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FRONTIER AIRLINES INC /CO/  
Form 10-K  
June 15, 2004

**FORM 10-K**

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended March 31, 2004

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)

Registrant's telephone number including area code: (720) 374-4200

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, No Par Value

Title of Class

Indicate by check mark whether the Registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

The aggregate market value of common stock held by non-affiliates of the Company computed by reference to the last quoted price at which such stock sold on such date as reported by the Nasdaq National Market as of September 30, 2003 was \$571,006,527.

The number of shares of the Company's common stock outstanding as of June 1, 2004 is 35,603,442.

Documents incorporated by reference - Certain information required by Parts II and III is incorporated by reference to the Company's 2004 Proxy Statement.

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**PART I**

*This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 that describe the business and prospects of Frontier Airlines, Inc. and the expectations of our company and management. All statements, other than statements of historical facts, included in this report that address activities, events or developments that we expect, believe, intend or anticipate will or may occur in the future, are forward-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; 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*

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*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 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, financing necessary to purchase aircraft that we have ordered or lease aircraft we anticipate adding to our fleet through lease financing; issues relating to our transition to an Airbus aircraft fleet; uncertainties regarding aviation fuel prices; and uncertainties as to when and how fully consumer confidence in the airline industry will be restored, if ever. Because our business, like that of the airline industry generally, is characterized by high fixed costs relative to revenues, small fluctuations in our yield per available seat mile ("RASM") or cost per available seat mile ("CASM") can significantly affect operating results.*

### **Item 1: Business**

#### **General**

Now in our tenth year of operations, we are a low cost, affordable fare airline operating primarily in a hub and spoke fashion connecting cities coast to coast primarily through our hub at Denver International Airport ("DIA"). We are the second largest jet service carrier at DIA based on departures. As of June 1, 2004, we, in conjunction with Frontier JetExpress operated by Horizon Air Industries, Inc. ("Horizon"), operate routes linking our Denver hub to 43 U.S. cities spanning the nation from coast to coast and to five cities in Mexico. In April 2004, we began our first expansion of point-to-point routes outside of our DIA hub with three routes from our focus city Los Angeles, California ("LAX") and added an additional route in May 2004.

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 41 jets as of June 1, 2004 (27 of which we lease and 14 of which we own), consisting of nine Boeing 737-300s, 2 Airbus A319s, and six Airbus A318s. In May 2001, we began a fleet replacement plan to replace our Boeing aircraft with new purchased and leased Airbus jet aircraft, a transition we expect to complete by September 2005. As of November 1, 2003, we no longer operate Boeing 737-200 aircraft. During the years ended March 31, 2003 and 2004, we increased year-over-year capacity by 30.9% and 19.0%, respectively. During the year ended March 31, 2004, we increased passenger traffic by 42.3% 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.

We currently operate on 16 gates on Concourse A at DIA on a preferential basis. Together with our regional jet codeshare partner, Frontier JetExpress, we use these 16 gates and share use of up to four common use regional jet parking positions to operate approximately 204 daily system flight departures and arrivals and 50 Frontier JetExpress daily system flight departures and arrivals.

In September 2003, we signed a 12-year agreement with Horizon, under which Horizon will operate 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 June 1, 2004. 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 performance of Horizon and our financial performance. As of June 1, 2004, Frontier JetExpress provides service to Tucson, Arizona; Ontario, California; Boise, Idaho; Billings, Montana; Oklahoma City, Oklahoma; El Paso, Texas and Spokane, Washington, and supplements our mainline service to, San Jose, California; Minneapolis/St. Paul, Minnesota; Omaha, Nebraska; Albuquerque, New Mexico; Portland, Oregon and Austin, Texas. This service replaced our codeshare arrangement with Mesa Airlines, which terminated on December 31, 2003.

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In March 2003, we entered into an agreement with Juniper Bank ([www.juniperbank.com](http://www.juniperbank.com)), a full-service credit card issuer, to offer exclusively Frontier MasterCard products to consumers, customers and Frontier's EarlyReturns frequent flyer members. We launched the co-branded credit card in May 2003. We believe that the Frontier/Juniper Bank co-branded MasterCard offers one of the most aggressive affinity card programs because free travel can be earned for as little as 15,000 miles.

In October 2002, we signed a purchase and long-term services agreement with LiveTV to bring DIRECTV AIRBORNE(TM) satellite programming to every seatback in our Airbus fleet. We have completed the installation of the LiveTV system on all of our Airbus A318 and A319 aircraft. We have implemented a \$5 per segment usage charge for access to the system to offset the costs for the system equipment, programming and services. We are also in discussions with film distributors to offer current-run pay-per-view movies on four additional channels to be added to our basic LiveTV service. We cannot predict whether or when we will provide this service. We believe the DIRECTV(TM) product represents a significant value to our customers and offers competitive advantage for our company.

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

Our filings with the Securities and Exchange Commission are available at no cost on our website, [www.frontierairlines.com](http://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.

### **Business Strategy and Markets**

Our business strategy is to provide air service at affordable fares to high volume markets from our DIA hub and limited point-to-point routes outside of our DIA hub principally from our Los Angeles focus city. Our strategy is based on the following factors:

- o Stimulate demand by offering a combination of low fares, quality service and frequent flyer credits in our frequent flyer program, EarlyReturns.
- o Expand our Denver hub operation and increase connecting traffic by adding additional high volume markets to our current route system and by code sharing agreements.
- o Continue filling gaps in flight frequencies to current markets from our DIA hub and evaluate other opportunities for additional non-hub point-to-point routes.

### **Route System Strategy**

Our route system strategy encompasses connecting our Denver hub to top business and leisure destinations. We currently serve 21 of the top 25 destinations from Denver, as defined by the U.S. Department of Transportation's Origin and Destination Market Survey. During the year ended March 31, 2004 and as of June 1, 2004, we added departures from DIA to the following cities with commencement dates as follows:

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<u>Destination</u>	<u>Commencement Date</u>
Milwaukee, Wisconsin	August 31, 2003
Santa Ana, California	August 31, 2003
St. Louis, Missouri	November 1, 2003
Cabo San Lucas, Mexico	November 22, 2003
Puerto Vallarta, Mexico	November 22, 2003
Ixtapa/Zihuatanejo, Mexico	January 31, 2004
Washington, D.C. (Dulles International)	April 11, 2004
Anchorage, Alaska (1)	May 9, 2004
Billings, Montana (2)	May 23, 2004
Spokane, Washington (2)	May 23, 2004
Philadelphia, Pennsylvania	May 23, 2004

- (1) Service to this destination is seasonal.  
(2) Operated exclusively by Frontier JetExpress.

On April 11, 2004, we began our first significant point-to-point routes from our focus city Los Angeles, California. We began service from Los Angeles International Airport to the following cities with commencement dates as follows:

<u>Destination</u>	<u>Commencement Date</u>
Kansas City, Missouri	April 11, 2004
Minneapolis/St. Paul, Minnesota	April 11, 2004
St. Louis, Missouri	April 11, 2004
Philadelphia, Pennsylvania	May 23, 2004

We will continue to maintain a disciplined growth strategy by focusing on the growth of our DIA hub, increasing frequency on our existing routes, and entering new markets.

We intend to begin service to Nashville, Tennessee from our DIA hub with two daily round-trip frequencies on June 20, 2004. We have also been granted four additional slots, representing two more round trips, at Ronald Reagan Washington National Airport ("National") and intend to increase our flights to this destination from one daily round-trip frequency to three daily round-trip frequencies from our Denver hub with the second round-trip frequency beginning July 1, 2004 and the third round-trip frequency beginning July 18, 2004.

In April 2004, we filed an application with the U.S. Department of Transportation ("DOT") for authorization to serve Cancun, Mexico from Kansas City International Airport, Lambert-St. Louis International Airport and Salt Lake City International Airport. We have been granted authority and intend to serve Cancun, Mexico from Kansas City International Airport and Salt Lake City International Airport beginning July 3, 2004 with one weekly round-trip frequency. If we are granted authority from the DOT, we intend to begin one weekly round-trip frequency from St. Louis to Cancun on November 7, 2004.

### **Marketing and Sales**

Our sales efforts are targeted to price-sensitive passengers in both the leisure and corporate travel markets. In the leisure market, we offer discounted fares marketed through the Internet, newspaper, radio and television advertising along with special promotions. In May 2003, we launched a new brand strategy and advertising campaign designed to identify Frontier as "A Whole Different Animal" and set us apart from our competition. The campaign includes television, print and radio components that began running in the Denver market and have since expanded to additional markets along our routes. We have gathered extensive customer and employee feedback that has allowed us to identify elements of service that are important to our customers who have the potential to fly with us more often.

In conjunction with the branding campaign, we have signed sponsorship agreements to be the exclusive airline of The Pepsi Center in Denver, Denver's National Hockey League team, the Colorado Avalanche, and Denver's National Basketball Association team, the Nuggets. We have also signed sponsorship agreements with Colorado's Major League Baseball team the Rockies, Colorado's National Lacrosse League team, the Colorado Mammoth, and Colorado's Arena Football

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League team, the Colorado Crush. We have also entered into sponsorship agreements to be the exclusive airline partner for the college athletic programs of the Air Force Academy, Colorado State University, the University of Denver, the University of Northern Colorado, and University of Colorado. The agreements allow for prominent signage in applicable stadiums and arenas; participation in-game promotions; receipt of prominent logo and advertising placement in publications; and access to joint promotion opportunities. These agreements vary in terms of length.

In order to increase connecting traffic, we began two code share agreements, one with Great Lakes, Aviation Ltd. in July 2001 and the other with Mesa Air Group operating as Frontier JetExpress in February 2002. Mesa was subsequently replaced with Horizon in January 2004. We have also negotiated interline agreements with approximately 110 domestic and international airlines serving cities on our route system. Generally, these agreements include joint ticketing and baggage services and other conveniences designed to expedite the connecting process.

To balance the seasonal demand changes that occur in the leisure market, we have introduced programs over the past several years that are designed to capture a larger share of the corporate market, which tends to be less seasonal than the leisure market. These programs include negotiated fares for large companies that sign contracts committing to a specified volume of travel, future travel credits for small and medium size businesses contracting with us, and special discounts for members of various trade and nonprofit associations.

We also pursue sales opportunities with meeting and convention arrangers and government travel offices. The primary tools we use to attract this business include personal sales calls, direct mail and telemarketing. In addition, we offer air/ground vacation packages to many destinations on our route system under contracts with various tour operators.

