

SKYWEST INC
Form 10-Q
May 06, 2016
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____

Commission file number 0-14719

SKYWEST, INC.

Incorporated under the laws of Utah 87-0292166
(I.R.S. Employer ID No.)

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444 South River Road

St. George, Utah 84790

(435) 634-3000

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

| Class | Outstanding at April 29, 2016 |
|----------------------------|-------------------------------|
| Common stock, no par value | 51,387,426 |

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SKYWEST, INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

ASSETS

| | March 31, 2016 (unaudited) | December 31, 2015 |
|--|----------------------------------|----------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 246,765 | \$ 203,035 |
| Marketable securities | 187,323 | 286,668 |
| Restricted cash | 8,221 | 8,216 |
| Income tax receivable | 2,770 | 2,871 |
| Receivables, net | 80,053 | 62,162 |
| Inventories, net | 140,595 | 140,312 |
| Prepaid aircraft rents | 198,209 | 195,216 |
| Deferred tax assets | 102,804 | 100,730 |
| Other current assets | 17,951 | 18,360 |
| Total current assets | 984,691 | 1,017,570 |
| PROPERTY AND EQUIPMENT: | | |
| Aircraft and rotatable spares | 5,325,637 | 5,242,790 |
| Deposits on aircraft | 38,150 | 38,150 |
| Buildings and ground equipment | 260,561 | 275,788 |
| | 5,624,348 | 5,556,728 |
| Less-accumulated depreciation and amortization | (2,121,773) | (2,085,981) |
| Total property and equipment, net | 3,502,575 | 3,470,747 |
| OTHER ASSETS | | |
| Intangible assets, net | 9,936 | 10,499 |
| Non-current prepaid aircraft rents | 261,599 | 229,180 |
| Other assets | 54,257 | 53,988 |
| Total other assets | 325,792 | 293,667 |
| Total assets | \$ 4,813,058 | \$ 4,781,984 |

See accompanying notes to condensed consolidated financial statements.

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SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | March 31, 2016 | December 31, 2015 |
|--|-------------------|----------------------|
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt | \$ 274,325 | \$ 268,667 |
| Accounts payable | 261,043 | 279,864 |
| Accrued salaries, wages and benefits | 131,561 | 138,291 |
| Accrued aircraft rents | 4,248 | 3,226 |
| Taxes other than income taxes | 15,234 | 17,176 |
| Other current liabilities | 42,972 | 40,802 |
| Total current liabilities | 729,383 | 748,026 |
| OTHER LONG TERM LIABILITIES | | |
| LONG TERM DEBT, net of current maturities | 54,283 | 56,191 |
| DEFERRED INCOME TAXES PAYABLE | 1,664,766 | 1,659,234 |
| DEFERRED AIRCRAFT CREDITS | 768,556 | 749,575 |
| COMMITMENTS AND CONTINGENCIES (Note 6) | 60,169 | 62,523 |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, 5,000,000 shares authorized; none issued | — | — |
| Common stock, no par value, 120,000,000 shares authorized; 79,388,758 and 79,020,371 shares issued, respectively | 645,908 | 641,643 |
| Retained earnings | 1,300,179 | 1,275,142 |
| Treasury stock, at cost, 28,015,386 and 28,015,386 shares, respectively | (410,090) | (410,090) |
| Accumulated other comprehensive loss | (96) | (260) |
| Total stockholders' equity | 1,535,901 | 1,506,435 |
| Total liabilities and stockholders' equity | \$ 4,813,058 | \$ 4,781,984 |

See accompanying notes to condensed consolidated financial statements.

