SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-02-08** | Period of Report: **1995-12-31**
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FILER

FRONTIER ADJUSTERS OF AMERICA INC

CIK:**735349**| IRS No.: **860477573** | State of Incorp.:**AZ** | Fiscal Year End: **0630**
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SIC: **6794** Patent owners & lessors

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P O BOX 7610
PHOENIX AZ 85011

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45 E MONTEREY WAY
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PHOENIX AZ 85012
6022641061

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the Quarterly Period Ended December 31, 1995

OR

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

For the transition period ______________________ to ________________________

Commission File Number 1-12902

FRONTIER ADJUSTERS OF AMERICA, INC.
(Exact name of registrant as specified in its charter)

Arizona	86-0477573
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

45 East Monterey Way, Phoenix, AZ 85012
(Address of principal executive offices)

(602) 264-1061
(Registrant's telephone number, including area code)

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Number of shares of Common Stock outstanding on February 2, 1996 4,609,658

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

FRONTIER ADJUSTERS OF AMERICA, INC.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

	December 31, 1995	June 30, 1995
	(unaudited)	(*)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 369,235	$ 358,960
Investments	1,237,599	1,255,627
Receivables	1,531,603	1,632,406
Prepaid expenses	191,473	258,165
Other	139,784	115,334
TOTAL CURRENT ASSETS	3,469,694	3,620,492
PROPERTY AND EQUIPMENT	2,296,174	2,269,110
Less accumulated depreciation and amortization	827,807	784,565
	1,468,367	1,484,545
OTHER ASSETS		
Cost of subsidiary in excess of net tangible assets acquired	213,817	213,817
Less accumulated amortization	173,352	172,196
	40,465	41,621
Receivables (Long term)	308,000	302,000
Investments (Long term)	764,411	764,090
Other	427,314	384,302
	1,540,190	1,492,013
TOTAL ASSETS	$6,478,251	$6,597,050
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 95,914	$ 12,669
Accrued expenses	207,157	362,693
Franchisee/licensee remittance payable	73,230	221,620
Current portion long term liability	23,796	22,951
Other	69,154	53,811
TOTAL CURRENT LIABILITIES	469,251	673,744
LONG TERM LIABILITY	72,542	84,655
STOCKHOLDERS' EQUITY		
Common stock	47,820	47,820
Additional paid in capital	2,148,470	2,148,470
Treasury stock	(510,686)	(414,869)
Other	(25,599)	14,642
Retained earnings	4,276,453	4,042,588
	5,936,458	5,838,651
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$6,478,251	$6,597,050

*Condensed from audited financial statements.
The accompanying notes are an integral part of these condensed statements.

FRONTIER ADJUSTERS OF AMERICA, INC.
AND SUBSIDIARIES

<TABLE>

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

<CAPTION>

<S>	Six Months Ended December 31, 1995 <C>	Six Months Ended December 31, 1994 <C>	Three Months Ended December 31, 1995 <C>	Three Months Ended December 31, 1994 <C>
REVENUES				
Continuing licensee and franchisee fees	$ 2,442,228	$ 2,314,690	$ 1,195,333	$ 1,157,879
Adjusting fees	318,768	213,451	156,997	99,477
	2,760,996	2,528,141	1,352,330	1,257,356
COST AND EXPENSES				
Compensation and employee benefits	948,640	799,959	480,271	400,979
Office	204,830	144,309	94,885	62,681
Advertising and promotion	185,936	94,324	112,119	44,463
Depreciation and amortization	88,557	60,085	45,066	31,927
Provision for doubtful accounts	70,000	80,000	35,000	45,000
Other	430,314	533,341	189,420	256,347
	1,928,277	1,712,018	956,761	841,397
INCOME FROM OPERATIONS	832,719	816,123	395,569	415,959
OTHER INCOME (EXPENSE)				
Interest income	70,123	63,041	38,610	35,001
Other (Net)	16,298	43,555	13,172	31,276
TOTAL OTHER INCOME (EXPENSE)	86,421	106,596	51,782	66,277
INCOME BEFORE INCOME TAXES	919,140	922,719	447,351	482,236
INCOME TAXES	361,507	362,242	175,756	189,289
NET INCOME	$ 557,633	$ 560,477	$ 271,595	$ 292,947
Weighted Average Shares outstanding	4,623,800	4,684,105	4,609,658	4,677,311
NET INCOME PER COMMON SHARE	$ .12	$ .12	$ .06	$ .06

</TABLE>

The accompanying notes are an integral part of these condensed statements.