Our relationship with travel agencies is important to us and other airlines. In March 2002, several of the major airlines eliminated travel agency "base" commissions but continued to pay individually negotiated incentive commissions to select agents. Effective June 1, 2002, we also eliminated travel agency base commissions with the exception of certain strategic relationships. We communicate with travel agents through personal visits by our executives and sales managers, sales literature mailings, trade shows, telemarketing and advertising in various travel agent trade publications.

We participate in the four major computer reservation systems used by travel agents to make airline reservations: Amadeus, Galileo, Worldspan and Sabre. We maintain reservation centers in Denver, Colorado and Las Cruces, New Mexico, operated by our employees.

### **Customer Loyalty Programs**

Effective February 1, 2001, we commenced *EarlyReturns*, our own frequent flyer program. Our frequent flyer program won awards at this year's Freddie Awards for frequent flyer programs and was one of the youngest frequent flyer programs to be recognized. *EarlyReturns* was awarded second place for best customer service, best award redemption, best bonus promotion, and best award for the 15,000 miles ticket redemption. In addition, *EarlyReturns* was awarded third place for program of the year. We believe that our frequent flyer program offers some of the most generous benefits in the industry, including a free round trip after accumulating only 15,000 miles (25,000 miles to our destinations in Mexico). There are no blackout dates for award travel. Additionally, members who earn 25,000 or more annual credited *EarlyReturns* flight miles attain Summit Level status, which includes a 25% mileage bonus on each paid Frontier flight, priority check-in and boarding, complimentary on-board alcoholic beverages, extra allowance on checked baggage and priority baggage handling, guaranteed reservations on any Frontier flight when purchasing an unrestricted coach class ticket at least 72 hours prior to departure, standby at no charge on return flights the day before, the day of, and the day after, and access to an exclusive Summit customer service toll-free phone number. Members earn one mile for every mile flown on Frontier plus additional mileage with program partners, which presently include Midwest Airlines, Virgin Atlantic Airways, Alamo, Hertz, National and Dollar Car Rentals, Kimpton Boutique Hotels, Inverness Hotel & Golf Resort, Peaks at Vail Resorts, The Flower Club and Citicorp Diners Club, Inc. Effective September 2002, our reciprocal frequent flyer agreement with Continental Airlines ended. To apply for the *EarlyReturns* program,

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customers may visit our Web site at [www.frontierairlines.com](http://www.frontierairlines.com), obtain an *EarlyReturns* enrollment form at any of our airport counters or call our *EarlyReturns* Service Center toll-free hotline at 866-26-EARLY, or our reservations at 800-4321-FLY.

### Product Pricing

In January 2004, we capped all fares to and from Denver at \$314 one-way, excluding passenger facility, security or segment fees, with the exception of flights to Mexico and Anchorage, Alaska. The \$314 fare is a base fare of \$299 plus a \$15 fuel surcharge, which is temporarily in place. The new fare cap is a 25 to 50 percent reduction from the February 2003 caps of \$399 and \$499. Unlike some other airlines, these fares can be booked each way, allowing customers to get the best price on both the inbound and outbound portion of their itinerary with no round-trip purchase required. Our new fare structure reinstated some of the advance purchase requirements of past pricing structures.

### Competition

The Airline Deregulation Act of 1978 produced a highly competitive airline industry, freed of certain government regulations that for 40 years prior to the Deregulation Act had dictated where domestic airlines could fly and how much they could charge for their services. Since then, we and other smaller carriers have entered markets long dominated by larger airlines with substantially greater resources, such as United Airlines, American Airlines, Northwest Airlines and Delta Air Lines.

In February 2003, United launched a new low-fare airline, Ted, which we believe was developed in an attempt to operate with lower costs than United's mainline operations. We cannot predict if other major carriers will also begin to offer low-cost business models in response to competition from low-fare airlines or whether these attempts will prove to be successful.

We compete principally with United, the dominant carrier at DIA. During the month of March 2004, United, Ted, and its commuter affiliates had a total market share at DIA of approximately 60.0%, down from 62.6% during the month of March 2003. United has a competitive advantage due to its larger number of flights from DIA. Our market share, including our codeshare affiliates, at DIA for the month of March 2004 approximated 17.9%, up from 13.1% during the month of March 2003. We compete with United primarily on the basis of fares, fare flexibility, the number of markets we operate in and the number of frequencies within a market, our frequent flyer programs and the quality of our customer service.

At the present time, three domestic airports, including New York's LaGuardia and John F. Kennedy International Airports and Washington Ronald Reagan National Airport, are regulated by means of "slot" allocations, which represent government authorization to take off or land at a particular airport within a specified time period. Federal Aviation Administration ("FAA") regulations require the use of each slot at least 80% of the time and provide for forfeiture of slots in certain circumstances. We were awarded six high-density exemption slots at LaGuardia, and at the present time, we utilize these slots to operate three daily round-trip flights between Denver and LaGuardia. In addition to slot restrictions, National is limited by a perimeter rule, which limits flights to and from National to 1,250 miles. In April 2000, the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century, or AIR 21, was enacted. AIR 21 authorizes the Department of Transportation ("DOT") to grant up to 12 slot exemptions beyond the 1,250-mile National perimeter, provided certain specifications are met. Under AIR 21, we were awarded two slots for one daily round trip flight. In 2004 the Vision 100 - Century of Flight Aviation Authorization Act was enacted, which authorized the DOT to grant an additional 12 slot exemptions into Reagan National. In April 2004, we were granted four additional slots at National.

Other airports around the country, such as John Wayne International Airport in Santa Ana, California (SNA) are also slot controlled at the local level as mandated by a federal court order. We were originally awarded six arrival and departure slots at SNA, or three daily round trips. We began service with two daily flights to SNA in August 2003 and began a third daily flight in March 2004.

## Maintenance and Repairs

All of our aircraft maintenance and repairs are accomplished in accordance with our maintenance program approved by the FAA. We maintain spare or replacement parts primarily in Denver, Colorado. Spare parts vendors supply us with certain of these parts, and we purchase or lease others from other airline or vendor sources.

Since mid-1996, we have trained, staffed and supervised our own maintenance work force at Denver, Colorado. We sublease a portion of Continental Airlines hangar at DIA where we currently perform most of our own maintenance through the "D" check level. Other major maintenance, such as major engine repairs, is performed by outside FAA approved contractors. We also maintain line maintenance facilities at Phoenix, Arizona and Kansas City, Missouri. The new maintenance facility at Kansas City International airport commenced operations on April 1, 2004. Effective August 30, 2003, we closed the El Paso, Texas line maintenance facility and transferred the functions to the facilities in Denver and Phoenix.

Under our aircraft lease agreements, we pay all expenses relating to the maintenance and operation of our aircraft, and we are required to pay supplemental monthly rent payments to the lessors based on usage. Supplemental rents are applied against the cost of scheduled major maintenance. To the extent not used for major maintenance during the lease terms, excess supplemental rents are forfeited to the aircraft lessors after termination of the lease.

Our monthly completion factors for the years ended March 31, 2004, 2003, and 2002 ranged from 98.9% to 99.9%, 98.2% to 99.7%, from 97.3% to 99.8%, respectively. The completion factor is the percentage of our scheduled flights that were operated by us (i.e., not canceled). Canceled flights were principally as a result of mechanical problems, and, to a lesser extent, weather. We believe that the year over year improvement in our monthly completion factors is attributable to better maintenance and the increase in aircraft reliability as a result of the new Airbus aircraft added to our fleet.

In December 2002, we entered into an engine maintenance agreement with GE Engine Service Inc. (GE) for the servicing, repair, maintenance and functional testing of our aircraft engines used on our Airbus aircraft effective January 1, 2003. The agreement is for a 12-year period from the effective date for our owned aircraft or December 31, 2014, whichever comes first, and for each leased aircraft the term coincides with the initial lease term of 12 years. This agreement precludes us from using another third party for such services during the term on the covered engines. This agreement requires monthly payments at a specified rate times the number of flight hours the engine operated during that month. In most instances, we have been able to negotiate with our lessors to coordinate the monthly payments due under our agreement with GE and the supplemental rent applicable to the engines under the lease.

In calendar years 1999 through 2004, our maintenance and engineering department received the FAA's highest award, the Diamond Certificate of Excellence, in recognition of 100 percent of our maintenance and engineering employees completing advanced aircraft maintenance training programs. The Diamond Award recognizes advanced training for aircraft maintenance professionals throughout the airline industry. We were the first Part 121 domestic air carrier to achieve 100 percent participation in this training program by our maintenance employees.

## Fuel

During the years ended March 31, 2004, 2003, and 2002, jet fuel accounted for 17.7%, 17.2%, and 14.3%, respectively, of our operating expenses. We have arrangements with major fuel suppliers for substantial portions of our fuel requirements, and we believe that these arrangements assure an adequate supply of fuel for current and anticipated future operations. Jet fuel costs are subject to wide fluctuations as a result of sudden disruptions in supply beyond our control. Therefore, we cannot predict the future availability and cost of jet fuel with any degree of certainty. Fuel prices increased significantly in fiscal 2004. Our average fuel price per gallon including taxes and into-plane fees was \$1.04 for the year ended March 31, 2004, with the monthly average price per gallon during the same period ranging from a low of 89(cents) to a high of \$1.20. Our average fuel price per gallon including taxes and into-plane fees was 96(cents) for the year ended March 31, 2003, with the monthly average price per



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gallon during the same period ranging from a low of 82(cents) to a high of \$1.26. As of June 1, 2004, the price per gallon was approximately 1.34(cents) excluding the impact of fuel hedges. We implemented a fuel hedging program in 2003, under which we enter into Gulf Coast jet fuel option contracts to partially protect us against significant increases in fuel prices. Our fuel hedging program is limited in fuel volume and duration. As of March 31, 2004, we had hedged approximately 6.0% of our projected fuel requirements for the quarter ending June 30, 2004. On May 21, 2004, we entered into an additional derivative transaction that hedges approximately 25% of our projected fuel requirements in the quarters ending December 31, 2004 and March 31, 2005.

Increases in fuel prices or a shortage of supply could have a material adverse effect on our operations and financial results. Our ability to pass on increased fuel costs to passengers through price increases or fuel surcharges may be limited, particularly because of our affordable fare strategy.