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SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars and Shares in Thousands, Except per Share Amounts)

(Unaudited)

| | Three months ended | |
|--|--------------------|------------|
| | 2016 | 2015 |
| OPERATING REVENUES: | | |
| Passenger | \$ 744,390 | \$ 742,498 |
| Ground handling and other | 17,685 | 17,900 |
| Total operating revenues | 762,075 | 760,398 |
| OPERATING EXPENSES: | | |
| Salaries, wages and benefits | 305,557 | 302,845 |
| Aircraft maintenance, materials and repairs | 138,859 | 158,257 |
| Aircraft rentals | 67,124 | 70,412 |
| Depreciation and amortization | 67,801 | 65,691 |
| Aircraft fuel | 25,332 | 27,300 |
| Ground handling services | 20,984 | 23,973 |
| Other, net | 74,609 | 77,845 |
| Total operating expenses | 700,266 | 726,323 |
| OPERATING INCOME | 61,809 | 34,075 |
| OTHER INCOME (EXPENSE): | | |
| Interest income | 430 | 640 |
| Interest expense | (17,725) | (18,465) |
| Total other expense, net | (17,295) | (17,825) |
| INCOME BEFORE INCOME TAXES | 44,514 | 16,250 |
| PROVISION FOR INCOME TAXES | 17,422 | 6,630 |
| NET INCOME | \$ 27,092 | \$ 9,620 |
| BASIC EARNINGS PER SHARE | \$ 0.53 | \$ 0.19 |
| DILUTED EARNINGS PER SHARE | \$ 0.52 | \$ 0.18 |
| Weighted average common shares: | | |
| Basic | 51,218 | 51,457 |
| Diluted | 52,014 | 52,392 |
| COMPREHENSIVE INCOME: | | |
| Net income | \$ 27,092 | \$ 9,620 |
| Net unrealized appreciation on marketable securities, net of taxes | 15 | 301 |
| TOTAL COMPREHENSIVE INCOME | \$ 27,107 | \$ 9,921 |

See accompanying notes to condensed consolidated financial statements

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SKYWEST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In Thousands)

| | Three months ended | |
|--|--------------------|-----------|
| | 2016 | 2015 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 34,544 | \$ 35,206 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of marketable securities | (508,562) | (109,900) |
| Sales of marketable securities | 608,058 | 147,830 |
| Proceeds from the sale of aircraft, property and equipment | — | 2,966 |
| Acquisition of property and equipment: | | |
| Aircraft and rotatable spare parts | (94,941) | (258,795) |
| Buildings and ground equipment | (3,460) | (6,905) |
| Increase in other assets | (2,164) | (11,906) |
| NET CASH USED IN INVESTING ACTIVITIES | (1,069) | (236,710) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of long-term debt | 68,232 | 203,083 |
| Principal payments on long-term debt | (57,196) | (39,528) |
| Net proceeds from issuance of common stock | 2,006 | 857 |
| Purchase of treasury stock | — | — |
| Increase in debt issuance cost | (747) | (2,028) |
| Payment of cash dividends | (2,040) | (2,047) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 10,255 | 160,337 |
| Increase (decrease) in cash and cash equivalents | 43,730 | (41,167) |
| Cash and cash equivalents at beginning of period | 203,035 | 132,275 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 246,765 | \$ 91,108 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest, net of capitalized amounts | \$ 16,547 | \$ 15,281 |
| Income taxes | \$ 684 | \$ 573 |

See accompanying notes to condensed consolidated financial statements.

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SKYWEST, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 — Condensed Consolidated Financial Statements

Basis of Presentation

The condensed consolidated financial statements of SkyWest, Inc. (“SkyWest” or the “Company”) and its operating subsidiaries, SkyWest Airlines, Inc. (“SkyWest Airlines”) and ExpressJet Airlines, Inc. (“ExpressJet”) included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the following disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the results of operations for the interim periods presented. All adjustments are of a normal recurring nature, unless otherwise disclosed. The Company suggests that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. The results of operations for the three-month period ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results will likely differ, and may differ materially, from those estimates and assumptions. The Company reclassified certain prior period amounts to conform to the current period presentation.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers” (“ASU No. 2014-09”). Under ASU No. 2014-09, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. In July 2015, the FASB deferred the effective date of ASU No. 2014-09 for annual reporting periods beginning after December 15, 2017. The FASB also proposed permitting early adoption of ASU No. 2014-09,

but not before January 1, 2017. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. The Company's management is currently evaluating what the impact the adoption of ASU No. 2014-09 is anticipated to have on the Company's consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU No. 2015-17"). ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by ASU No. 2015-17. ASU No. 2015-17 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company's management is currently evaluating the impact the adoption of ASU No. 2015-17 is anticipated to have on the Company's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will be effective beginning in the first quarter of 2019. Early adoption of ASU 2016-02 is permitted. ASU 2016-02 requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company's management is currently evaluating the impact of adopting ASU 2016-02 on the Company's consolidated financial statements.

