal quarters generally have exceeded its third and fourth fiscal quarters. Results of operations for the three and six months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ended March 31, 2008.

Lynx Aviation

Frontier Holdings entered into a purchase agreement with Bombardier, Inc. for ten Q400 turboprop aircraft, each with a seating capacity of 74, with the option to purchase ten additional aircraft. The purchase agreement was assumed by Lynx Aviation and Lynx Aviation took title of the first two aircraft deliveries which were purchased during the three months ended September 30, 2007 (see Note 7 for the description of the

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short-term borrowings). Frontier is currently taking title of Q400 aircraft deliveries which occurred in October 2007 (see Note 12 for subsequent events). The Company intends to have Lynx Aviation assume these subsequent aircraft deliveries upon certification from the FAA. The aircraft will be operated by Lynx Aviation under a separate operating certificate. The Company may exercise its option to purchase the option aircraft no later than twelve months prior to the first day of the month of the scheduled delivery date. The first option aircraft delivery date is March 2009 and the last option aircraft delivery date is July 2010.

Lynx Aviation is currently in the start-up phase of operations. Revenue service is subject to obtaining an operating certificate from the Federal Aviation Administration (FAA). Lynx Aviation plans to commence revenue service as soon as it receives FAA certification, which may occur as early as December 2007. As of September 30, 2007, Lynx Aviation had taken delivery of two Q400 aircraft and plan to take delivery of eight additional aircraft by the end of December 2007.

In September 2007, Frontier signed a limited-term contract with ExpressJet Airlines, Inc. (ExpressJet) to operate two to four 50-seat Embraer 145XR jets on behalf of Frontier. These jets will be used to service previously announced routes that were intended to be serviced by Lynx Aviation. Lynx Aviation will replace ExpressJet on these routes as soon as certification is completed. The Company plans on using ExpressJet aircraft to service the following destinations: Billings, Montana; Wichita, Kansas; Rapid City, South Dakota; Albuquerque, New Mexico; El Paso, Texas; and Oklahoma City, Oklahoma. It is anticipated that this service will be provided between November 15, 2007 and January 15, 2008.

Regional Partners

In January 2007, the Company entered into an agreement with Republic Airlines, Inc. (Republic), under which Republic will operate up to 17 76-seat Embraer 170 aircraft. The contract is for an 11-year period from the in-service date of the last aircraft, which is scheduled for December 2008. The service began on March 4, 2007 and will replace all CRJ 700 aircraft operated by Horizon Air Industries, Inc. (Horizon). Frontier establishes the scheduling, routes and pricing of the flights operated under the Republic agreement.. The Company compensates Republic for its services based on Republic's operating expenses plus a margin on certain of its expenses. The agreement provides for financial incentives and penalties based on the performance of Republic which are accrued for in the period earned. In accordance with Emerging Issues Task Force No. 01-08, *Determining Whether an Arrangement Contains a Lease* (EITF 01-08), the Company has concluded that the Republic agreement contains a lease as the agreement conveys the right to use a specific number and specific type of aircraft over a stated period of time, and as such, has reported revenues and expenses related to Republic on a gross basis. Revenues are pro-rated to the segment operated by the regional partner based on miles flown and are included in passenger revenues regional partners. Expenses directly related to the flights flown by the regional partner are included in operating expenses regional partners. The Company allocates indirect expenses between mainline and regional partner operations by using regional partner departures, available seat miles, or passengers as a percentage of system combined departures, available seat miles or passengers.

In September 2003, the Company signed an agreement with Horizon under which Horizon operated up to nine 70-seat CRJ 700 aircraft. In September 2006, the Company amended the agreement with Horizon to provide that all nine CRJ-700 aircraft would be returned to Horizon during a one-year ramp down period which began in January 2007 and will be completed in December 2007. The Company has recorded revenues and expenses related to Horizon gross, as opposed to net, upon inception of service in accordance with EITF 01-08.