FRONTIER ADJUSTERS OF AMERICA, INC.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

Six Months Ended December 31, 1995 and 1994

	1995	1994
NET INCOME	$ 557,633	$ 560,477

Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	88,557	60,085
(Gain) on disposition of property and equipment	(1,667)	(19,416)
Allowance for doubtful accounts	16,144	80,140
Change in assets and liabilities:		
(Increase) decrease in:		
Receivables	276,260	3,136
Prepaid expenses	66,692	33,837
Other	(63,187)	(11,109)
Increase (decrease) in:		
Accounts payable	83,245	(38,093)
Accrued expenses	(155,536)	80,877
Franchisee and licensee remittance payable	(148,390)	(618,951)
Other	15,343	(42,844)
Total adjustments	177,461	(472,338)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	735,094	88,139
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(27,064)	(68,481)
Investments purchased	(986,675)	(1,031,946)
Proceeds from sales of investments	1,000,000	1,000,000
License acquisition	(64,000)	(25,000)
Payments on License acquisition	(11,268)	(7,437)
Advances to licensees and franchisees	(1,949,046)	(1,578,767)
Collections of advances to licensees and franchisees	1,732,821	1,645,308
NET CASH PROVIDED (USED IN) BY INVESTING ACTIVITIES	(305,232)	(66,323)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends	(323,770)	(258,000)
Common stock repurchased	(95,817)	(136,377)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(419,587)	(394,377)
NET INCREASE (DECREASE) IN CASH	10,275	372,561
Cash at beginning of the period	358,960	804,780
Cash at the end of the period	$ 369,235	$ 432,219
Supplemental disclosures of Cash Flow information		
Cash paid during the period		
Income taxes	$ 455,788	$ 351,188
Interest	$ 3,741	$ 2,563

The accompanying notes are an integral part of these condensed statements.

FRONTIER ADJUSTERS OF AMERICA, INC.
AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Basis of Presentation

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of results of operations for the interim periods.

The results of operations for the six month period ended December 31, 1995 are not necessarily indicative of the results to be expected for the full year.

(2) Supplemental Cash Flow Information

On August 1, 1995, the Company reacquired its Tucson, Arizona licensee. The purchase price was $139,807 gross or $116,081 net of the imputed interest. The purchase price was paid as follows:

Purchase price	$116,081
Outstanding purchase loan (Net of imputed interest of $22,926)	(57,626)
Outstanding advance to licensee	(22,455)
Net cash	$ 36,000

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

Financial Condition

The Company has historically financed its growth and on going operations with cash generated from operations. In the six months ended December 31, 1995, the Company's operations generated $735,000 in cash.

In July 1993 the Company's Board of Directors authorized the purchase of shares of the Company's common stock. In September 1995 the Company acquired 31,240 shares of the Company's common stock at a cost of $ 95,817. This purchase completed the repurchase plan resulting in total purchases of 122,352 shares. The repurchases were instituted by the Board of Directors as they believed that at the current price level the Company's common stock was an excellent investment.

The Company's Board of Directors in July 1995, approved an increase in the Company's annual dividend rate from 12 cents per share to 14 cents per share effective with the 3.5 cents per share cash dividend paid on September 8, 1995.

Through its capital investment program, the Company replaces obsolete or outdated equipment and invests in new equipment to maintain or increase the productivity of the Company and its employees. The Company anticipates investing $100,000 to $200,000 in fiscal 1996 for computers and software pursuant to its capital investment program.

Management believes that the Company will be able to fund all of its cash requirements (i.e. current operations, capital asset acquisition and the payment of dividends) from its current available cash, as well as funds generated by its operations.

The Company's ratio of current assets to current liabilities was 7.39 to 1 as of December 31, 1995 and 5.37 to 1 as of June 30, 1995. The ratio of current assets to current liabilities was most significantly affected by the fact that the Company's accrued liabilities at June 30, 1995 consisted mostly of accrued income taxes and

Financial Condition (continued)

accrued profit sharing expense which were paid early in the current fiscal year. This effect on the ratio of current assets to current liabilities is the result of timing and not the Company's underlying financial performance.

Results of Operations - Six Months Ended December 31, 1995 Compared to Six Months Ended December 31, 1994

Revenues

The Company's revenues increased 9% or $233,000 to $2,761,000 in the current six months from $2,528,000 in the same period of the prior fiscal year. The increase represents a $105,000 increase in adjusting and other fees and a $128,000 increase in continuing licensee and franchisee fees.