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In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation—Stock Compensation (Topic 718). (“ASU 2016-09”), ASU 2016-09 makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. ASU 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. The Company’s management is currently evaluating how the adoption of ASU 2016-09 will impact the Company’s Consolidated Financial Statements.

Note 2 — Passenger and Ground Handling Revenue

The Company recognizes passenger and ground handling revenues when the service is provided under its code-share agreements. Under the Company’s fixed-fee arrangements (referred to as “fixed-fee arrangements,” “contract flying” or “capacity purchase agreements”) with Delta Air Lines Inc. (“Delta”), United Airlines Inc. (“United”), American Airlines, Inc. (“American”) and Alaska Airlines, Inc. (“Alaska”), the major airline generally pays the Company a fixed-fee for each departure, flight or block time incurred, and an amount per aircraft in service each month with additional incentives based on flight completion and on-time performance. The major airline partner also directly-reimburses the Company for certain direct expenses incurred under the fixed-fee arrangement, such as fuel expense and landing fee expenses. Under the fixed-fee arrangements, revenue is earned when each flight is completed and is reflected in passenger revenues. For the three months ended March 31, 2016, approximately 95.8% of our ASMs were flown under fixed-fee arrangements. Ground handling revenue primarily consists of customer service functions such as gate and ramp agent services at applicable airports where the Company provides such services to other airlines.

Under the Company’s revenue sharing arrangements (referred to as a “revenue-sharing” or “pro-rate” arrangement), the major airline and the Company negotiate a passenger fare proration formula, pursuant to which the Company receives a percentage of the ticket revenues for those passengers traveling for one portion of their trip on a Company airline and the other portion of their trip on the major airline. Revenue is recognized under the Company’s pro-rate flying agreements when each flight is completed based upon the portion of the pro-rate passenger fare the Company anticipates that it will receive for each completed flight. For the three months ended March 31, 2016, approximately 4.2% of our ASMs were flown under pro-rate arrangements.

Other ancillary revenues commonly associated with airlines such as baggage fee revenue, ticket change fee revenue and the marketing component of the sale of mileage credits are retained by the Company’s major airline partners on flights that the Company operates under its code share agreements.

In the event that the contractual rates under the Company’s flying agreements have not been finalized at quarterly or annual financial statement dates, the Company records revenues based on the lower of the prior period’s approved rates, as adjusted to reflect any contract negotiations, and the Company’s estimate of rates that will be implemented in accordance with revenue recognition guidelines. In the event the Company has a reimbursement dispute with a major airline partner, the Company evaluates the dispute under its established revenue recognition criteria and, provided the revenue recognition criteria have been met, the Company recognizes revenue based on management’s estimate of the resolution of the dispute.

In several of the Company's agreements, the Company is eligible to receive incentive compensation upon the achievement of certain performance criteria. The incentives are defined in the agreements and are measured and determined on a monthly, quarterly or semi annual basis. At the end of each period during the term of an agreement, the Company calculates the incentives achieved during that period and recognizes revenue attributable to that agreement accordingly.