2. New Accounting Standards

New Accounting Standards Not Yet Adopted

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company has not yet determined the impact of adopting FAS 157.

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In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). This standard permits companies to choose to measure many financial instruments and certain other items at fair value, following the provisions of FAS 157. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has not yet determined the impact of adopting FAS 159.

New Accounting Standards Adopted During the Fiscal Year

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an Interpretation of FASB Statement No. 109, (FIN 48), on April 1, 2007. The

Company did not have any unrecognized tax benefits and there was no effect on the Company's financial condition or results of operations as a result of implementing FIN 48.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. This Company is no longer subject to U.S. federal tax examinations for tax years before 2003. State jurisdictions remain subject to examination for tax years 2002 - 2006. The Company believes there will not be any material changes in unrecognized tax positions over the next 12 months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized with respect to taxes during the six months ended September 30, 2007.

3. Equity Based Compensation Plans

For the three and six months ended September 30, 2007, the Company recognized stock-based compensation expense of \$294,000 and \$550,000, respectively, for stock options, stock appreciation rights (SARs) and restricted stock units (RSUs). For the three and six months ended September 30, 2006, the Company recognized stock-based compensation expense of \$273,000 and \$477,000, respectively. Unrecognized stock-based compensation expense related to unvested options and RSU awards outstanding as of September 30, 2007 was approximately \$5,374,000, and will be recorded over the remaining vesting periods of one to five years. At September 30, 2007, the remaining weighted average recognition period for options and RSUs was 3.9 years.

During the six months ended September 30, 2007, the Company granted 538,341 SARs at a weighted average base price of \$5.83 per share with a grant-date fair value of \$3.11. During the six months ended September 30, 2007, the Company also granted 247,795 RSUs at a weighted average grant date market value of \$5.87.

The following table shows the Company's assumptions used to compute the stock-based compensation expense for stock option and SAR grants issued during the six months ended September 30, 2007 and 2006:

Assumptions:	Six months ended September 30,	
	2007	2006
Risk-free interest rate	4.44%	4.85%
Dividend yield	0%	0%
Volatility	60.42%	70.82%
Expected life (years)	5	5

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Exercise and base prices for options and SARs outstanding, respectively, as of September 30, 2007 ranged from \$2.13 per share to \$24.17 per share. The weighted-average remaining contractual life of these equity awards is 4.8 years. The aggregate intrinsic value of in-the-money vested options and SARs outstanding, which is calculated as the difference between the exercise price of the underlying options and the market price of the Company's common stock, was \$728,000 as of September 30, 2007. As of September 30, 2007, the Company had 1,244,000 shares available for future grants.

4. Property and Equipment, Net

As of September 30, 2007 and March 31, 2007, property and equipment consisted of the following:

	September 30, 2007		March 31, 2007
	(In thousands)		
Aircraft, spare aircraft parts, and improvements to leased aircraft	\$ 802,877	\$	667,364
Ground property, equipment and leasehold improvements	51,506		42,301
Computer software	12,658		10,234
Construction in progress	12,575		5,191
	879,616		725,090
Less accumulated depreciation	(141,773)		(119,959)
Property and equipment, net	\$ 737,843	\$	605,131

Property and equipment includes capitalized interest of \$3,417,000 and \$1,970,000 at September 30, 2007 and March 31, 2007, respectively.

During the three and six months ended September 30, 2007, the Company recorded additional depreciation expense of \$1,515,000 and \$2,874,000, respectively, related to a change in estimate of the useful life of its aircraft seats due to the implementation of a program to replace its Airbus seats with new leather seats estimated to be completed in July 2008.