The increase of $105,000 in adjusting and other fees of Company owned offices from $214,000 in the six months ended December 31, 1994 to $319,000 in the six months ended December 31, 1995 representing a 49% increase. The increase reflects an increase in the demand for the Company's services as well as $63,000 in revenues as a result of the acquisition of the operations of the Company's former Tucson licensee on August 1, 1995.

The Company's revenues from continuing licensee and franchisee fees increased 6% or $128,000 from $2,314,000 in the six months ended December 31, 1994 to $2,442,000 in the six months ended December 31, 1995. A significant factor affecting the Company's revenue from continuing licensee and franchisee fees is the termination of one of the Company's licensees in California in January 1995. During the six months ended December 31, 1994 this licensee contributed $98,000 to the revenues of the Company.

The Company has granted nine new licenses during the current quarter within the territory of its prior licensee and received $4,200 in continuing licensee and franchisee fees from the new licensees. The Company anticipates growth in these revenues. The increase also reflects the fact that the Company's licensees and franchisees are benefiting from an increase in claims as insurance companies and self-insureds use them due to an increase in volume of claims and, to a greater degree, the indicated increase reflects the effect of new licensees and franchisees and rate increases as a result of inflation.

The Company's revenues are affected by numerous matters including the work loads of other companies and claims presented by their clients. The Company, therefore, is unable to project its future revenues. The Company has, however, seen growth in licensee and franchisee fees paid and management believes that the Company will continue to realize growth in continuing licensing and franchising fees in the future as it adds qualified licensees and franchisees. Additionally, the Company will continue to reflect revenue from the recently purchased Tucson operation.

Compensation and Fringe Benefits

Compensation and fringe benefits represent approximately 49% of the Company's costs and expenses and represent the largest single item of expense. Since 1992 the compensation has ranged from 44% to 57% of the Company's cost and expenses. These expenses increased 19% or $149,000 from $800,000 in the six months ended December 31, 1994 to $949,000 in the six months ended December 31, 1995. This increase is the result of the Company hiring additional employees to staff the recently acquired Tucson location ($50,000) and to handle the increased work load in the corporate office ($35,000) and for cost of living and merit raises given to employees ($64,000).

Expenses Other Than Compensation and Fringe Benefits

The Company's expenses other than compensation and fringe benefits increased $68,000 during the six months ended December 31, 1995 as compared to the same period of the prior fiscal year. The principal items affecting these expenses are a $153,000 decrease in legal expenses primarily related to the Company's litigation in California, a $92,000 increase in advertising and promotion, and a $61,000 increase in office

expenses primarily related to integration of the Tucson office.

The most significant item in the $92,000 increase in advertising and promotion was $60,000 relative to listings in a publication directed at the claims industry. This expense was historically paid in the fourth quarter of the Company's fiscal year. However, due to changes at the publisher's this expense was incurred in the second quarter of the current fiscal year rather than in the fourth quarter of the fiscal year ended June 30, 1995.

The balance of the Company's costs and expenses have not significantly changed from the same period of the prior year.

Income Taxes

The Company's income taxes for the six months ended December 31, 1995 were 39%

of its income before taxes, or approximately the same as they were for the six months ended December 31, 1994. Changes made in the tax laws by various states and by the federal government have not had a material effect on the Company's overall tax rates; however, this could change at any time.

Other Income

The Company's other income decreased $20,000 from $106,000 in the six months ended December 31, 1994 to $86,000 in the six months ended December 31, 1995. The most significant decreases in other income were the decline in the sales of computer software to the Company's licensees of $5,000 and a $19,000 decrease in gain on disposition of fixed assets from the prior year.

Net Income

The Company's net income for the six months ended December 31, 1995, decreased $2,000 from $560,000 in the period ended December 31, 1994 to $558,000 in the current period. The most significant items affecting net income were the $233,000 increase in revenues, the $149,000 increase in compensation and fringe benefits and the $68,000 increase in other expenses.

Results of Operations - Three Months Ended December 31, 1995 Compared to Three Months Ended December 31, 1994

Revenues

The Company's revenues increased 8% or $95,000 to $1,352,000 in the quarter ended December 31, 1995 from $1,257,000 in the same period of the prior fiscal year. The increase represents a $58,000 increase in adjusting and other fees and a $37,000 increase in continuing licensee and franchisee fees.

The increase of $58,000 in adjusting and other fees of the Company owned offices from $99,000 to $157,000 in the comparable period of the prior year represents a 59% increase. The increase reflects an increase in the demand for claims services by the Company's clients as well as $37,000 in revenues as a result of the acquisition of the operations of the Company's former Tucson license on August 1, 1995.