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The following table summarizes the significant provisions of each code share agreement the Company has with each major airline partner:

Delta Connection Agreements

| Agreement | Aircraft type | Number of Aircraft | Term / Termination Dates |
|---|---------------|--------------------|--|
| SkyWest Airlines | CRJ 200 | 48 | The contract is scheduled to expire on an individual aircraft basis commencing in 2016 |
| Delta Connection Agreement (fixed-fee arrangement) | CRJ 700 | 20 | The final aircraft is scheduled to expire in 2022 |
| | CRJ 900 | 36 | |
| ExpressJet | CRJ 200 | 41 | The contract is scheduled to expire on an individual aircraft basis commencing in 2016 |
| Delta Connection Agreement (fixed-fee arrangement) | CRJ 700 | 40 | The final aircraft is scheduled to expire in 2022 |
| | CRJ 900 | 28 | |
| SkyWest Airlines | CRJ 200 | 21 | Terminable with 30-day notice |
| Delta Connection Pro-rate Agreement (revenue-sharing arrangement) | | | |

United Express Agreements

| Agreement | Aircraft type | Number of Aircraft | Term / Termination Dates |
|--|---------------|--------------------|--|
| SkyWest Airlines United Express Agreements (fixed-fee arrangement) | CRJ 200 | 57 | The contract is scheduled to expire on an individual aircraft basis commencing in 2016 |
| | CRJ 700 | 69 | |
| | E175 | 41 | The final aircraft is scheduled to expire in 2027 |
| ExpressJet United ERJ Agreement (fixed-fee arrangement) | ERJ 135 | 5 | The contract is scheduled to expire on an individual aircraft basis commencing in 2016 |
| | ERJ 145 | 161 | |

The final aircraft is scheduled to expire in 2017

SkyWest Airlines United Express Pro-rate Agreement (revenue-sharing arrangement)

CRJ 200 26

Terminable with 120-day notice

Alaska Capacity Purchase Agreement

| Agreement | Aircraft type | Number of Aircraft | Term / Termination Dates |
|---|---------------|--------------------|--|
| SkyWest Airlines Alaska Agreement (fixed-fee arrangement) | CRJ 700 | 9 | CRJ 700 portion is scheduled to expire in 2016 |
| | E175 | 7 | E175 portion is scheduled to expire in 2027 |

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American Agreements

| Agreement | Aircraft type | Number of Aircraft | Term / Termination Dates |
|--|---------------|--------------------|---------------------------------|
| SkyWest Airlines American Agreement (fixed-fee arrangement) | CRJ 200 | 12 | Scheduled to expire in 2016 |
| SkyWest Airlines American Pro-rate Agreement (revenue-sharing arrangement) | CRJ 200 | 5 | Terminable with 120- day notice |
| ExpressJet American Agreement (fixed-fee arrangement) | CRJ 200 | 11 | Scheduled to expire in 2017 |
| | ERJ 145 | 16 | |
| ExpressJet American Pro-rate Agreement (revenue-sharing arrangement) | CRJ 200 | 3 | Terminable with 120- day notice |

When an aircraft is scheduled to be removed from a fixed-fee arrangement, the Company may, as practical under the circumstances, negotiate an extension with the respective major airline partner, negotiate the placement of the aircraft with another major airline partner, return the aircraft to the lessor if the aircraft is leased and the lease is expiring, place owned aircraft for sale, or pursue other uses for the aircraft.

In addition to the contractual arrangements described above, SkyWest Airlines has entered into agreements with Alaska, United and Delta to place additional Embraer E175 dual-class regional jet (“E175”) aircraft into service for those major airline partners. As of March 31, 2016, the Company anticipated placing an additional 24 E175 aircraft with United, an additional thirteen E175 aircraft with Alaska and 19 E175 aircraft with Delta. The delivery dates for the new aircraft are expected to take place from April 2016 to June 2017.

The SkyWest Airlines and ExpressJet Delta Connection Agreements contain multi year rate reset provisions that became operative in 2010 and reset each fifth year thereafter. A rate reset period became effective on January 1, 2016. The parties have agreed to contractual rates effective for the SkyWest Airlines and ExpressJet Delta Connection Agreements for the 2016 calendar year.

Other Revenue Items

The Company’s passenger and ground handling revenues could be impacted by a number of factors, including changes to the Company’s code-share agreements with its major airline partners, contract modifications resulting from contract re-negotiations, the Company’s ability to earn incentive payments contemplated under the Company’s code-share agreements and settlement of reimbursement disputes with the Company’s major airline partners.