5. Deferred Revenue and Other Liabilities

At September 30, 2007 and March 31, 2007, deferred revenue and other liabilities consisted of the following:

	September 30, 2007		March 31, 2007
	(In thousands)		
Deferred revenue primarily related to co-branded credit card	\$ 23,833	\$	19,047
Deferred rent	17,807		18,861
Other	653		630
Total deferred revenue and other liabilities	42,293		38,538
Less current portion	(17,104)		(16,400)
	\$ 25,189	\$	22,138

6. Other Accrued Expenses

At September 30, 2007 and March 31, 2007, other accrued expenses consisted of the following:

	September 30, 2007		March 31, 2007
	(In thousands)		
Accrued salaries and benefits	\$ 40,767	\$	42,616
Federal excise and other passenger taxes payable	29,101		26,914
Property and income taxes payable	5,709		2,593
Other	10,219		8,201
Total other accrued expenses	\$ 85,796	\$	80,324

7. Long-Term Debt and Short-term Borrowings

	September 30, 2007		March 31, 2007
	(In thousands)		
Unsecured Debt:			
Convertible Notes, fixed interest rate of 5.0%	\$ 92,000	\$	92,000
Debt Secured by Aircraft:			
Aircraft notes payable, fixed interest rates with a 6.62% weighted average interest rate	32,851		34,314
Aircraft notes payable, variable interest rates based on LIBOR plus a margin, for an overall weighted average rate of 7.31% and 7.18% at September 30, 2007 and March 31, 2006, respectively (1)	405,604		348,426
Aircraft junior note payable, variable interest rate based on LIBOR plus a margin, with a rate of 9.13% and 8.38% at September 30, 2007 and March 31, 2007, respectively	3,702		4,015
Variable rate interest only aircraft notes (2)	31,817		
Total Debt	565,974		478,755
Less: current maturities	(30,836)		(26,847)
Less: short-term borrowings	(31,817)		
Long-term debt	\$ 503,321	\$	451,908

- (1) During the six months ended September 30, 2007, the Frontier borrowed \$69,665,000 for the purchase of three Airbus A318 aircraft delivered in April 2007, May 2007 and June 2007. These senior loans have terms of 12 years and are payable in monthly installments with a floating interest rate adjusted quarterly based on LIBOR. At the end of the term, there are balloon payments for each of these loans. A security interest in the three purchased aircraft secures the loans.

- (2) During the six months ended September 30, 2007, Lynx Aviation borrowed \$31,817,000 for the purchase of two Bombardier Q400 aircraft. These aircraft loans are variable rate interest only loans that had initial maturity dates of September 30, 2007. The maturity dates were extended to October 31, 2007 and can be further extended until December 15, 2007, if necessary. These notes are included in short-term borrowings in the Consolidated Balance Sheet. Once an operating certificate is granted to Lynx, the Company has obtained long-term financing for these aircraft. A security interest in the aircraft secures the loan and it is guaranteed by both Frontier and Frontier Holdings.

Revolving Facilities and Letters of Credit

In July 2005, the Company entered into an agreement with a financial institution for a \$5,000,000 revolving line of credit that allows the Company to issue letters of credit up to \$3,500,000. In June 2006, the revolving letter of credit was increased to \$5,750,000 and it now permits the Company to issue letters of credit up to \$5,000,000 and matures in June 2008. As of September 30, 2007, the Company has used the entire amount available for letters of credit under this agreement for standby letters of credit to provide credit support for certain facility leases. A cash compensating balance of \$2,750,000 was required to be maintained to secure additional letters of credit, which has been classified as restricted investments on the consolidated balance sheets.

In March 2005, the Company entered into a two-year revolving credit facility (*Credit Facility*) to be used in support of letters of credit and for general corporate purposes. The initial *Credit Facility* was renewed for another two-year period ending May 2009. Under this facility, the Company may borrow the lesser of \$20,000,000 (*maximum commitment amount*) or an agreed upon percentage of the current market value of pledged eligible spare parts. The amount available for letters of credit is equal to the maximum commitment amount under the facility less current borrowings. Interest under the *Credit Facility* is based on the Eurodollar rate plus a margin or prime plus a margin. In addition, there is a quarterly commitment fee on the unused portion of the facility based on the maximum commitment amount. The *Credit Facility* contains a covenant that will not permit the Company to maintain an unrestricted cash and cash equivalent position of less than \$120,000,000, with a 30-day cure period. The amount available for borrowings under the *Credit Facility* based on the current market value of the pledged eligible spare parts at September 30, 2007 was \$17,840,000. The Company has reduced the amount available for borrowings by letters of credit issued of \$13,550,000.

