

SKYWEST INC  
Form 11-K  
July 13, 2007

## **SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

### **FORM 11-K**

**FOR ANNUAL REPORTS OF EMPLOYEE STOCK REPURCHASE SAVINGS AND SIMILAR PLANS  
PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

for the year ended December 31, 2006

or

TRANSITION REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from            to            .

Commission File No. 000-14719

## **SKYWEST, INC. EMPLOYEES RETIREMENT PLAN**

(Full title of the plan)

SKYWEST, INC.

444 South River Road

St. George, Utah 84790

(Name of issuer of the securities held pursuant to the

Plan and the address of its principal executive office)

**SKYWEST, INC. EMPLOYEES RETIREMENT PLAN**

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\*Other supplementary schedules required by section 2520-103.10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Security Act of 1974 have been omitted because they are not applicable.

**Report of Independent Registered Public Accounting Firm**

The Administrator of the  
SkyWest, Inc. Employees Retirement Plan

We have audited the accompanying statement of assets available for benefits of the SkyWest, Inc. Employees Retirement Plan (the Plan) as of December 31, 2006 and the related statement of changes in assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets available for benefits of the SkyWest, Inc. Employees Retirement Plan as of December 31, 2006, and the changes in assets available for benefits for the year ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the Plan adopted Financial Accounting Standards Board Staff Position AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans*, as of December 31, 2006.

Our audit of the financial statements was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held at End of Year) as of December 31, 2006, is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the United States Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Tanner LC

Salt Lake City, Utah  
July 13, 2007

**Report of Independent Registered Public Accounting Firm**

The Trustees of the SkyWest, Inc.  
Employees' Retirement Plan:

We have audited the accompanying statement of assets available for benefits of the SkyWest, Inc. Employees' Retirement Plan (the Plan) as of December 31, 2005. This financial statement is the responsibility of the Plan's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the assets available for benefits of the Plan at December 31, 2005 in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Salt Lake City, Utah

June 27, 2006, except for Note 2  
as to which the date is July 13, 2007

**SKYWEST, INC. EMPLOYEES RETIREMENT PLAN**

**Statements of Assets Available for Benefits**

**December 31, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
Assets:		
Investments, at fair value	\$ 193,753,933	\$ 158,474,466
Assets available for benefits, at fair value	<b>193,753,933</b>	<b>158,474,466</b>
Adjustment from fair value to contract value for fully benefit-responsive investment contract	<b>181,192</b>	<b>19,858</b>
Assets available for benefits	\$ 193,935,125	\$ 158,494,324

See accompanying notes to financial statements.

## SKYWEST, INC. EMPLOYEES RETIREMENT PLAN

## Statement of Changes in Assets Available for Benefits

Year ended December 31, 2006

Additions:	
Contributions:	
Participants	\$ 16,108,385
Employer	7,300,644
Total contributions	23,409,029
Investment income:	
Interest and dividends	10,383,432
Net realized and unrealized gains in fair value of investments	11,365,733
Total investment income	21,749,165
Total additions	45,158,194
Deductions:	
Distributions to participants	(9,543,858 )
Administrative expenses	(173,535 )
Total deductions	(9,717,393 )
Increase in assets available for benefits	35,440,801
Assets available for benefits:	
Beginning of the year	158,494,324
End of year	\$ 193,935,125

See accompanying notes to financial statements

**SKYWEST, INC. EMPLOYEES RETIREMENT PLAN**

**Notes to Financial Statements**

**(1) Plan Description**

The following description of the SkyWest, Inc. Employees Retirement Plan (the Plan) is provided for general information purposes only. Participants should refer to the Plan document and summary plan description for a more complete description of the Plan's provisions.

**(a) Participation**

SkyWest, Inc. (the Company or Plan Sponsor) adopted the Plan, effective April 1, 1977. The Plan is a defined contribution plan and is intended to be a qualified retirement plan under Section 401(a) of the Internal Revenue Code (IRC) of 1986 as amended. It is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan has been amended at various times.

The Plan was established to provide employees with an opportunity to accumulate funds for retirement or disability and to provide death benefits for employees dependents and beneficiaries. The Plan's trustees included three employees of the Company until May 31, 2006, at which point Wells Fargo became the directed Trustee, and the three employees effectively resigned as trustees. One of the three employees is an officer of the Company.

**(b) Eligibility**

Employees who have completed 90 days of service are eligible to participate in the Plan. Participation is available to all employees of the Company and its affiliates. An eligible employee, who has enrolled, shall become a participant on the first day of the month coinciding with or following the date that the employee meets the eligibility requirements. Employees must affirmatively elect to participate in the Plan.