### **Insurance**

We carry insurance limits of \$800 million per aircraft per occurrence in property damage and passenger and third-party liability insurance, and insurance for aircraft loss or damage with deductible amounts as required by our aircraft lease agreements, and customary coverage for other business insurance. While we believe such insurance is adequate, there can be no assurance that such coverage will adequately protect us against all losses that we might sustain. Our aircraft hull and liability coverage renewed on June 7, 2004 for one year.

In December 2002, through authority granted under the Homeland Security Act of 2002, the U.S. government expanded its insurance program to enable airlines to elect either the government's excess third-party war risk coverage or for the government to become the primary insurer for all war risks coverage. We elected to take primary government coverage in February 2003 and dropped the commercially available war risk coverage. The Appropriations Act of 2002 authorized the government to offer both policies through August 31, 2004. We cannot assure you that any extension will occur, or if it does, how long the extension will last. We expect that if the government stops providing war risk coverage to the airline industry, the premiums charged by aviation insurers for this coverage will be substantially higher than the premiums currently charged by the government.

### **Employees**

As of June 1, 2004, we had 4,392 employees, including 3,473 full-time and 919 part-time personnel. Our employees included 545 pilots, 790 flight attendants, 1,063 customer service agents, 536 ramp service agents, 308 reservations agents, 109 aircraft appearance agents, 79 catering agents, 342 mechanics and related personnel, and 620 general management and administrative personnel. We consider our relations with our employees to be good.

We have established a compensation philosophy that we will pay competitive wages comparable to other airlines of similar size and other employers with which we compete for our labor supply. Employees have the opportunity to earn above market rates through the payment of profit sharing bonuses.

Three of our employee groups have voted for union representation: our pilots voted in November 1998 to be represented by an independent union, the Frontier Airline Pilots Association, our dispatchers voted in September 1999 to be represented by the Transport Workers Union, and our mechanics voted in July 2001 to be represented by the International Brotherhood of Teamsters. The first bargaining agreement for the pilots, which has a five-year term, was ratified and became effective in May 2000. Negotiations for a new agreement will begin in early 2005. The first bargaining agreement for the dispatchers, which had a three-year term, was ratified and became effective in September 2000. A new three-year agreement with the dispatchers became effective on September 14, 2003. The first bargaining agreement for the mechanics, which has a three-year term, was ratified and became effective in July 2002. Negotiations for a new agreement will begin in mid-2005. In July 2003, the International Brotherhood of Teamsters filed an application with the National Mediation Board "NMB" for an accretion of the Company's aircraft appearance agents and maintenance cleaners into the mechanics union. On October 9, 2003, the NMB issued a decision that the aircraft appearance

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agents and maintenance cleaners should be accreted into the mechanics union. We appealed this decision, and in February 2004 the NMB denied the appeal. Negotiations with these two employee groups began in May 2004. Since 1997, we have had other union organizing attempts that were defeated by our flight attendants, ramp service agents, and material services specialists. We have received official notification from the NMB of a representation application for our material services specialists by the International Brotherhood of Teamsters. An election has been authorized which will be held from June 30, 2004 through July 21, 2004 and the results will be announced on July 21, 2004.

Effective May 2000, we enhanced our 401(k) Retirement Savings Plan by announcing an increased matching contribution by the Company. Participants may receive a 50% Company match for contributions up to 10% of salary. This match is discretionary and is approved on an annual basis by our Board of Directors. The Board of Directors has approved the continuation of the match through the plan year ending December 31, 2004. We also have an Employee Stock Ownership Plan, to which the Board of Directors may authorize contributions of company stock for further allocation to employees. For the plan year ended December 31, 2003 and for the plan year ending December 31, 2004, the Board of Directors contributed 347,968 and 298,174 shares of stock to the plan, respectively. These shares are allocated to eligible employees at the end of the plan year. Employees become vested in shares allocated to their account 20% per year, and may obtain a distribution of vested shares upon leaving the company. We believe that the 401(k) match and the Company ESOP and the related vesting schedules of 20% per year may reduce our employee turnover rates.

All new employees are subject to pre-employment drug testing. Those employees who perform safety sensitive functions are also subject to random drug and alcohol testing, and testing in the event of an accident.

Training, both initial and recurring, is required for many employees. We train our pilots, flight attendants, ground service personnel, reservations personnel and mechanics. FAA regulations require pilots to be licensed as commercial pilots, with specific ratings for aircraft to be flown, to be medically certified or physically fit, and have recent flying experience. Mechanics, quality control inspectors and flight dispatchers must be licensed and qualified for specific aircraft. Flight attendants must have initial and periodic competency, fitness training and certification. The FAA approves and monitors our training programs. Management personnel directly involved in the supervision of flight operations, training, maintenance and aircraft inspection must meet experience standards prescribed by FAA regulations.

### **Government Regulation**

*General.* All interstate air carriers are subject to regulation by the DOT, the FAA and other state and federal government agencies. In general, the amount of regulation over domestic air carriers in terms of market entry and exit, pricing and inter-carrier agreements has been greatly reduced since the enactment of the Deregulation Act.

*U.S. Department of Transportation.* The DOT's jurisdiction extends primarily to the economic aspects of air transportation, such as certification and fitness, insurance, advertising, computer reservation systems, deceptive and unfair competitive practices, and consumer protection matters such as on-time performance, denied boarding and baggage liability. The DOT also is authorized to require reports from air carriers and to investigate and institute proceedings to enforce its economic regulations and may, in certain circumstances, assess civil penalties, revoke operating authority and seek criminal sanctions. We hold a Certificate of Public Convenience and Necessity issued by the DOT that allows us to engage in air transportation.

*Transportation Security Administration.* On November 19, 2001, in response to the terrorist acts of September 11, 2001, the President of the United States signed into law the Aviation and Transportation Security Act ("ATSA"). The ATSA created the Transportation Security Administration, an agency within the DOT, to oversee, among other things, aviation and airport security. The ATSA provided for the federalization of airport passenger, baggage, cargo, mail and employee and vendor screening processes. The ATSA also enhanced background checks, provided federal air marshals aboard flights, improved flight deck security, and

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enhanced security for airport perimeter access. The ATSA also required that all checked baggage be screened by explosive detection systems by December 31, 2002.

*U.S. Federal Aviation Administration.* The FAA's regulatory authority relates primarily to flight operations and air safety, including aircraft certification and operations, crew licensing and training, maintenance standards, and aircraft standards. The FAA also oversees aircraft noise regulation, ground facilities, dispatch, communications, weather observation, and flight and duty time. It also controls access to certain airports through slot allocations, which represent government authorization for airlines to take off and land at controlled airports during specified time periods. The FAA has the authority to suspend temporarily or revoke permanently the authority of an airline or its licensed personnel for failure to comply with FAA regulations and to assess civil and criminal penalties for such failures. We hold an operating certificate issued by the FAA pursuant to Part 121 of the Federal Aviation Regulations. We must have and we maintain FAA certificates of airworthiness for all of our aircraft. Our flight personnel, flight and emergency procedures, aircraft and maintenance facilities and station operations are subject to periodic inspections and tests by the FAA.

*Environmental Matters.* The Aviation Safety and Noise Abatement Act of 1979, the Airport Noise and Capacity Act of 1990 and Clean Air Act of 1963 oversee and regulate airlines with respect to aircraft engine noise and exhaust emissions. We are required to comply with all applicable FAA noise control regulations and with current exhaust emissions standards. Our fleet is in compliance with the FAA's Stage 3 noise level requirements. In addition, various elements of our operation and maintenance of our aircraft are subject to monitoring and control by federal and state agencies overseeing the use and disposal of hazardous materials and storm water discharge. We believe we are currently in substantial compliance with all material requirements of such agencies.

*Railway Labor Act/National Mediation Board.* Three of our employee groups have voted for union representation: our pilots are represented by an independent union, the Frontier Airline Pilots Association, our dispatchers are represented by the Transport Workers Union, and our mechanics, tool room attendants, aircraft appearance agents and maintenance cleaners are represented by the International Brotherhood of Teamsters. Our labor relations with respect to these unions are covered under Title II of the Railway Labor Act and are subject to the jurisdiction of the National Mediation Board.

*Foreign Operations.* The availability of international routes to U.S. carriers is regulated by treaties and related agreements between the United States and foreign governments. The United States typically follows the practice of encouraging foreign governments to enter into "open skies" agreements that allow multiple carrier designation on foreign routes. In some cases, countries have sought to limit the number of carriers allowed to fly these routes. Certain foreign governments impose limitations on the ability of air carriers to serve a particular city and/or airport within their country from the U.S. For a U.S. carrier to fly to any such international destination, it must first obtain approval from both the U.S. and the "foreign country authority". For those international routes where there is a limit to the number of carriers or frequency of flights, studies have shown these routes have more value than those without restrictions. In the past, U.S. government route authorities have been sold between carriers.

*Foreign Ownership.* Pursuant to law and DOT regulation, each United States air carrier must qualify as a United States citizen, which requires that its President and at least two-thirds of its Board of Directors and other managing officers be comprised of United States citizens, that not more than 25% of its voting stock may be owned by foreign nationals, and that the carrier not be otherwise subject to foreign control.

*Miscellaneous.* We are also subject to regulation or oversight by other federal and state agencies. Antitrust laws are enforced by the U.S. Department of Justice and the Federal Trade Commission. All air carriers are subject to certain provisions of the Communications Act of 1934 because of their extensive use of radio and other communication facilities, and are required to obtain an aeronautical radio license from the Federal Communications Commission. The Immigration and Naturalization Service, the U.S. Customs Service and the Animal and Plant Health Inspection Service of the U.S. Department of Agriculture each have jurisdiction over

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certain aspects of our aircraft, passengers, cargo and operations.

### **Risk Factors**

In addition to the other information contained in this Form 10-K, the following risk factors should be considered carefully in evaluating our business and us. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. In addition, please read "Special Note About Forward-Looking Statements" in this Form 10-K, where we describe additional uncertainties associated with our business and the forward-looking statements included or incorporated by reference in this Form 10-K. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere included or incorporated by reference in this Form 10-K. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations.