At September 30, 2007, the Company was in compliance with the covenants for all debt and lease agreements.

8. Equity

Treasury Stock and Unearned ESOP shares

In March 2007, the Company purchased 300,000 shares of its common stock for \$1,838,000. These shares were purchased to fund the Company's 2007 contribution to the Employee Stock Ownership Plan (ESOP). These shares were subsequently contributed to the ESOP. Compensation expense for the ESOP for the three and six months ended September 30, 2007 was \$459,000 and \$919,000, respectively. Compensation expense for the ESOP for the three and six months ended September 30, 2006 was \$698,000 and \$1,396,000, respectively.

Comprehensive Income

A summary of the comprehensive income for the three and six months ended September 30, 2007 and 2006 is as follows:

	Three months ended September 30,		Six months ended September 30,	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
Net income	\$ 17,317	\$ 509	\$ 13,834	\$ 4,466
Other comprehensive income:				
Unrealized loss on derivative instruments, net of tax		(40)		(30)
Total comprehensive income	\$ 17,317	\$ 469	\$ 13,834	\$ 4,436

9. Retirement Health Plan

Pursuant to 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. 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 and six months ended September 30, 2007 and 2006 include the following components:

	Three months ended September 30,		Six months ended September 30,	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	

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Service cost	\$	260	\$	248	\$	520	\$	496
Interest cost		87		79		175		159
Recognized net actuarial loss				3				6
Net periodic benefit cost	\$	347	\$	330	\$	695	\$	661

10. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts) for the three and six months ended September 30, 2007 and 2006:

	Three months ended September 30,		Six months ended September 30,	
	2007	2006	2007	2006
Numerator:				
Net income as reported	\$ 17,317	\$ 509	\$ 13,834	\$ 4,466
Interest on convertible notes, net of capitalized interest	493		1,158	
Numerator for diluted earnings per share	\$ 17,810	\$ 509	14,992	\$ 4,466
Denominator:				
Weighted average shares outstanding, basic	36,642	36,600	36,638	36,595
Effects of dilutive securities:				
Conversion of convertible notes	8,900		8,900	
Employee stock awards	112	154	119	139
Warrants		563	19	495
Adjusted weighted average shares outstanding, diluted	45,654	37,317	45,676	37,229
Earnings per share, basic	\$ 0.47	\$ 0.01	\$ 0.38	\$ 0.12
Earnings per share, diluted	\$ 0.39	\$ 0.01	\$ 0.33	\$ 0.12

For the three months ended September 30, 2007, the common stock equivalents of the weighted average warrants outstanding of 94,000 were excluded from the calculation of diluted earnings per share because they were anti-dilutive. For the three and six months ended September 30, 2007, the weighted average options, SARS and RSUs outstanding of 2,249,000 and 2,206,000, respectively, were excluded from the calculation of diluted earnings per share because the exercise prices were greater than the average market price of the common stock. During the three and six months ended September 30, 2006, interest on convertible notes of \$642,000 and \$1,188,000, respectively, and 8,900,000 shares were excluded from the calculation of diluted earnings per share because they were anti-dilutive. For the three and six months ended September 30, 2006, the weighted average options, SARS, RSUs and warrants outstanding of 2,245,000 and 2,257,000, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive.

11. Operating Segment Information

The Company has three primary operating and reporting segments, consisting of mainline operations, Regional Partner operations, and Lynx Aviation. Mainline operations include service operated by Frontier using Airbus aircraft. Regional Partner operations include regional jet service operated by Horizon and Republic. Lynx Aviation, a subsidiary of Frontier Holdings, is currently in the start-up phase of operations and will operate using Bombardier Q400 aircraft.