Note 3 — Share-Based Compensation and Stock Repurchases

The fair value of stock options granted by the Company has been estimated as of the grant date using the Black-Scholes option pricing model. The Company uses historical data to estimate option exercises and employee termination in the option pricing model. The expected term of options granted is derived from the output of the option pricing model and represents the period of time that options granted are expected to be outstanding. The expected volatilities are based on the historical volatility of the Company's traded stock and other factors. During the three months ended March 31, 2016, the Company granted options to purchase 200,020 shares of common stock under the SkyWest, Inc. 2010 Long-

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Term Incentive Plan (the “2010 Incentive Plan”). The following table shows the assumptions used and weighted average fair value for stock option grants during the three months ended March 31, 2016.

| | |
|--|---------|
| Expected annual dividend rate | 1.08 % |
| Risk-free interest rate | 1.53 % |
| Average expected life (years) | 5.7 |
| Expected volatility of common stock | 0.401 |
| Forfeiture rate | 0.0 % |
| Weighted average fair value of option grants | \$ 5.22 |

During the three months ended March 31, 2016, the Company granted 42,624 fully-vested shares of common stock to the Company’s directors. Additionally, during the three months ended March 31, 2016, the Company granted 370,022 restricted stock units and 179,251 restricted performance stock units to certain employees of the Company and its subsidiaries under the 2010 Incentive Plan. Both the restricted stock and restricted performance stock units have a three-year vesting period, during which the recipient must remain employed with the Company or one of the Company’s subsidiaries. In addition to the three-year vesting period, certain profit metrics of the Company must be met before the recipient will receive any shares of stock attributable to the restricted performance stock units. Upon vesting, a restricted stock unit and a restricted performance stock unit will be replaced with a share of common stock. The fair value of the restricted stock unit and the restricted performance stock unit on the date of grant was \$14.78 per share.

The Company records share-based compensation expense only for those options, restricted stock units and restricted performance stock units that are expected to vest. The estimated fair value of the stock options, restricted stock units and restricted performance stock units is amortized over the applicable vesting periods. During the three months ended March 31, 2016 and 2015, the Company recorded pre-tax share-based compensation expense of \$2.3 million and \$1.5 million, respectively.

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Note 4 — Net Income Per Common Share

Basic net income per common share (“Basic EPS”) excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share (“Diluted EPS”) reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net income per common share. During the three months ended March 31, 2016 and 2015, options to acquire 6,000 shares and 1,560,000 shares, respectively, were excluded from the computation of Diluted EPS as their impact was anti-dilutive.

The calculation of the weighted average number of shares of common stock outstanding for Basic EPS and Diluted EPS for the periods indicated (in thousands, except per share data) is as follows:

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2016 | 2015 |
| Numerator: | | |
| Net Income | \$ 27,092 | \$ 9,620 |
| Denominator: | | |
| Weighted average number of common shares outstanding | 51,218 | 51,457 |
| Effect of outstanding share-based awards | 796 | 935 |
| Weighted average number of shares for diluted net income per common share | 52,014 | 52,392 |
| Basic earnings per-share | \$ 0.53 | \$ 0.19 |
| Diluted earnings per-share | \$ 0.52 | \$ 0.18 |

Note 5 - Segment Reporting

The Company’s three reporting segments consist of the operations of SkyWest Airlines, ExpressJet and SkyWest Leasing activities. Corporate overhead expenses incurred by the Company are allocated to the operating expenses of SkyWest Airlines and ExpressJet.

During the fourth quarter of 2015, due to the increase in E175 aircraft acquisitions and the related aircraft debt financing, the Company’s chief operating decision maker started to analyze the flight operations of the Company’s E175 aircraft separately from the acquisition, ownership, financing costs and related revenue of the Company’s E175

aircraft. Because of this change, the “SkyWest Leasing” segment includes revenue attributed to the Company’s E175 aircraft ownership cost earned under the applicable fixed-fee flying contracts, and the depreciation and interest expense of the Company’s E175 aircraft. The “SkyWest Leasing” segment’s total assets and capital expenditures include the acquired E175 aircraft. The “SkyWest Leasing” segment additionally includes the activity of two CRJ200 aircraft leased to a

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third party. As a result of the change in segmentation, results for prior periods have been recast to conform to the current presentation.