### **Risks Related to Frontier**

#### ***We may not be able to obtain or secure financing for our new aircraft.***

As of March 31, 2004, we have commitments to purchase 13 additional new Airbus A319 aircraft and one additional Airbus A318 aircraft, excluding the June and July 2004 sale-leaseback aircraft. We have secured financing commitments for one additional Airbus A318 aircraft and have executed a sale-leaseback agreement for two A319 Aircraft. To complete the purchase of the remaining aircraft, we must secure aircraft financing, which we may not be able to obtain on terms acceptable to us, if at all. The amount of financing required will depend on the required down payment on mortgage financed aircraft and the extent to which we lease as opposed to purchase the aircraft. We are exploring various financing alternatives, including, but not limited to, domestic and foreign bank financing, leveraged lease arrangements or sale/leaseback transactions. There can be no guarantee that additional financing will be available when required or on acceptable terms. The inability to secure the financing could have a material adverse effect on our cash balances or result in delays in or our inability to take delivery of Airbus aircraft that we have agreed to purchase, which would impair our strategy for long-term growth and could result in the loss of pre-delivery payments and deposits previously paid to the manufacturer, and/or the imposition of other penalties or the payment of damages for failure to take delivery of the aircraft in accordance with the terms of the purchase agreement with the manufacturer.

#### ***We have a significant amount of fixed obligations and we will incur significantly more fixed obligations, which could increase the risk of failing to meet payment obligations.***

As of March 31, 2004, our total debt was \$297 million. Maturities of our long-term debt are \$17 million in fiscal year 2005, \$17 million in fiscal year 2006, \$18 million in fiscal year 2007, \$19 million in 2008, \$20 million in 2009, and an aggregate of \$206 million for the years thereafter. After accounting for the effect of our interest rate derivative hedge, approximately 85.8% of our total long-term debt bears floating interest rates, and the remaining 14.2% bears fixed rates. In addition to long-term debt, we have a significant amount of other fixed obligations under operating leases related to our aircraft, airport terminal space, other airport facilities and office space. As of March 31, 2004, future minimum lease payments under noncancelable operating leases were approximately \$121 million in fiscal year 2005, \$118 million in fiscal year 2006, \$118 million in fiscal year 2007, \$119 million in fiscal year 2008, \$116 million in fiscal year 2009 and an aggregate of \$726 million for the years thereafter. Approximately 88% of our minimum lease payments are fixed in nature, and the remaining 12% are adjusted periodically based on floating interest rates. As of March 31, 2004, we will have commitments of approximately \$531 million to purchase 14 additional aircraft, including the June and July 2004 sale-leaseback aircraft over approximately the next four years, including estimated amounts for contractual price escalations, spare parts to support these aircraft and to equip the aircraft with LiveTV. We have also signed lease agreements representing an obligation to lease 22 aircraft over the next three years, which, subject to the satisfaction of certain contingencies, represent lease payments of about \$1,318 million in the aggregate. We will incur additional debt or long-term lease obligations as we take delivery of new aircraft and other equipment and continue to expand into new markets.

***Many of our financial obligations contain cross-default provisions.***

Financial arrangements that contain cross-default provisions could be declared in default and all amounts outstanding could be declared immediately due and payable. If we did not have sufficient available cash to pay all amounts that become due and payable, we would have to seek additional debt or equity financing, which may not be available on acceptable terms, or at all. If such financing were not available, we would have to sell assets in order to obtain the funds required to make the accelerated payments.

***Our failure to successfully implement our growth strategy could harm our business.***

Our growth strategy involves transitioning to an all Airbus fleet, including the addition of up to 32 Airbus aircraft, increasing the frequency of flights to markets we currently serve, expanding the number of markets served and increasing flight connection opportunities. It is critical that we achieve our growth strategy in order for our business to attain economies of scale and to sustain or improve our results of operations. Increasing the number of markets we serve depends on our ability to access suitable airports located in our targeted geographic markets in a manner that is consistent with our cost strategy. We will also need to obtain additional gates and other operational facilities at DIA. Any condition that would deny, limit or delay our access to airports we seek to serve in the future will constrain our ability to grow. Opening new markets requires us to commit a substantial amount of resources, even before the new services commence. Expansion will also require additional skilled personnel, equipment and facilities. An inability to hire and retain skilled personnel or to secure the required equipment and facilities efficiently and cost-effectively may affect our ability to achieve our growth strategy. We cannot assure you that we will be able to successfully expand our existing markets or establish new markets, and our failure to do so could harm our business.

Transition and growth of our fleet and expansion of our markets and services may also strain our existing management resources and systems to the point that they may no longer be adequate to support our operations, requiring us to make significant expenditures in these areas. We expect that we may need to further develop our information technology systems and other corporate infrastructure to accommodate future growth. We cannot assure you that we will be able to sufficiently develop our systems and infrastructure on a timely basis, and the failure to do so could harm our business.

***We depend heavily on the Denver market to be successful.***

Our business strategy has historically focused on adding flights to and from our Denver base of operations. A reduction in our share of the Denver market, increased competition, or reduced passenger traffic to or from Denver could have a material adverse effect on our financial condition and results of operations. In addition, our dependence on a hub system operating out of DIA makes us more susceptible to adverse weather conditions and other traffic delays in the Rocky Mountain region than some of our competitors that may be better able to spread these traffic risks over large route networks.

***We face intense competition and market dominance by United and uncertainty with respect to its ability to emerge from Chapter 11 successfully; we also face competition from other airlines at DIA.***

The airline industry is highly competitive, primarily due to the effects of the Airline Deregulation Act of 1978, which substantially eliminated government authority to regulate domestic routes and fares and increased the ability of airlines to compete with respect to flight frequencies and fares. We compete with United in our hub in Denver, and we anticipate that we will compete principally with United in our future market entries. United, Ted, and United's regional airline affiliates are the dominant carriers out of DIA, accounting for approximately 60.0% of all revenue passengers for the year ended March 31, 2004. Fare wars, "capacity dumping" in which a competitor places additional aircraft on selected routes, and other activities could adversely affect us. The future activities of United and other carriers may have a material adverse effect on our revenues and results of operations. United has applied for and received authorization to fly from Denver to Iztapa/Zihuantanejo and Cabo San Lucas, Mexico which we began service to during the 2003-2004 winter season. United has also

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applied for service from Denver to Cancun and Puerto Vallarta, Mexico. As of June 1, 2004, they have not received authorization for that service. Most of our current and potential competitors have significantly greater financial resources, larger route networks, and superior market identification. In addition, United is currently operating under the protection of Chapter 11 of the Bankruptcy Code. As it seeks to develop a plan of reorganization, United has created a low-cost operation in order to compete more effectively with us and other low-cost carriers. Denver is a hub for its new low-cost operation, which began in February 2004. United's low-cost venture may place downward pressure on air fares charged in the Denver market and adversely affect our market share at DIA and our ability to maintain yields required for profitable operations. The uncertainty regarding United's business plan, its ability to restructure under Chapter 11, and its potential for placing downward pressure on air fares charged in the Denver market are risks on our ability to maintain yields required for profitable operations. In addition, in the last two years Alaska Airlines, Spirit Airlines, JetBlue Airways, AirTran Airways and ATA Airlines, Inc. have commenced service at DIA. These airlines have offered low introductory fares and compete on several of our routes. Competition from these airlines could adversely affect us.

***We may not have access to adequate gates or airport slots, which could decrease our competitiveness.***

The number of gates available to us at DIA may be limited due to restricted capacity or disruptions caused by airport renovation projects. Available gates may not provide for the best overall service to our customers, and may prevent us from scheduling our flights during peak or opportune times. As a temporary solution to meet our need for additional gates at DIA, we have gained the temporary use of two gates, and the permanent use of one gate, previously used by United Airlines on the East end of Concourse A. We are also using two temporary gates that DIA constructed on the West end of Concourse A. We are currently negotiating with the City and County of Denver for the construction of a permanent expansion to Concourse A that would provide us with up to four additional mainline gates and four or five regional jet positions. However, final terms for this construction project and our lease of the expansion gates have not been determined, and there is some risk that final agreement will not be reached, or may not be reached in time to provide the additional gates by the time we need to return gates to United. If we are unable to obtain additional gates at DIA, we may be forced to move a portion of our operations to another airport, potentially resulting in increased operating costs, or to schedule our flights at DIA in a manner that would provide our passengers with less efficient service. Any failure to obtain gate access at DIA or the other airports that we serve could adversely affect us. In addition, the number of gates available to us at other airports may be limited due to restricted capacity or disruptions caused by major renovation projects.

We could encounter barriers to airport slots that would deny or limit our access to the airports that we currently use or intend to use in the future. A slot is an authorization to schedule a takeoff or landing at the designated airport within a specific time window. The FAA must be advised of all slot transfers and can disallow any such transfer. In the United States, the FAA currently regulates slot allocations at O'Hare International Airport in Chicago, JFK and LaGuardia Airports in New York City, and Ronald Reagan National Airport in Washington D.C. We use LaGuardia Airport and Ronald Reagan National Airport in our current operations. The FAA's slot regulations require the use of each slot at least 80% of the time, measured on a monthly basis. Failure to comply with these regulations may result in a recall of the slot by the FAA. In addition, the slot regulations permit the FAA to withdraw the slots at any time without compensation to meet the operational needs of the U.S. Department of Transportation, or DOT. We also have commenced service to John Wayne Airport in Orange County, California, which limits arrivals and departures as a result of slot allocations for noise control purposes. Our ability to increase slots at these regulated airports is limited by the number of slots available for takeoffs and landings.

***We experience high costs at DIA, which may impact our results of operations.***

We operate our hub of flight operations from DIA where we experience high costs. Financed through revenue bonds, DIA depends on landing fees, gate rentals, income from airlines, the traveling public, and other fees to generate income to service its debt and to support its operations. Our cost of operations at DIA will vary as traffic increases or

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diminishes at that airport. We believe that our operating costs at DIA substantially exceed those that other airlines incur at most hub airports in other cities, which decreases our ability to compete with other airlines with lower costs at their hub airports. In addition, United, currently operating under the protection of Chapter 11 of the Bankruptcy Code, represents a significant tenant at DIA. At this time, United and DIA have completed negotiations relating to the restructuring of its lease agreement in a fashion that reduced the amounts United is required to pay under its lease. Normally, the decrease in payments by United would result in the increase in amounts paid by all other airlines. At this time, however, the City and County of Denver has agreed to offset the decrease negotiated by United. The City's obligation to make these offset payments is subject to rescission in certain circumstances. If these payments are rescinded, if the renegotiated lease is not approved under United's final plan of reorganization, or if United otherwise significantly reduces operations at DIA, our overall costs at DIA may significantly increase.