Financial information for the three and six months ended September 30, 2007 and 2006 for the Company's operating segments is as follows:

	Three months ended September 30,		Six months ended September 30,	
	2007	2006	2007	2006
	(In thousands)			
Operating revenues:				
Mainline	\$ 340,039	\$ 287,338	\$ 655,987	\$ 564,817
Regional Partner	32,927	25,132	61,749	52,461
Consolidated	\$ 372,966	\$ 312,470	\$ 717,736	\$ 617,278
Operating income (loss):				
Mainline	\$ 29,416	\$ 7,615	\$ 38,782	\$ 20,451
Regional Partner	(3,739)	(2,901)	(9,274)	(5,055)
Lynx Aviation	(2,830)	(757)	(5,058)	(757)
Consolidated	\$ 22,847	\$ 3,957	\$ 24,450	\$ 14,639
Total assets at end of period:				
Mainline	\$ 1,109,833	\$ 1,011,368	\$ 1,109,833	\$ 1,011,368
Regional Partner	499	616	499	616
Lynx Aviation	64,983	9,685	64,983	9,685
Consolidated	\$ 1,175,315	\$ 1,021,669	\$ 1,175,315	\$ 1,021,669

12. Subsequent Events

Through October 25, 2007, Frontier purchased three additional Bombardier Q400 aircraft on behalf of Lynx Aviation which resulted in additional borrowings of \$48,242,000. Once an operating certificate is granted to Lynx Aviation, Lynx Aviation will assume the debt and title of the aircraft will be transferred to Lynx Aviation. These senior loans have terms of 15 years and are payable in semi-annual installments including interest, payable in arrears, with a floating interest rate adjusted semi-annually based on LIBOR. A security interest in the purchased aircraft secures these loans.

In October 2007, the Company signed an amendment with Airbus S.A.S. whereas both parties agreed to defer the delivery schedule of four Airbus A320 aircraft. The final Airbus A320 aircraft will be delivered in November 2011, which was deferred from final delivery date of August 2010.

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 (the Exchange Act) that describe the business and prospects of Frontier Airlines Holdings, 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, intend, project, believe 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; the inability to successfully lease or build a new maintenance hanger prior to a potential lease termination of our primary maintenance hanger located at DIA that is currently on a month-to-month sublease with Continental Airlines; 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; hurricanes and other natural forces and their impact on air transportation and oil production; operational disruptions, including weather; industry consolidation; the impact of labor disputes; enhanced security requirements; changes in the government's policy regarding relief or assistance to the airline industry; the economic environment of the airline industry generally; increased federal scrutiny of low-fare carriers generally that may increase our operating costs or otherwise adversely affect us; actions of airlines competing in our primary markets, such as increasing capacity and pricing actions of United Airlines, Southwest Airlines, and other competitors, particularly in some of our Mexico destinations due to the increase in the number of domestic airlines authorized to serve Mexican markets from the U.S.; 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 price; inherent risks of entering into new business strategies, such as the start-up of a new subsidiary using a different type of aircraft and in different markets and the operating efficiency and dependability of the selected aircraft and a new regional jet partner, and various risk factors to our business discussed elsewhere in this report. Forward-looking statements include the statements in Outlook below. 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. Additional information regarding these and other factors may be contained in our SEC filings, including without limitation, our Form 10-K for the year ended March 31, 2007. These risks and factors are not exclusive, and we undertake no obligation to update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this filing.