The Company's revenues from continuing licensee and franchisee fees increased 3% or $37,000 from $1,158,000 in the three months ended December 31, 1994 to $1,195,000 in the three months ended December 31, 1995. A significant factor affecting the Company's revenue from continuing licensee and franchisee fees is the termination of one of the Company's licensees in California in January 1995. During the three months ended December 31, 1994 this licensee contributed $48,000 to the revenues of the Company.

The Company granted nine new licenses during the current quarter within the territory of its prior licensee and received $4,200 in continuing licensee and franchisee fees from the new licensees. The Company anticipates growth in these revenues. The increase also reflects the facts that the Company's licensees and

Revenues (continued)

franchisees are benefiting from an increase in claim services as insurance companies and self-insureds use the Frontier Adjuster's licensees and franchisees for increased volumes of claims, as well as the increase in the number of licensees and franchisees that were established in the preceding fiscal year.

The Company's revenues are affected by the number of new licensees and franchisees and client companies' staff work loads as more corporations become self-insured and are outsourcing to meet their needs for claims management services. The client companies' staff work loads are affected by, among other things, natural disasters which can create intense short term demands for claims services.

Compensation and Fringe Benefits

Compensation and employee benefits represent approximately 50% of the Company's costs and expenses and are its largest expense item. These expenses increased

20% or $79,000 in the quarter ended December 31, 1995 from $401,000 in the three months ended December 31, 1994 to $480,000. The increase is principally the result of additional employees to staff the recently acquired Tucson location and to handle the increased work load in the corporate office.

Expenses Other Than Compensation and Fringe Benefits

The Company's expenses other than compensation and employee benefits increased $36,000 in quarter ended December 31, 1995. The principal items affecting these expenses are an $88,000 decrease in legal expense primarily related to the Company's litigation in California, a $68,000 increase in advertising and promotion, and a $33,000 increase in office expense primarily related to integration of the Tucson office.

The most significant item in the $68,000 increase in advertising and promotion was $60,000 relative to listings in a publication directed at the claims industry. This expense was historically paid in the fourth quarter of the Company's fiscal year. However, due to changes in the publisher's billing and printing practice this expense was incurred in the second quarter of the current fiscal year rather than in the fourth quarter of the fiscal year ended June 30, 1995.

The balance of the Company's costs and expenses other than compensation and employee benefits have not significantly changed from the same period of the prior fiscal year.

Income Taxes

The Company's income taxes for the three months ended December 31, 1995 were 39% of its income before taxes, or approximately the same as they were for the three months ended December 31, 1994.

Other Income

The Company's other income decreased $14,000 from $66,000 in the three months ended December 31, 1994 to $52,000 in the three months ended December 31, 1995. The most significant decrease in other income reflects a $19,000 gain from trading in automobiles in the second quarter of the prior year.

Net Income

The Company's net income for the quarter ended December 31, 1995, decreased from $293,000 in the three months ended December 31, 1994 to $272,000 in the three months ended December 31, 1995, a decrease of $21,000 or 7%. The most significant items which affected net income are the $95,000 increase in revenues, the $79,000 increase in compensation and fringe benefits and the $36,000 increase in other expenses.

PART II: OTHER INFORMATION

Item 1 - Legal Proceedings

A Declaratory Action was filed in May 1994 against the Company in the Superior Court of Los Angeles, California, regarding the interpretation of certain sections of the Company's license agreement with the plaintiff, a licensee. In June 1994, the Company removed the case to U.S. District Court and raised certain counterclaims for violation of the Company's license agreement. The Company terminated the licensee's agreement effective January 1, 1995. Subsequent to the termination, the plaintiff amended his complaint to include wrongful termination. On May 1, 1995, the U.S. District Court granted the Company's motion for Summary Judgment regarding all outstanding claims by the plaintiff. On June 19, 1995, the Court granted the Company's Summary Judgment motion regarding its claims against the former licensee including $204,144 in unpaid licensee fees and approximately $24,000 for court costs. The Company from time to time in its normal course of business is named as a defendant in lawsuits. The Company does not believe that it is subject to any lawsuits or litigation or threatened lawsuits or litigation that will have a material adverse effect on the Company or its business.

Response to items one through five not listed above are omitted since these items are either inapplicable or the response thereto would be negative.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FRONTIER ADJUSTERS OF AMERICA, INC.

Date: 2/8/96 /s/ William J. Rocke

William J. Rocke, Chief Executive Officer/Chairman of the Board, Director, Principal Financial Officer

Date: 2/8/96 /s/ Jean E. Ryberg

Jean E. Ryberg, President, Director

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