### ***Our transition to an Airbus fleet creates risks.***

As of June 1, 2004, we operate 9 Boeing aircraft and 32 Airbus aircraft. We plan to transition our fleet so that we are operating only Airbus aircraft by September 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. However, during our transition period we will be incurring additional costs associated with retraining our Boeing crews in the Airbus aircraft. We also may retire the Boeing aircraft in advance of the end of the lease agreements, which causes us to recognize remaining lease obligations as expense in the current period and to incur costs associated with returning the aircraft.

Once we operate only Airbus aircraft, we will be dependent on a single manufacturer for future aircraft acquisitions or deliveries, spare parts or warranty service. If Airbus is unable to perform its obligations under existing purchase agreements, or is unable to provide future aircraft or services, whether by fire, strike or other events that affect its ability to fulfill contractual obligations or manufacture aircraft or spare parts, we would have to find another supplier for our aircraft. Currently, Boeing is the only other manufacturer from which we could purchase or lease alternate aircraft. If we were forced to acquire Boeing aircraft, we would need to address fleet transition issues, including substantial costs associated with retraining our employees, acquiring new spare parts, and replacing our manuals. In addition, the fleet efficiency benefits described above may no longer be available.

In addition, once we operate only Airbus aircraft we will be particularly vulnerable to any problems that might be associated with these aircraft. Our business would be significantly disrupted if an FAA airworthiness directive or service bulletin were issued, resulting in the grounding of all Airbus aircraft of the type we operate while the defect is being corrected. Our business could also be harmed if the public avoids flying Airbus aircraft due to an adverse perception about the aircraft's safety or dependability, whether real or perceived, in the event of an accident or other incident involving an Airbus aircraft of the type we fly.

### ***We are reliant on one vendor to provide our LiveTV service.***

One of the unique features of our Airbus fleet is that every seat in each of our Airbus aircraft will be equipped with LiveTV. LiveTV is provided by LiveTV, LLC, a subsidiary of JetBlue Airways, a competitor of ours. We do not know of any other company that could provide us with LiveTV equipment and if LiveTV were to stop supplying us with the equipment or service for any reason, we could lose one of the unique services that differentiate us from our competitors.

### ***Our maintenance expenses may be higher than we anticipate.***

We bear the cost of all routine and major maintenance on our owned and leased aircraft. Maintenance expenses comprise a significant portion of our operating expenses. In addition, we are required periodically to take aircraft out of service for heavy maintenance checks, which can adversely increase costs and reduce revenue. We also may be required to comply with regulations and airworthiness directives the FAA issues, the cost of which our

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aircraft lessors may only partially assume depending upon the magnitude of the expense. Although we believe that our purchased and leased aircraft are currently in compliance with all FAA issued airworthiness directives, additional airworthiness directives likely will be required in the future, necessitating additional expense.

### ***Our landing fees may increase because of local noise abatement procedures.***

Compliance with local noise abatement procedures may lead to increased landing fees. As a result of litigation and pressure from airport area residents, airport operators have taken actions over the years to reduce aircraft noise. These actions have included regulations requiring aircraft to meet prescribed decibel limits by designated dates, curfews during night time hours, restrictions on frequency of aircraft operations, and various operational procedures for noise abatement. The Airport Noise and Capacity Act of 1990 recognized the right of airport operators with special noise problems to implement local noise abatement procedures as long as the procedures do not interfere unreasonably with the interstate and foreign commerce of the national air transportation system.

An agreement between the City and County of Denver and another county adjacent to Denver specifies maximum aircraft noise levels at designated monitoring points in the vicinity of DIA with significant payments payable by Denver to the other county for each substantiated noise violation under the agreement. DIA has incurred these payment obligations and likely will incur such obligations in the future, which it will pass on to us and other air carriers serving DIA by increasing landing fees. Additionally, noise regulations could be enacted in the future that would increase our expenses and could have a material adverse effect on our operations.

### ***We have a limited number of aircraft, and any unexpected loss of any aircraft could disrupt and harm our operations.***

Because we have a limited number of aircraft, if more than one of our aircraft unexpectedly are taken out of service, our operations may be disrupted. We can schedule all of our aircraft for regular passenger service and only maintain limited spare aircraft capability should one or more aircraft be removed from scheduled service for unplanned maintenance repairs or for other reasons. The unplanned loss of use of more than one of our aircraft for a significant period of time could have a material adverse effect on our operations and operating results. A replacement aircraft may not be available or we may not be able to lease or purchase additional aircraft on satisfactory terms or when needed. The market for leased or purchased aircraft fluctuates based on worldwide economic factors that we cannot control.

### ***Unionization affects our costs and may affect our operations.***

Three of our employee groups have voted for union representation: our pilots, dispatchers, and mechanics. In addition, since 1997 we have had union organizing attempts that were defeated by our flight attendants, ramp service agents, and stock clerks. We have received official notification from the NMB of a representation application for our material services specialists by the International Brotherhood of Teamsters. An election has been authorized which will be held from June 30, 2004 through July 21, 2004 and the results will be announced on July 21, 2004.

The collective bargaining agreements we have entered into with our pilots, dispatchers and mechanics have increased our labor and benefit costs, and additional unionization of our employees could increase our overall costs. If any group of our currently non-unionized employees were to unionize and we were unable to reach agreement on the terms of their and other currently unionized employee groups collective bargaining agreements or we were to experience widespread employee dissatisfaction, we could be subject to work slowdowns or stoppages. In addition, we may be subject to disruptions by organized labor groups protesting certain non-union groups for their non-union status. Any of these events would be disruptive to our operations and could harm our business.

### ***Our limited marketing alliances could harm our business.***

Many airlines have marketing alliances with other airlines, under which they market



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and advertise their status as marketing alliance partners. Among other things, they share the use of two-letter flight designator codes to identify their flights and fares in the computerized reservation systems and permit reciprocity in their frequent flyer programs. Our program partners presently include Midwest Airlines and Virgin Atlantic Airways, but we do not have the significant network of marketing partners that many other airlines do. Our limited marketing alliances put us at a competitive disadvantage to global network carriers, whose ability to attract passengers through more widespread alliances, particularly on international routes, may adversely affect our passenger traffic, and therefore our results of operations.

***Our lack of an established line of credit or borrowing facility makes us highly dependent upon our operating cash flows.***

Airlines require substantial liquidity to operate under most conditions. We have no material lines of credit, and rely primarily on operating cash flows to provide working capital. Unless we secure a line of credit, borrowing facility or other financing, we will be dependent upon our existing cash and operating cash flows to fund our operations and to make scheduled payments on our debt and other fixed obligations. If we deplete our existing cash, fail to generate sufficient funds from operations to meet these cash requirements and are unable to secure a line of credit, borrowing facility or other financing, we could default on our debt and other fixed obligations. Our inability to meet our obligations as they become due would seriously harm our business and financial results, particularly, as discussed earlier, in light of the cross-default clauses contained in many of our financing arrangements.

***If we are unable to attract and retain qualified personnel at reasonable costs, our business will be harmed.***

Our business is labor intensive, with labor costs representing 31.6% of our operating expenses excluding fuel for the year ended March 31, 2004 and 30.3% of our operating expenses excluding fuel for the year ended March 31, 2003. We expect salaries, wages and benefits to increase on a gross basis and these costs could increase as a percentage of our overall costs, which could harm our business. Our growth plans will require us to hire, train and retain a significant number of new employees in the future. From time to time, the airline industry has experienced a shortage of personnel licensed by the FAA, especially pilots and mechanics. We compete against the major U.S. airlines for labor in these highly skilled positions. Many of the major U.S. airlines offer wage and benefit packages that exceed our wage and benefit packages. As a result, in the future, we may have to significantly increase wages and benefits in order to attract and retain qualified personnel or risk considerable employee turnover. If we are unable to hire, train and retain qualified employees at a reasonable cost, we may be unable to complete our growth plans and our business could be harmed.

### **Risks Associated with the Airline Industry**

***We may be subject to terrorist attacks or other acts of war and increased costs or reductions in demand for air travel due to hostilities in the Middle East or other parts of the world.***

On September 11, 2001, four commercial aircraft were hijacked by terrorists and crashed into The World Trade Center in New York City, the Pentagon in Northern Virginia and a field in Pennsylvania. These terrorist attacks resulted in an overwhelming loss of life and extensive property damage. Immediately after the attacks, the FAA closed U.S. airspace, prohibiting all flights to, from and within the United States of America. Airports reopened on September 13, 2001, except for Washington D.C. Ronald Reagan International Airport, which partially reopened on October 4, 2001.

The September 11 terrorist attacks and the war in Iraq created fear among consumers and resulted in significant negative economic impacts on the airline industry. Primary effects were substantial loss of revenue and flight disruption costs, increased security and insurance costs, increased concerns about the potential for future terrorist attacks, airport shutdowns and flight cancellations and delays due to additional screening of passengers and baggage, security breaches and perceived safety threats, and significantly reduced passenger traffic and yields due to the subsequent drop in demand for air travel.

Given the magnitude and unprecedented nature of the September 11 attacks, the

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uncertainty and fear of consumers resulting from the war in Iraq, or the potential for other hostilities in other parts of the world, it is uncertain what long-term impact these events will or could have on the airline industry in general and on us in particular. These factors could affect our operating results and financial condition by creating weakness in demand for air travel, increased costs due to new security measures and the potential for new or additional government mandates for security related measures, increased insurance premiums, increased fuel costs, and uncertainty about the continued availability of war risk coverage or other insurances. In addition, several plaintiffs filed lawsuits in the United States District Court, Southern District of New York based on the events of September 11, 2001. The complaints name as defendants various security system manufacturers and suppliers and several airlines that were operating at Boston Logan International Airport and Portland (Maine) International Jetport on September 11, 2001, including us. The complaints generally allege that the defendants failed to provide adequate security systems or supervision of security procedures at Logan Airport and Portland Jetport. At this time, we have been dismissed from all existing lawsuits, but it is possible for plaintiffs to file new complaints against us until the statute of limitations period expires.

In addition, although the entire industry is substantially enhancing security equipment and procedures, it is impossible to guarantee that additional terrorist attacks or other acts of war will not occur. Given the weakened state of the airline industry, if additional terrorist attacks or acts of war occur, particularly in the near future, it can be expected that the impact of those attacks on the industry may be similar in nature to but substantially greater than those resulting from the September 11 terrorist attacks.