The following represents the Company's segment data for the three-month periods ended March 31, 2016 and 2015 (in thousands).

| | Three months ended March 31, 2016 | | | Consolidated |
|---|-----------------------------------|------------|--------------------|--------------|
| | SkyWest Airlines | ExpressJet | SkyWest Leasing | |
| Operating revenues | \$ 466,296 | \$ 267,807 | \$ 27,972 | \$ 762,075 |
| Operating expense | 414,084 | 273,619 | 12,563 | 700,266 |
| Depreciation and amortization expense | 34,331 | 21,267 | 12,203 | 67,801 |
| Interest expense | 6,659 | 2,123 | 8,943 | 17,725 |
| Segment profit (loss) (1) | 45,553 | (7,935) | 6,466 | 44,084 |
| Identifiable intangible assets, other than goodwill | — | 9,936 | — | 9,936 |
| Total assets | 2,292,792 | 1,301,331 | 1,218,935 | 4,813,058 |
| Capital expenditures (including non-cash) | 13,958 | 5,048 | 80,280 | 99,286 |

| | Three months ended March 31, 2015 | | | Consolidated |
|---|-----------------------------------|------------|--------------------|--------------|
| | SkyWest Airlines | ExpressJet | SkyWest Leasing | |
| Operating revenues | \$ 437,715 | \$ 308,557 | \$ 14,126 | \$ 760,398 |
| Operating expense | 399,969 | 319,251 | 7,103 | 726,323 |
| Depreciation and amortization expense | 37,688 | 21,662 | 6,341 | 65,691 |
| Interest expense | 9,721 | 4,356 | 4,388 | 18,465 |
| Segment profit (loss) (1) | 28,025 | (15,050) | 2,635 | 15,610 |
| Identifiable intangible assets, other than goodwill | — | 12,186 | — | 12,186 |
| Total assets | 2,404,877 | 1,418,703 | 767,626 | 4,591,206 |
| Capital expenditures (including non-cash) | 16,092 | 7,098 | 245,948 | 269,138 |

(1) Segment profit (loss) is equal to operating income less interest expense

Note 6 — Commitments and Contingencies

As of March 31, 2016, the Company leased aircraft, as well as airport facilities, office space, and other property and equipment under non-cancelable operating leases which are generally on a long-term, triple net lease basis where the Company pays taxes, maintenance, insurance and certain other operating expenses applicable to the leased property. The Company expects that, in the normal course of business, such operating leases that expire will be renewed or replaced by other leases. The following table summarizes future minimum rental payments required under operating leases that had initial or remaining non-cancelable lease terms as of March 31, 2016 (in thousands):

| | |
|-----------------------------|--------------|
| April through December 2016 | \$ 157,828 |
| 2017 | 192,385 |
| 2018 | 154,461 |
| 2019 | 121,126 |
| 2020 | 133,659 |
| Thereafter | 349,039 |
| | \$ 1,108,498 |

As of March 31, 2016, the Company had a firm purchase commitment for 56 E175 aircraft with scheduled delivery dates from April 2016 to June 2017.

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Note 7 — Fair Value Measurements

The Company holds certain assets that are required to be measured at fair value in accordance with GAAP. The Company determined fair value of these assets based on the following three levels of inputs:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Some of the Company's marketable securities primarily utilize broker quotes in a non-active market for valuation of these securities.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, therefore requiring an entity to develop its own assumptions.