Our Business

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Now in our 14th 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). In this report, references to us, we, or the company refer to the consolidated results of Frontier Airlines Holdings, Inc. (Frontier Holdings) unless the context requires otherwise. We are the second largest jet service carrier at DIA based on departures. In January 2007, we became a major carrier as designated by the DOT. As of October 25, 2007, we, in conjunction with Regional Partners Horizon Air Industries, Inc. (Horizon) and Republic Airlines, Inc. (Republic), operate routes linking our Denver hub to 53 U.S. cities spanning the nation from coast to coast, seven cities in Mexico and two cities in Canada. We also provide service to Mexico from 9 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 60 jets as of October 25, 2007 (38 of

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which we lease and 22 of which we own), consisting of 49 Airbus A319s and 11 Airbus A318s. During the quarters ended September 30, 2007 and 2006, we increased year-over-year mainline capacity by 11.9% and 14.7%, respectively, and we increased year-over-year mainline passenger traffic by 22.3% and 15.4%, respectively. We intend to continue our growth strategy and to expand to new markets and add frequency to existing markets that we believe are underserved, but at a lower growth rate than in the past two years.

On January 11, 2007, we signed an agreement with Republic under which Republic will operate up to 17 Embraer 170 aircraft with capacity of 76-seats. The contract is for an 11-year period from the in-service date of the last aircraft, which is scheduled for December 2008. The service began on March 4, 2007 and replaces the CRJ 700 aircraft operated by Horizon, which will expire on return of the last aircraft in December 2007. We control the routing, scheduling and ticketing of this service. We compensate Republic for its services based on its operating expenses plus a margin on certain of its expenses. The agreement provides for financial incentives and penalties based on the performance of Republic.

In September 2006, we formed a new subsidiary, Lynx Aviation, Inc. (Lynx Aviation). Frontier Holdings entered into a purchase agreement with Bombardier, Inc. for ten Q400 turboprop aircraft, each with a seating capacity of 74, with the option to purchase ten additional aircraft. This agreement has been assumed by Frontier and we intend to have Lynx Aviation assume this agreement upon FAA certification of Lynx Aviation. The aircraft will be purchased and operated by Lynx Aviation under a separate operating certificate. Lynx Aviation is currently in the process of obtaining FAA authorization to provide scheduled air transportation service. Lynx Aviation submitted its application to the Department of Transportation (DOT) in January 2007, has received a conditional Certificate of Public Convenience of Necessity from the DOT, and is currently in the process of securing the appropriate Federal Aviation Administration (FAA) operating approval. Lynx Aviation plans to commence revenue service as soon as it receives FAA certification, which may occur as early as December 2007. As of October 25, 2007, Lynx Aviation has taken delivery of five Q400 aircraft and plans to take delivery of five additional aircraft by the end of December 2007. Lynx Aviation plans to have all ten aircraft in service by March 2008.

In September 2007, we signed a limited-term contract with ExpressJet Airlines, Inc. (ExpressJet) to operate two to four 50-seat Embraer 145XR jets on routes intended to be serviced by Lynx Aviation. These routes will be serviced by Lynx Aviation as soon as FAA certification of Lynx Aviation is completed. Until the certification occurs, we plan on using ExpressJet aircraft to service the following destinations: Billings, Montana; Wichita, Kansas; Rapid City, South Dakota; Albuquerque, New Mexico; El Paso, Texas; and Oklahoma City, Oklahoma. It is anticipated that this service will be provided between November 15, 2007 and January 15, 2008.

Following is a list of routes that we have started serving or have announced our intention to serve from April 1, 2007 through October 25, 2007:

Destination	Commencement Date	Operated By
DIA to Louisville, Kentucky	April 1, 2007	Regional Partners
DIA to Vancouver, British Columbia, Canada	May 5, 2007	Frontier Mainline service
DIA to Memphis, Tennessee	May 12, 2007	Frontier Mainline service
DIA to Jacksonville, Florida	June 15, 2007	Frontier Mainline service
DIA to Baton Rouge, Louisiana	August 15, 2007	Regional Partners
DIA to Wichita, Kansas	October 1, 2007	Lynx Aviation**
DIA to Sioux City, Iowa	October 5, 2007	Lynx Aviation**
DIA to Rapid City, South Dakota	October 5, 2007	Lynx Aviation**
DIA to Palm Beach International Airport (PBI)	November 15, 2007	Frontier Mainline service
DIA to San Jose, Costa Rica	November 30, 2007	Frontier Mainline service
Memphis to Las Vegas, Nevada	May 12, 2007	Frontier Mainline service