### ***Increases in fuel costs affect our operating costs and competitiveness.***

Fuel is a major component of our operating expenses, accounting for 17.7% of our total operating expenses for the year ended March 31, 2004. Both the cost and availability of fuel are influenced by many economic and political factors and events occurring in oil producing countries throughout the world, and fuel costs fluctuate widely. Recently the price per barrel of oil is as at an all-time high and has significantly impacted our results of operations. We cannot predict our future cost and availability of fuel, which affects our ability to compete. The unavailability of adequate fuel supplies could have a material adverse effect on our operations and profitability. In addition, larger airlines may have a competitive advantage because they pay lower prices for fuel. We generally follow industry trends by imposing a fuel surcharge in response to significant fuel price increases. However, our ability to pass on increased fuel costs may be limited by economic and competitive conditions. Although we implemented a fuel hedging program in 2003, under which we enter into Gulf Coast jet fuel and West Texas Intermediate crude derivative contracts to partially protect against significant increases in fuel prices, this program is limited in fuel volume and duration. As of March 31, 2004, we had hedged approximately 6.0% of our projected fuel requirements for the quarter ending June 30, 2004. On May 21, 2004, we entered into an additional derivative transaction that hedge approximately 25% of our projected fuel requirements in the quarters ending December 31, 2004 and March 31, 2005.

### ***The airline industry is seasonal and cyclical, resulting in unpredictable liquidity and earnings.***

Because the airline industry is seasonal and cyclical, our liquidity and earnings will fluctuate and be unpredictable. Our operations primarily depend on passenger travel demand and seasonal variations. Our weakest travel periods are generally during the quarters ending in March and December. The airline industry is also a highly cyclical business with substantial volatility. Airlines frequently experience short-term cash requirements. These requirements are caused by seasonal fluctuations in traffic, which often reduce cash during off-peak periods, and various other factors, including price competition from other airlines, national and international events, fuel prices, and general economic conditions including inflation. Our operating and financial results are likely to be negatively impacted by the continued stagnation in national or regional economic conditions in the United States, and particularly in Colorado.

We, like many in the industry, have seen a negative impact to passenger traffic caused by the war with Iraq as well as threats of further terrorist activities. The impact has been

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more prevalent with our business traffic, which is higher yield traffic that books closer to the date of departure, than with our leisure customers. Even though the war with Iraq has impacted us, we believe that the larger, more established carriers are being impacted to a greater extent as more price sensitive business travelers who typically fly these carriers are looking for affordable alternatives similar to the service we provide. The larger carriers have reduced their "close-in" fare structure to more aggressively compete for this traffic. Aggressive pricing tactics by our major competitors have had and could continue to have an impact on our business.

### ***Security screening delays may negatively impact passenger traffic.***

The federal government is now responsible for conducting security screening activities at all airports in the United States. The ability to complete this screening quickly and efficiently depends upon the adequacy of the security screening facilities and staffing levels. At times the screening system has resulted in significant delays at larger airports. It is believed that these delays have resulted in a loss of passengers for shorter haul trips. While we have not seen a drastic reduction in passenger traffic in our shorter routes, at times congestion and delays at DIA from security screening are significant. Airlines may be able to augment security services in not vital areas by hiring support staff, which will further increase the security costs being paid by the airlines. Notwithstanding such support, significant delays caused by a lack of federal resources may further reduce passenger traffic and our revenues.

### ***The airline industry tends to experience adverse financial results during general economic downturns, and recent airline financial results may lead to significant changes in our industry.***

Since a substantial portion of both business and leisure airline travel is discretionary, the industry tends to experience adverse financial results during general economic downturns. The airline industry has been experiencing a decline in traffic, particularly business traffic, due to slower general economic conditions beginning in 2000 and more recently, from the lingering impact of the terrorist attacks of September 11, 2001, the war in Iraq and the outbreak of severe acute respiratory syndrome. The industry experienced record losses for the year ended 2001 and the major U.S. airlines reported net losses of more than \$3.6 billion in calendar year ended December 31, 2003.

In response to these adverse financial results, some airlines have been reexamining their traditional business models and have taken actions in an effort to increase profitability, such as reducing capacity and rationalizing fleet types, furloughing or terminating employees, limiting service offerings, attempting to renegotiate labor contracts and reconfiguring flight schedules, as well as other efficiency and cost-cutting measures. Despite these business model adjustments, financial losses have continued and US Airways and United filed for Chapter 11 bankruptcy protection in 2002. Additional airline bankruptcies and restructurings may occur, potentially resulting in substantial change in our industry, which could adversely affect our business.

### ***Our insurance costs have increased substantially as a result of the September 11th terrorist attacks, and further increases in insurance costs would harm our business.***

Following the September 11 terrorist attacks, aviation insurers dramatically increased airline insurance premiums and significantly reduced the maximum amount of insurance coverage available to airlines for liability to persons other than passengers for claims resulting from acts of terrorism, war or similar events to \$50 million per event and in the aggregate. In light of this development, under the Air Transportation Safety and System Stabilization Act, the U.S. government has provided domestic airlines with excess war risk coverage above \$50 million up to an estimated \$1.6 billion per event for us.

In December 2002, under the Homeland Security Act of 2002, the U.S. government expanded its insurance program to permit airlines to elect either the government's excess third-party coverage or for the government to become the primary insurer for all war risks coverage. We elected the latter in February 2003 and discontinued the commercially available war risk coverage. The Appropriations Act authorized the government to offer both policies through August 31, 2004. We cannot assure you that this coverage will continue. We expect that

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if the government stops providing war risk coverage to the airline industry, the premiums charged by aviation insurers for this coverage will be substantially higher than the premiums currently charged by the government. Significant increases in insurance premiums would harm our financial condition and results of operations.

***Our financial results and reputation could be harmed in the event of an accident or incident involving our aircraft.***

An accident or incident involving one of our aircraft could involve repair or replacement of a damaged aircraft and its consequential temporary or permanent loss from service, and significant potential claims of injured passengers and others. We are required by the DOT and our lenders and lessors to carry hull, liability and war risk insurance. Although we believe we currently maintain liability insurance in amounts and of the type generally consistent with industry practice, the amount of such coverage may not be adequate and we may be forced to bear substantial losses from an accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our business and financial results. Moreover, any aircraft accident or incident, even if fully insured, could cause a public perception that we are less safe or reliable than other airlines, which would harm our business.

***We are in a high fixed cost business, and any unexpected decrease in revenues would harm us.***

The airline industry is characterized by low profit margins and high fixed costs primarily for personnel, fuel, aircraft ownership and lease costs and other rents. The expenses of an aircraft flight do not vary significantly with the number of passengers carried and, as a result, a relatively small change in the number of passengers or in pricing would have a disproportionate effect on the airline's operating and financial results. Accordingly, a shortfall from expected revenue levels can have a material adverse effect on our profitability and liquidity. Airlines are often affected by factors beyond their control, including weather conditions, traffic congestion at airports and increased security measures, any of which could harm our operating results and financial condition.

Like other airlines, we are subject to delays caused by factors beyond our control, including adverse weather conditions, air traffic congestion at airports and increased security measures. Delays frustrate passengers, reduce aircraft utilization and increase costs, all of which negatively affect profitability. During periods of snow, rain, fog, storms or other adverse weather conditions, flights may be cancelled or significantly delayed. Cancellations or delays due to weather conditions, traffic control problems and breaches in security could harm our operating results and financial condition.

***We are subject to strict federal regulations, and compliance with federal regulations increases our costs and decreases our revenues.***

Airlines are subject to extensive regulatory and legal requirements that involve significant compliance costs. In the last several years, Congress has passed laws and the DOT and FAA have issued regulations relating to the operation of airlines that have required significant expenditures. For example, the President signed into law the Stabilization Act in November 2001. This law federalized substantially all aspects of civil aviation security and requires, among other things, the implementation of certain security measures by airlines and airports, including a requirement that all passenger baggage be screened. Funding for airline and airport security under the law is primarily provided by a new \$2.50 per enplanement ticket tax effective February 1, 2002, with authority granted to the TSA to impose additional fees on air carriers if necessary. Under the Appropriations Act enacted on April 16, 2003, the \$2.50 enplanement tax was temporarily suspended on ticket sales from June 1, 2003 through September 30, 2003. This enplanement tax resumed on October 1, 2003. In addition, the acquisition, installation and operation of the required baggage screening systems by airports will result in capital expenses and costs by those airports that will likely be passed on to the airlines through increased use and landing fees. On February 17, 2002, the Stabilization Act imposed a base security infrastructure fee on commercial air carriers in an amount equal to the calendar year ended 2000 airport security expenses. The infrastructure fee for us is \$1,625,000 annually subject to final audit. The Administration is proposing a legislative change to the Aviation and Transportation Security Act that would more than double the amount of the infrastructure

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fees paid by airlines under the Aviation Security Infrastructure Fee. It is impossible to determine at this time exactly what the full cost impact will be of the increased security measures imposed by the Stabilization Act.

Although we have obtained the necessary authority from the DOT and the FAA to conduct flight operations and are currently obtaining such authority from the FAA with respect to our Airbus aircraft, we must maintain this authority by our continued compliance with applicable statutes, rules, and regulations pertaining to the airline industry, including any new rules and regulations that may be adopted in the future. We believe that the FAA strictly scrutinizes smaller airlines like ours, which makes us susceptible to regulatory demands that can negatively impact our operations. We may not be able to continue to comply with all present and future rules and regulations. In addition, we cannot predict the costs of compliance with these regulations and the effect of compliance on our profitability, although these costs may be material. We also expect substantial FAA scrutiny as we transition from our Boeing fleet to an all Airbus fleet. An accident or major incident involving one of our aircraft would likely have a material adverse effect on our business and results of operations.

### ***Substantial consolidation in the airline industry could harm our business.***

Since its deregulation in 1978, the airline industry has undergone substantial consolidation through mergers and strategic alliances, and it may undergo additional consolidation in the future. Recent economic conditions and airline financial losses may contribute to further consolidation within our industry. Any consolidation or significant alliance activity within the airline industry could increase the size and resources of our competitors, which, in turn, could adversely affect our ability to compete.