**(c) Contributions**

Participants elect both the amount of salary reduction contributions and the allocation of the salary reduction contributions among the various investment alternatives within the Plan. Annual salary reduction contributions cannot exceed the lesser of 100% of the participant's eligible compensation or the maximum amount allowable under the IRC, which was \$15,000 during 2006 (\$20,000 for participants age 50 and older).

Employees are eligible for the Company match when they have completed one year of service and have enrolled in the Plan. Employees must be making contributions to the Plan in order to receive the employer match. During 2006, the Company matched 100% of each eligible participant's salary reduction contribution up to levels ranging from 2% to 6% of compensation, based on years of service. Matching contributions are not available to highly compensated employees. Additionally, each year the Company may make a discretionary contribution based on its earnings. An employee is eligible to participate in the discretionary contribution program when he or she has completed two years of service and is 18 years of age or older. The Company did not make a discretionary contribution in 2006. Company discretionary contributions have been allocated based on the participants' eligible compensation.

**(d) Participant-Directed Options for Investments**

Participants direct the investment of their contributions and the Company matching contributions into various investments offered by the Plan. Investment options include mutual funds, a common/collective trust fund, and SkyWest, Inc. common stock. Participants may change their election or transfer monies between funds at any time.

Participants with common stock of SkyWest, Inc. in their accounts may direct the sale of the stock and the investment of the resulting monies into other investments offered by the Plan.

**(e) Vesting and Payment of Benefits**

Participants are immediately vested 100% in their account balances. Benefits are normally paid at retirement, disability, death, or other termination. Benefit distributions may be made in a single lump sum payment, installments, or an annuity. Participants may withdraw funds from the Plan while actively employed subject to specific restrictions set forth in the Plan agreement.

**(f) Participant Loans Receivable**

The Plan agreement provides for loans to be made to participants and beneficiaries. The loans must bear a reasonable rate of interest, have specific repayment terms and be adequately secured. Under no circumstances can the amount of the loan exceed the lesser of \$50,000 or 50% of the participant's vested account balance.

**(g) Custodian and Record Keeper**

Effective June 1, 2006, the plan Sponsor changed the advisory, record keeping and custodial services to Wells Fargo Institutional Trust Services. Wells Fargo Institutional Trust Services also became a directed trustee on the same date.

**(h) Parties-in-Interest**

The Company and Wells Fargo Institutional Trust Services ( Wells Fargo ) are considered Parties-in-interest to the Plan. The Company's common stock and Wells Fargo managed mutual funds are investment options in the Plan. Wells Fargo is the asset custodian for the Plan.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Accounting**

The Plan's financial statements are prepared on the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles.

**(b) Change in accounting principle**

In December 2005, the Financial Accounting Standards Board ( FASB ) issued a Staff Position ( FSP ), *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans*. This FSP amends the guidance in AICPA Statement of Position 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, with respect to the definition of fully benefit-responsive investment contracts and the presentation and disclosure of fully benefit-responsive investment contracts in plan financial statements. The FSP requires that investments in common/collective trusts that include benefit-responsive investment contracts be presented at fair value in the statement of assets available for benefits and that the amount representing the difference between fair value and contract value of these investments also be presented on the face of the statement of assets available for benefits. The FSP is effective for financial statements for annual periods ending after December 15, 2006 and must





be applied retroactively to all prior periods presented. Accordingly, the Plan has adopted the financial statement presentation and disclosure requirements effective December 31, 2006, and applied the provisions retroactively to the 2005 Statement of Assets Available for Benefits to present all investments at fair value, with the adjustment to contract value separately disclosed. The adoption of the FSP had no impact on the Statement of Changes in Assets Available for Benefits.

#### **Recently issued accounting standards**

In September 2006, the FASB issued Statement No. 157, *Fair value Measurements* ( FAS 157 ). This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for the Plan in the first quarter of 2008. The Plan is currently evaluating the statement's impact on its financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( FAS 159 ). The fair value option established by FAS 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. FAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Plan's management does not believe that the adoption of FAS 159 will have a material impact on the Plan's financial statements.

#### **(c) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets available for benefits and disclosure of contingent assets and liabilities at the date of the financial statements and the reported changes in assets available for benefits during the reporting period. Actual results could differ from these estimates.

#### **(d) Investment Valuation and Income Recognition**

The Plan provides for investments in certain investment securities. These securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying statements of assets available for benefits.

Mutual funds are valued at quoted market prices, which represent the net asset values of units held by the Plan at year-end. The Company's common stock is valued at the last reported sales price on the last business day of the Plan year. Loans receivable from participants are valued at face value, which approximates the future principal and interest payments discounted at prevailing interest rates for similar instruments. Unrealized appreciation or depreciation caused by fluctuations in the market value of investments is recognized in the statement of changes in assets available for benefits. Dividends and interest are reinvested as earned. Purchases and sales of investments are recorded on a trade-date basis.