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Memphis to Orlando, Florida	May 12, 2007	Frontier Mainline service
Memphis to Ft. Lauderdale, Florida	November 15, 2007	Frontier Mainline service
Dallas/Fort Worth, Texas to Mazatlan, Mexico	June 7, 2007	Frontier Mainline service
Milwaukee, Wisconsin to Cancun, Mexico	December 15, 2007	Frontier Mainline service
Albuquerque, New Mexico to Puerto Vallarta, Mexico	December 15, 2007	Frontier Mainline service

** Lynx Aviation service is contingent on FAA certification and these cities will be serviced by a combination of Embraer 170 aircraft operated by Republic and Embraer 145XR aircraft operated by ExpressJet until certification is obtained.

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We began service between San Francisco, California and Los Angeles, California with five daily frequencies on June 29, 2006 and service between San Francisco, California and Las Vegas, Nevada on December 14, 2006 with one daily frequency. We terminated these scheduled routes effective July 10, 2007. In July 2007, we announced that we will no longer provide service to Reno, Nevada effective September 5, 2007.

We applied for DOT approval to start seasonal once-a-week flights from San Diego to Mazatlan, Mexico, with Airbus A319 planes from December 15 to July 5 annually. We have since determined not to provide this service at this time. We also have applied for permission to start seasonal service from San Jose, California to Puerto Vallarta, Mexico and flights from Sacramento, California to Puerto Vallarta Mexico. These routes are to be flown by Republic starting December 15, 2007.

As of October 25, 2007, our Regional Partners provided service to Billings, Montana; El Paso, Texas; Little Rock, Arkansas; Louisville, Kentucky; Oklahoma City, Oklahoma; Tulsa, Oklahoma, and Calgary, Alberta, Canada and supplement our mainline service to Albuquerque, New Mexico; Boise, Idaho; Dayton, Ohio; Omaha, Nebraska; Spokane, Washington; and Tucson, Arizona.

We currently lease 21 gates on Concourse A at DIA on a preferential basis and one international gate on Concourse A on a subordinated preferential basis. We use these 22 gates and share use of up to seven common use regional jet parking positions to operate approximately 284 daily mainline flight departures and arrivals and 63 Regional Partner daily system flight departures and arrivals. To support future growth, we are working with DIA to identify additional gates and expansion projects to accommodate the mainline growth as well as the additional aircraft to be operated by Lynx Aviation and the growth in the aircraft fleet operated by our Regional Partners.

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

Overview

We intend to continue our focused growth strategy while keeping our operating costs low. One of the key elements to keeping our costs low was the completion of the transition from a Boeing fleet to an all Airbus fleet in April 2005. This strategy produced cost savings because crew training was standardized for aircraft of a common type, maintenance issues are simplified, spare parts inventory is reduced, and scheduling is more efficient. We also keep our mainline operating costs low by operating only two types of Airbus aircraft with a single class of service. Operating a single class of service simplifies our operations, enhances productivity, increases our capacity and offers an operating cost advantage. The anticipated addition of the Bombardier Q400 turboprop aircraft through our Lynx Aviation subsidiary and the expansion of our Regional Partner operation will allow us to add routes to under-served markets in Colorado and elsewhere in the Rocky Mountain region using the economically correct gauge of equipment and operating performance. We are hopeful that that Lynx Aviation will begin revenue service in December 2007.

As of October 25, 2007, we had remaining firm purchase commitments for ten Airbus 320 aircraft from Airbus and five Q400 aircraft from Bombardier. Our contract with Republic also calls for an additional 11 Embraer 170 aircraft. We intend to use these additional aircraft to provide service to new markets and to add frequencies to existing markets that we believe are underserved.

The airline industry continues to operate in an intensely competitive market. We expect competition will remain intense, as over-capacity in the industry continues 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.