## **Item 2: Properties**

### Aircraft

As of June 1, 2004, excluding JetExpress, we operate 9 Boeing 737 aircraft, 26 Airbus A319 aircraft, and 6 Airbus A318 aircraft in all-coach seating configurations. The age of these aircraft, their passenger capacities and expiration years for the leased aircraft are shown in the following table:

<u>Aircraft Model</u>	<u>No.of Aircraft</u>	<u>Year of Manufacture</u>	Approximate Number of Passenger <u>Seats</u>	<u>Lease Expiration</u>
B-737-300	9	1986-1998	136	2004-2006
A319	9	2001-2003	132	owned
A319	17	2001-2004	132	2007-2016
A318	5	2002-2003	114	owned
A318	1	2004	114	2016

We have adopted a fleet replacement plan to phase out our Boeing aircraft and replace them with a combination of Airbus A319 and A318 aircraft. In March 2000, we entered into an agreement, as subsequently amended in 2003, to purchase 32 Airbus aircraft. As of March 31, 2004, we had taken delivery of 16 of these aircraft, one of which we sold in December 2002 and leased back. Prior to the delivery of the aircraft we assigned two of the purchase commitments to two lessors in February 2003 and September 2003. We agreed to lease two of these aircraft over a five-year term and the third for a 12-year term. In January 2004, we executed an agreement for the sale-leaseback of two A319 aircraft scheduled for delivery in June and July 2004. There are no other purchased aircraft scheduled for delivery until June 2005. Our purchase agreement with Airbus also includes purchase rights for up to 23 additional aircraft, and allows us to purchase Airbus A318 or A320 aircraft in lieu of the A319 aircraft at our

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option. The agreement also requires us to lease at least three new Airbus A319 or A320 aircraft from operating lessors for delivery in calendar year 2004, one of which we took delivery of in February 2004 and the remaining two are to be leased under operating leases beginning with their delivery in April 2004 and May 2004. As of March 31, 2004, we intend to lease as many as 22 additional A318 or A319 aircraft from third party lessors over the next three years. We have remaining firm purchase commitments for 14 Airbus aircraft, excluding the June and July 2004 sale-leaseback aircraft. We plan to completely phase out our older Boeing aircraft by September 30, 2005, and anticipate the following fleet composition as of the end of each fiscal year through 2008:

Fiscal Year Ending	A319	A318	B737-300	End of Year Cumulative Total Fleet
March 31, 2005	37	7	4	48
March 31, 2006	43	7	0	50
March 31, 2007	50	7	0	57
March 31, 2008	55	7	0	62

This table does not include any of the 23 Airbus aircraft for which we have purchase rights, which would allow us to take delivery of additional A319 or A320 aircraft beginning in fiscal year 2006.

During the year ended March 31, 2004, we ceased using the remaining three Boeing 737-200 leased aircraft, two of which had lease terminations in October 2003 and one with a lease termination date in October 2005. We also took six Boeing 737-300 aircraft out of service due to lease expirations.

### **Facilities**

In January 2001, we moved our general and administrative offices to a new headquarters facility near DIA, where we lease approximately 70,000 square feet of space for a lease term of 12 years at an average annual rental of approximately \$964,000 plus operating and maintenance expenses. In May 2004 we leased an additional 14,000 square feet of space in a building adjacent to our main headquarters beginning July 2004 for a lease term of 4 years at an average annual rental of approximately \$266,000 plus operating and maintenance expenses.

The Denver reservations facility relocated in July 2001 to a 16,000 square foot facility also in Denver, which we have leased for a 10-year lease term at an average annual rental of approximately \$141,000 plus operating and maintenance expenses. In August 2000, we established a second reservations center facility in Las Cruces, New Mexico. This facility is approximately 12,000 square feet and is leased for a term of 122 months at an average annual rental of approximately \$129,000 plus operating and maintenance expenses.

We have entered into an airport lease and facilities agreement expiring in 2010 with the City and County of Denver at DIA for ticket counter space, gates and associated operations space at a current annual rental rate of approximately \$10,368,000 for these facilities. We anticipate leasing an additional two gates beginning July 2004 and are negotiating the final details of the lease amendment.

We sublease a portion of Continental Airlines hangar at DIA until February 2007 for a current annual rental of approximately \$2,904,000. Upon 18 months written notice, either party can terminate the agreement.

Each of our airport locations requires leased space associated with gate operations, ticketing and baggage operations. We either lease the ticket counters, gates and airport office facilities at each of the airports we serve from the appropriate airport authority or sublease

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them from other airlines. Total annual rent expense for these facilities, excluding DIA, is approximately \$12,681,000 based on rents paid for the month of March 2004. Additionally, we lease maintenance facilities in Kansas City, Missouri and Phoenix, Arizona at a current annual rental of approximately \$172,000 for these facilities. In August 2003, we closed our maintenance facility in El Paso, Texas but we are still obligated for the monthly rent through August 2007. The current annual rental for our El Paso, Texas maintenance facility is approximately \$88,000

### Item 3: Legal Proceedings

From time to time, we are engaged in routine litigation incidental to our business. We believe there are no legal proceedings pending in which we are a party or of which any of our property is the subject that are not adequately covered by insurance maintained by us or which have sufficient merit to result in a material adverse affect upon our business, financial condition, results of operations, or liquidity.

### Item 4: Submission of Matters to a Vote of Security Holders

During the fourth quarter of the fiscal year covered by this report, we did not submit any matters to a vote of our security holders through the solicitation of proxies or otherwise.

## PART II

### Item 5: Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Price Range of Common Stock

The following table shows the range of high and low sales prices per share for our common stock for the periods indicated and as reported by Nasdaq through June 1, 2004. As of June 1, 2004, there were 1,401 holders of record of our common stock.

<u>Quarter Ended</u>		<u>High</u>	Price Range of Common <u>Stock</u>	<u>Low</u>
June 30, 2002	\$	20.00		7.75
September 30, 2002		8.98		4.43
December 31, 2002		8.00		4.00
March 31, 2003		7.12		3.51
June 30, 2003		10.00		4.95
September 30, 2003		18.26		9.06
December 31, 2003		19.40		11.94
March 31, 2004		15.17		8.90
June 30, 2004 (through June 1, 2004)		11.63		8.49

#### Dividend Policy

We have not declared or paid cash dividends on our common stock. We currently intend to retain any future earnings to fund operations and the continued development of our business,

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and, thus, do not expect to pay any cash dividends on our common stock in the foreseeable future. Future cash dividends, if any, will be determined by our Board of Directors and will be based upon our earnings, capital requirements, financial condition and other factors deemed relevant by the Board of Directors.

### Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this Item is incorporated herein by reference to the data under the heading "Securities Authorized for Issuance Under Equity Compensation Plans" in the Proxy Statement to be used in connection with the solicitation of proxies for our annual meeting of shareholders to be held on September 9, 2004. We intend to file the definitive Proxy Statement with the SEC on or before July 30, 2004.

### Item 6: Selected Financial Data

The following selected financial and operating data as of and for each of the years ended March 31, 2004, 2003, 2002, 2001, and 2000 are derived from our audited financial statements. This data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the financial statements and the related notes thereto included elsewhere in this report.

	2004	2003	2002	2001	2000
	<u>(Amounts in thousands except per share amounts)</u>				
<b>Statement of Operations Data:</b>					
Total operating revenues	\$ 643,679	\$ 469,936	\$ 445,075	\$ 472,876	\$ 329,821
Total operating expenses	615,682	500,727	428,689	392,155	290,511
Operating income (loss)	27,997	(30,791)	16,386	80,721	39,310
Income (loss) before income tax expense (benefit) and cumulative effect of change in accounting principle	20,457	(39,509)	24,832	88,332	43,411
Income tax expense (benefit)	7,822	(14,655)	8,282	33,465	16,955
Income (loss) before cumulative effect of change in accounting principle	12,635	(24,854)	16,550	54,868	26,456
Cumulative effect of change in accounting principle	-	2,011	-	-	54
Net income (loss)	12,635	(22,843)	16,550	54,868	27,010
Income (loss) per share before cumulative effect of a change in accounting principle:					
Basic	0.39	(0.84)	0.58	2.02	1.00
Diluted	0.36	(0.84)	0.56	1.90	0.90
Net income (loss) per share:					
Basic	0.39	(0.77)	0.58	2.02	1.00
Diluted	0.36	(0.77)	0.56	1.90	0.90
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 188,609	\$ 102,880	\$ 87,555	\$ 109,251	\$ 67,851
Current Assets	269,733	191,291	193,393	199,794	140,361
Total assets	769,706	588,315	413,685	295,317	187,541
Current liabilities	181,659	130,519	152,064	136,159	98,471
Long-term debt	280,001	261,739	66,832	204	32



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Total liabilities	511,764	429,348	244,552	150,538	106,500
Stockholders equity	257,942	158,967	169,133	144,779	81,040
Working capital	88,074	60,772	41,329	63,635	41,880

	Year Ended March 31,				
	2004	2003	2002	2001	2000
<b>Selected Operating Data:</b>					
Passenger revenue (000s) (1)					
Mainline	\$ 615,390	\$ 460,188	\$ 435,946	\$ 462,609	\$ 320,850
Regional partner (2)	11,191	-	-	-	-
System combined	626,581	460,188	435,946	462,609	320,850
Revenue passengers carried (000s)					
Mainline	5,569	3,926	3,069	3,017	2,280
Regional partner (2)	115	-	-	-	-
System combined	5,684	3,926	3,069	3,017	2,280
Revenue passenger miles (RPMs) (000s) (3)					
Mainline	5,120,587	3,599,553	2,756,965	2,773,833	2,104,460
Regional partner (2)	75,974	-	-	-	-
System combined	5,196,561	3,599,553	2,756,965	2,773,833	2,104,460
Available seat miles (ASMs) (000s) (4)					
Mainline	7,153,740	6,013,261	4,592,298	4,260,461	3,559,590
Regional partner (2)	111,144	-	-	-	-
System combined	7,264,884	6,013,261	4,592,298	4,260,461	3,559,590
Passenger load factor (5)					
Mainline	71.6%	59.9%	60.0%	65.1%	59.1%
Regional partner (2)	68.4%	-	-	-	-
System combined	71.5%	59.9%	60.0%	65.1%	59.1%
Mainline break-even load factor (6)	68.8%	65.0%	56.6%	52.7%	51.1%
Mainline block hours (7)	142,466	120,297	92,418	83,742	71,270
Mainline departures	61,812	53,081	41,736	38,556	33,280
Mainline average seats per departure	132	132	132	132	122
Mainline average stage length	877	858	834	837	820
Mainline average length of haul	919	917	898	919	920
Mainline average daily block hour utilization (8)	10.4	9.8	9.1	9.4	9.0
Yield per RPM (cents) (9) (10)					
Mainline	11.96	12.74	15.78	16.66	15.20
Regional partner (2)	14.73	-	-	-	-
System combined	12.01	12.74	15.78	16.66	15.20
Total yield per RPM (cents) (11)					
Mainline	12.35	13.06	16.14	17.05	15.60
Regional partner (2)	14.73	-	-	-	-
System combined	12.39	13.06	16.14	17.05	15.60
Yield per ASM (cents) (10) (12)					
Mainline	8.56	7.63	9.47	10.85	9.00
Regional partner (2)	10.07	-	-	-	-
System combined	8.59	7.63	9.47	10.85	9.00
Total yield per ASM (cents) (13)					
Mainline	8.84	7.81	9.69	11.10	9.20
Regional partner (2)	10.07	-	-	-	-
System combined	8.86	7.81	9.69	11.10	9.20

Year Ended March 31,

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	2004	2003	2002	2001	2000
<b>Selected Operating Data (continued):</b>					
Cost per ASM (cents)					
Mainline	8.40	8.33	9.33	9.20	8.1
Regional Partner (2)	13.17	-	-	-	-
System Combined	8.47	8.33	9.33	9.20	8.1
Fuel expense per ASM (cents)	1.52	1.43	1.33	1.66	1.2
Mainline cost per ASM					
excluding fuel (cents) (14)	6.88	6.90	8.00	7.54	6.9
Mainline average fare (15)	\$104	\$109	\$132	\$146	\$13
Mainline average aircraft in service	37.3	33.8	27.8	24.5	19.
Mainline aircraft in service at end of year	38.0	36.0	30.0	25.0	23.
Mainline average age of aircraft at end of year	3.9	7.4	10.6	11.4	10.