The Plan invests in common/collective trusts, which primarily hold investments in fully benefit-responsive insurance contracts that provide that the Plan may make withdrawals at contract value for benefit-responsive requirements. Accordingly, the Plan's investment in units of the common/collective trusts are presented at fair value in the Statements of Assets Available for Benefits, with an adjustment to its contract value separately disclosed as provided in the FSP. The common/collective trusts reported fair values are determined as the sum of (a) the fair value of the investments in

guaranteed insurance contracts and security-backed investment contracts that are wrapped by an insurance company, bank or other financial institution (collectively, the Investment Contracts ), as determined by that fund's trustee and (b) the fair value of that fund's investments in externally managed collective investment funds as determined by those funds' trustees. The contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. Certain events limit the ability of the Plan to transact at contract value with the issuer. Such events include the following: (i) amendments to the Plan documents (including complete or partial Plan termination or merger with another plan); (ii) changes to the Plan's prohibition on competing investment options or deletion of equity wash provisions; (iii) bankruptcy of the Plan sponsor or other Plan sponsor events (e.g., divestitures or spin-offs of the trust to qualify for exemption from federal income taxes or any required prohibited transaction exemption under ERISA). The Plan administrator does not believe that the occurrence of any such value event, which would limit the Plan's ability to transact at contract a value with participants, is probable.

*(e) Distributions to Participants*

Distributions to participants are recorded when paid.

*(f) Expenses*

The Plan pays substantially all administrative expenses of the Plan, other than legal fees, which are paid by the Plan Sponsor.

*(g) Interest and Dividend Income*

Interest income is recorded as earned on the accrual basis. Dividend income is recorded on the ex-dividend date.

*(h) Termination of Plan*

Although it has not expressed any intent to do so, the Company may terminate the Plan at any time subject to the provisions of the Plan and ERISA. If the Plan is terminated, the participants have a non-forfeitable interest in their accounts.

**(3) Transactions with Parties-in-Interest**

Transactions in shares of the Company's common stock qualify as party-in-interest transactions under the provisions of ERISA. The Plan held 179,120 and 163,097 shares of SkyWest, Inc. common stock with a fair value of \$4,569,362 and \$4,380,785 as of December 31, 2006 and 2005, respectively.

A former director of the Company is a shareholder of Soltis Investment Advisors, Inc. ( Soltis ). Soltis provided investment advisory services to the Plan but provided no custodial services to the Plan during 2006. During the year ended December 31, 2006, Soltis received no fees directly from the Company for its services; however, the Plan paid Soltis directly for advisory fees which were deducted on a quarterly basis. Each deduction for quarterly fees was reviewed by the Company's management. During the year ended December 31, 2006, Soltis received approximately \$156,000 in fees for services rendered in connection with the Plan.

Certain Plan investments include mutual funds and a common collective trust fund managed by Wells Fargo, who is also the Plan trustee, and therefore a party-in-interest. While transactions involving Plan assets with a party-in-interest are usually prohibited, these transactions are exempt under ERISA Section 408(b)(8).

Loans to Plan participants totaling \$5,805,802 and \$4,691,425 as of December 31, 2006 and 2005, respectively, are also considered party-in-interest transactions.

**(4) Tax Status**

The Plan has received a determination letter from the Internal Revenue Service dated July 19, 2005, stating that the Plan is designed in accordance with applicable sections of the IRC and, therefore, the related trust is exempt from taxation. As of December 31, 2006, the Plan was required to make certain corrective distributions in order to remain qualified under IRC 401(a). Subsequent to December 31, 2006, the Plan made the corrective distributions in accordance with the IRS regulations. Although the Plan has been amended since receiving the determination letter, the Plan Administrator believes the Plan is being operated in compliance with the applicable requirements of the IRC and, therefore, believes that the Plan, as amended, is qualified and the related trust is exempt.

**(5) Investments**

During 2006, the Plan's investments (including investments purchased, sold, as well as held during the year) appreciated (depreciated) in fair value as determined by quoted market prices as follows:

Common stock	\$ (115,359 )
Mutual funds	11,481,092
	\$ 11,365,733

The fair values of individual investments that represent 5 percent or more of the Plan's assets are as follows:

	December 31, 2006	2005
Janus Overseas Fund	\$ 24,378,575	\$ 12,005,185
Aggressive Portfolio	15,411,688	*
Wells Fargo Stable Return	12,601,987	*
Very Aggressive Portfolio	11,918,049	*
Neuberger Berman Genesis Fund	11,434,210	12,695,372
Merrill Lynch BlackRock	11,389,607	*
Wells Fargo Advantage Growth	10,786,219	*
Harris Associates Oakmark Select Fund	10,249,623	14,107,755
Fidelity Magellan Fund	*	10,559,472
Fidelity Spartan Money Market Fund	*	10,306,564
Wasatch Small Cap Value Fund	*	8,416,486

\* Amount was not greater than 5% of the Plan's assets for the respective year.