Highlights from the Quarter

Sean Menke returned to Frontier Holdings and was appointed President and Chief Executive Officer, replacing Jeff Potter who resigned effective September 6, 2007. Jeff Potter will remain as a member of the Board of Directors

D. Dale Browning was appointed Chairman of the Board on September 6, 2007 replacing Sam Addoms upon his retirement.

We achieved record load factors during the months of July, August, and September 2007.

We took delivery of two Bombardier Q400 aircraft.

Outlook

In December 2006, the Board approved a plan to replace all of its Airbus aircraft seats with leather seats that have light weight composite material. The lighter seats are expected to produce fuel savings from an estimated at 4.5 gallons per block hour reduction in our burn rate. The new seats will also have a new design allowing for more legroom. We also will be adding four seats per aircraft starting in November 2007 with the project scheduled for completion in July 2008. We have installed the new leather seats on 18 of our Airbus aircraft to date. We have accelerated the depreciation on our old seats on our owned aircraft which increased depreciation by \$2,874,000 for the six months ended September 30, 2007. We anticipate additional accelerated depreciation expense of approximately \$810,000 for the remainder of fiscal year 2008 and \$115,000 in fiscal year 2009. The costs to purchase these additional aircraft seats are included in the Contractual Obligations Table in the Liquidity and Capital Resources section.

During the six-months ended September 30, 2007 we have incurred \$5,058,000 of start-up costs related to our new subsidiary Lynx Aviation. We anticipate additional start-up costs of approximately

\$5,000,000 to be incurred in our third fiscal quarter ended December 31, 2007. Costs will continue to increase when certification is obtained and revenue operations begin.

We expect our mainline full-year available seat mile capacity for fiscal year 2008 to increase by approximately 14% over fiscal year 2007, which includes the delivery of two Airbus 320 aircraft in February and March 2008. While the industry revenue environment remains extremely competitive, our passenger mainline RASM is expected to increase again in our fiscal 2008 third quarter particularly because last year's quarterly passenger revenue was adversely affected by two significant snowstorms. Additionally, we have seen an increase in our revenue from connecting traffic as we grow our network through adding new cities and adding capacity in existing markets through the acquisition of new aircraft. Also, recently our largest competitor has implemented capacity reductions at DIA.

We expect our third quarter of our 2008 fiscal year mainline CASM to increase as compared to our second quarter of fiscal year 2008 due to higher fuel costs, Lynx Aviation start-up costs, accelerated seat depreciation charges and slightly higher operating costs per ASM. Fuel costs have continued to rise sharply during this fiscal year's third quarter, and on October 26, 2007, crude oil crossed \$92 a barrel on mideast tensions and supply worries. We had hedged 46% and 30% of our fuel purchases during the quarters ended June 30, 2007 and September 30, 2007, respectively, with realized hedging gains of \$4,337,000 and \$4,792,000, respectively. For the three months ended December 31, 2007 and three months ended March 31, 2008, we currently have 40% and 19% of estimated fuel purchases hedged, respectively. Based on current levels of fuel prices, we do not expect to be profitable in the third and fourth quarters of fiscal year 2008.

Quarter in Review

Frontier Holdings includes the following operations as of September 30, 2007; our mainline operations which consisted of 60 Airbus aircraft; our Regional Partner operations operated by Horizon and Republic using six CRJ 700 aircraft and six Embraer ERJ-170 aircraft (Regional Partners); and Lynx Aviation, which is in its start-up phase of operations. Lynx Aviation may begin revenue service as early as December 2007. Lynx Aviation and our Regional Partners services are separate and apart from our mainline operations. The break-out of our mainline, Regional Partners and Lynx Aviation operations from our consolidated statement of operations for the three months ended September 30, 2007 are as follows (in thousands):

	Mainline		Regional Partners		Lynx Aviation		Consolidated	
	Three months ended		Three months ended		Three months ended		Three months ended	
	September 30,		September 30,		September 30,		September 30,	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenues:								