- (1) "Passenger revenue" includes revenues for non-revenue passengers, charter revenues, administrative fees, and revenue recognized for unused tickets that are greater than one year from issuance.
- (2) In September 2003, we signed a 12-year agreement with Horizon, under which Horizon operates to nine 70-seat CRJ 700 aircraft under our Frontier JetExpress brand. The service began on January 1, 2004 and replaced our codeshare with Mesa Airlines which terminated on December 31, 2003. In accordance with Emerging Issues Task Force No. 01-08, "Determining Whether an Arrangement Contains a Lease" ("EITF 01-08"), we have concluded that the Horizon agreement contains leases as the agreement conveys the right to use a specific number and specific type of aircraft over a stated period of time. Therefore, we began recording revenues and expenses related to the Horizon agreement gross. Under the Mesa agreement, we recorded JetExpress revenues reduced by related expenses net in other revenues. JetExpress operations under the Mesa agreement from April 1, 2003 to December 31, 2003 and from February 1, 2003 to March 31, 2003 are not included in regional partner statistics in 2004 and 2003 as the Mesa arrangement was effective prior to May 28, 2003, the effective date of EITF 01-08.

Amounts included in other revenues for Mesa for the years ended March 31, 2004, 2003, 2002, 2001 and 2000 were as follows:

	Year Ended March 31,				
	2004	2003	2002	2001	2000
Mesa revenues (000s)	\$ 25,155	\$ 1,608	\$ -	\$ -	\$ -
Mesa expenses (000s)	(23,438)	(2,314)	-	-	-
Net amount in other revenues	\$ 1,717	\$ (706)	\$ -	\$ -	\$ -

Mesa's revenue passenger miles (RPMs) and available seat miles (ASMs) for the years ended March 31, 2004, 2003, 2002, 2001 and 2000 were as follows:

	Year Ended March 31,				
	2004	2003	2002	2001	2000
Mesa RPMs (000s)	148,163	11,004	-	-	-
Mesa ASMs (000s)	174,435	17,759	-	-	-

- (3) "Revenue passenger miles," or RPMs, are determined by multiplying the number of fare-paying passengers carried by the distance flown.
- (4) "Available seat miles," or ASMs, are determined by multiplying the number of seats available for passengers by the number of miles flown.
- (5) "Passenger load factor" is determined by dividing revenue passenger miles by available seat miles.

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- (6) "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. The break-even load factor for the year ended March 31, 2004 includes the following special items net of the effect of profit-sharing: \$13,842,000 of compensation received under the Appropriations Act, the write-off of deferred loan costs of \$9,677,000 associated with the prepayment of all of the government guaranteed loan; a charge for Boeing aircraft and facility lease exit costs of \$4,949,000; a loss of \$1,664,000 on the sale of one Airbus aircraft in a sale-leaseback transaction and from the sale of a spare engine; a write down of \$3,376,000 of the carrying value of spare engines and rotatable parts that support the Boeing 737-300 aircraft; and \$1,061,000 of flight crew training expenses related to the start-up of our new Frontier JetExpress regional jet relationship with Horizon. The break-even load factor for the year ended March 31, 2003 includes special items net of the effect of profit-sharing of the cost associated with the early extinguishment of debt totaling \$1,774,000 and a write-down of the carrying values of the Boeing aircraft parts totaling \$2,478,000.
- (7) "Mainline block hours" represent the time between aircraft gate departure and aircraft gate arrival.
- (8) "Mainline average daily block hour utilization" represents the total block hours divided by the number of aircraft days in service, divided by the weighted average of aircraft in our fleet during that period. The number of aircraft includes all aircraft on our operating certificate, which includes scheduled aircraft, as well as aircraft out of service for maintenance and operational spare aircraft, and excludes aircraft removed permanently from revenue service or new aircraft not yet placed in revenue service.
- (9) "Yield per RPM" is determined by dividing passenger revenues (excluding charter revenue) by revenue passenger miles.
- (10) For purposes of these yield calculations, charter revenue is excluded from passenger revenue. These figures may be deemed non-GAAP financial measures under regulations issued by the Securities and Exchange Commission. We believe that presentation of yield excluding charter revenue is useful to investors because charter flights are not included in RPMs or ASMs. Furthermore, in preparing operating plans and forecasts, we rely on an analysis of yield exclusive of charter revenue. Our presentation of non-GAAP financial measures should not be viewed as a substitute for our financial or statistical results based on GAAP. The calculation of passenger revenue excluding charter revenue is as follows:

	Year Ended March 31,				
	2004	2003	2002	2001	2000
Passenger revenues - mainline, as reported	\$ 615,390	\$ 460,188	\$ 435,946	\$ 462,609	\$ 320,000
Less: charter revenue	2,724	1,515	1,101	472	-
Passenger revenues - mainline excluding charter	612,666	458,673	434,845	462,137	320,000
Add: Passenger revenues - regional partner	11,191	-	-	-	-
Passenger revenues, system combined	\$ 623,857	\$ 458,673	\$ 434,845	\$ 462,137	\$ 320,000

- (11) "Total yield per RPM" is determined by dividing total revenues by revenue passenger miles.
- (12) "Yield per ASM" is determined by dividing passenger revenues (excluding charter revenue) by available seat miles.
- (13) "Total yield per ASM" is determined by dividing total revenues by available seat miles.
- (14) This may be deemed a non-GAAP financial measure under regulations issued by the Securities and Exchange Commission. We believe the presentation of financial information excluding fuel expense is useful to investors because we believe that fuel expense tends to fluctuate more than other operating expenses, it facilitates comparison of results of operations between current and past periods and enables investors to better forecast future trends in our operations. Furthermore, in preparing operating plans and forecasts, we rely, in part, on trends in our historical results of operations excluding fuel expense. However, our presentation of non-GAAP financial measures should not be viewed as a substitute for our financial results.

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determined in accordance with GAAP.

- (15) "Mainline average fare" excludes revenue included in passenger revenue for charter and non-revenue passengers, administrative fees, and revenue recognized for unused tickets that are greater than one year from issuance date.

### Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Selected Operating Statistics

The following table provides our operating revenues and expenses for our mainline operations expressed as mainline costs per available seat mile ("CASM") and as a percentage of total mainline operating revenues, for the years ended March 31, 2004, 2003, and 2002. Regional partner revenues, expenses and ASMs were excluded from this table to provide comparable amounts to the prior years presented.

	2004		2003		2002	
	Per total <u>ASM</u>	% of <u>Revenue</u>	Per Total <u>ASM</u>	% of <u>Revenue</u>	Per total <u>ASM</u>	% of <u>Revenue</u>
<b>Revenues:</b>						
Passenger	8.60	97.3%	7.65	97.9%	9.49	97.9%
Cargo	0.11	1.3%	0.09	1.2%	0.15	1.5%
Other	<u>0.13</u>	<u>1.4%</u>	<u>0.07</u>	<u>0.9%</u>	<u>0.05</u>	<u>0.6%</u>
Total revenues	8.84	100.0%	7.81	100.0%	9.69	100.0%
<b>Operating expenses:</b>						
Flight operations	1.47	16.6%	1.42	18.2%	1.41	14.6%
Aircraft fuel expense	1.52	17.2%	1.43	18.3%	1.33	13.7%
Aircraft lease expense	0.98	11.1%	1.18	15.0%	1.42	14.6%
Aircraft and traffic servicing	1.54	17.5%	1.44	18.4%	1.53	15.8%
Maintenance	1.04	11.7%	1.26	16.1%	1.53	15.8%
Promotion and sales	0.91	10.3%	0.88	11.3%	1.29	13.4%
General and administrative	0.52	5.8%	0.43	5.6%	0.57	5.9%
Aircraft lease and facility exit costs	0.07	0.8%	-	-	-	-
Loss on sale-leaseback of aircraft	0.02	0.2%	-	-	-	-
Depreciation and amortization	<u>0.33</u>	<u>3.8%</u>	<u>0.29</u>	<u>3.7%</u>	<u>0.25</u>	<u>2.6%</u>
Total operating expenses	8.40	95.0%	8.33	106.6%	9.33	96.4%

#### Results of Operations - Year Ended March 31, 2004 Compared to Year Ended March 31, 2003

##### Overview

We intend to continue our focused growth strategy, which includes a fleet transition from a Boeing fleet to an all Airbus fleet. We intend to operate an all Airbus fleet by September 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 March 31, 2004, we

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have remaining firm purchase commitments for 14 Airbus aircraft, excluding two sale-leaseback aircraft expected to be delivered in June and July 2004, and intend to lease as many as 22 additional A318 or A319 aircraft from third party lessors over the next three 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.

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.

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 intend our product and service to be affordable, flexible, and accommodating. This begins with our employees who strive to offer friendly customer service and keep operations running efficiently, which we believe leads to lower operating costs.

### **Year in Review**

While the industry suffered significant losses during the year ended March 31, 2004, we returned to profitability during one of the most challenging periods in the airline industry. During the fiscal year ended March 31, 2004, we had net income of \$12,635,000. This was