**(6) Plan Amendments**

During, 2006, the Plan was amended to change the approved method of testing for the actual deferral percentage and the actual contribution percentage test to the current year method. Additionally, the Plan was amended to reduce the threshold for mandatory cash-out distributions from \$5,000 to \$1,000.

**(7) Reconciliation of Financial Statements to Form 5500**

The following differences between the financial statements and the Form 5500 are due to the adjustment from fair value to contract value of the Wells Fargo Stable Return Fund, a fully benefit-responsive investment contract.

Assets available for benefits as presented in the financial statements	\$ 193,935,125
Adjustment from contract value to fair value for fully benefit- responsive investment contract	(181,192 )
Assets available for benefits as presented in Form 5500	\$ 193,753,933

**SKYWEST, INC. EMPLOYEES RETIREMENT PLAN**  
**EIN 87-0292166, Plan 001**

**Form 5500, Schedule H, Part IV, Line 4i Schedule of Assets (Held at End of Year)**  
**December 31, 2006**

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(e) Current Value	Number of Units
	Janus Capital Corp.	Janus Overseas Fund	\$ 24,378,575	526,535
*	Wells Fargo	Wells Fargo Stable Return	12,601,987	322,306
	Neuberger & Berman Management, Inc.	Neuberger Berman Genesis Fund	11,434,210	239,560
	Merrill Lynch	Merrill Lynch BlackRock	11,389,607	811,804
*	Wells Fargo	Wells Fargo Advantage Growth	10,786,219	611,117
	Harris Associates LP	Oakmark Select Fund	10,249,623	306,142
	Van Kampen	Van Kampen Comstock	6,676,703	346,842
	Davis	Davis NY Venture	6,427,728	166,867
*	Wells Fargo	Wells Fargo Advantage Small Cap Value	6,365,236	204,473
	Fidelity Investments Institutional Services Co.	Equity Income Fund	6,041,261	103,181
	Oak Mark	Oakmark Equity and Income	5,536,622	213,935
	STI	STI Classic Small Cap Growth	5,210,822	258,987
	Alliance Bernstein	Alliance Bernstein International Value	5,141,463	229,530
*	SkyWest, Inc.	SkyWest, Inc. Common Stock	4,569,362	179,120
	William Blair & Company	WM. Blair Funds International Growth Fund	4,088,080	147,584
	American Funds	American Funds Growth	4,079,030	124,894
	Wasatch Advisors Inc.	Wasatch Small Cap Growth Fund	4,073,007	110,439
	Pimco Total Return Administrative Shares	Total Return Administrative Shares	3,506,587	337,822
	The Vanguard Group	Vanguard Admiral Intermediate-Term Treasury Fund	1,996,001	185,502





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Turner Investment Partners, Inc.	Turner Mid Cap Growth Fund	1,954,799	66,922
Calamos Investments LLC	Calamos Growth Fund	1,091,498	20,250
Goldman Sachs	Goldman Sachs Mid Cap Value	450,074	11,651
MFS	MFS High Yield Opportunities	308,381	40,470
American Funds	American Funds Europacific	871,035	18,944
* Wells Fargo	Conservative Portfolio	1,367,996	130,863
* Wells Fargo	Moderate Portfolio	3,079,549	292,610
* Wells Fargo	Growth Portfolio	6,942,939	651,752
* Wells Fargo	Aggressive Portfolio	15,411,688	1,433,475
* Wells Fargo	Very Aggressive Portfolio	11,918,049	1,100,798
* Plan Participants	loans at 7% - 10% interest. with maturity dates through 2021 collateralized by respective participants' account balances	5,805,802	
		\$	193,753,933

\* Denotes party-in-interest

Column (d) is not required as all investments are participant-directed

See accompanying report of independent registered public accounting firm.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 13, 2007

SKYWEST, INC. EMPLOYEES RETIREMENT PLAN

By:

SkyWest, Inc., Plan Sponsor

/s/ Bradford R. Rich  
Bradford R. Rich  
Executive VP and Chief Financial Officer  
of SkyWest, Inc.

Exhibit Index

Exhibit Number	Description of Exhibit
23.1	Consent of Tanner LC
23.2	Consent of Ernst & Young, LLP

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