As of March 31, 2016 and December 31, 2015, the Company held certain assets that are required to be measured at fair value on a recurring basis. Assets measured at fair value on a recurring basis are summarized below (in thousands):

| | Fair Value Measurements as of March 31, 2016 | | | |
|--|--|------------|------------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Marketable Securities | | | | |
| Bonds and bond funds | \$ 187,317 | \$ — | \$ 187,317 | \$ — |
| Commercial paper | 6 | — | 6 | — |
| Asset backed securities | \$ 187,323 | \$ — | \$ 187,323 | \$ — |
| Cash, Cash Equivalents and Restricted Cash | 254,986 | 254,986 | — | — |
| Auction Rate Securities(1) | 2,334 | — | — | 2,334 |
| Total Assets Measured at Fair Value | \$ 444,643 | \$ 254,986 | \$ 187,323 | \$ 2,334 |

| | Fair Value Measurements as of December 31, 2015 | | | |
|--|---|------------|------------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Marketable Securities | | | | |
| Bonds and bond funds | \$ 286,637 | \$ — | \$ 286,637 | \$ — |
| Commercial paper | 31 | — | 31 | — |
| Asset backed securities | \$ 286,668 | \$ — | \$ 286,668 | \$ — |
| Cash, Cash Equivalents and Restricted Cash | 211,251 | 211,251 | — | — |
| Auction Rate Securities(1) | 2,321 | — | — | 2,321 |
| Total Assets Measured at Fair Value | \$ 500,240 | \$ 211,251 | \$ 286,668 | \$ 2,321 |

- (1) Auction rate securities are included in long-term “Other assets” in the Company’s unaudited condensed consolidated balance sheets

Based on market conditions, the Company uses a discounted cash flow valuation methodology for auction rate securities. Accordingly, for purposes of the foregoing condensed consolidated financial statements, these securities were categorized as Level 3 securities. The Company’s “Marketable Securities” classified as Level 2 securities primarily utilize broker quotes in a non-active market for valuation of these securities.

The Company did not make any significant transfers of securities between Level 1, Level 2 and Level 3 during the three months ended March 31, 2016. The Company’s policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

As of March 31, 2016 and December 31, 2015, the Company classified \$187.3 million and \$286.7 million of marketable securities, respectively, as short-term since it had the intent to maintain a liquid portfolio and the ability to redeem the securities within one year. As of March 31, 2016 and December 31, 2015, the cost in the Company’s total cash and cash equivalents and available for sale securities (excluding restricted cash and auction rate securities, net of

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amortized discounts, recorded as other assets) was \$434.1 million and \$489.9 million, respectively. As of March 31, 2016 and December 31, 2015, the fair value of the Company's total cash and cash equivalents and available for sale securities (excluding restricted cash and auction rate securities recorded as other assets), was \$434.1 million and \$489.7 million, respectively.

The following table presents the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at March 31, 2016 (in thousands):

Fair Value Measurements Using Significant Unobservable Inputs

(Level 3)

| | Auction Rate Securities |
|---|-------------------------|
| Balance at January 1, 2016 | \$ 2,321 |
| Total realized and unrealized gains or (losses) | |
| Included in earnings | — |
| Included in other comprehensive income | 13 |
| Transferred out | — |
| Settlements | — |
| Balance at March 31, 2016 | \$ 2,334 |

The fair value of the Company's long-term debt classified as Level 2 debt was estimated using discounted cash flow analyses, based on the Company's current estimated incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's long-term debt is estimated based on current rates offered to the Company for similar debt and was estimated to be \$1,934.5 million as of March 31, 2016 and \$1,939.8 million as of December 31, 2015, as compared to the carrying amount of \$1,959.8 million as of March 31, 2016 and \$1,948.8 million as of December 31, 2015.

Note 8 — Long-Term Debt

In April 2015, the FASB issued ASU 2015-03, "Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs," which requires debt issuance costs related to a recognized debt liability to be presented as a direct deduction from the carrying amount of that debt liability. The new guidance only impacts financial statement presentation. The guidance is effective in the first quarter of 2016 and allows for early adoption. We adopted this guidance January 1, 2016 on a retrospective basis. As a result \$20.9 million of unamortized debt issuance costs that had been included in the Other assets line on the consolidated balance sheets as of December 31, 2015 are now

presented as direct deductions from the carrying amounts of the related debt liabilities.

Long-term Debt consisted of the following as of March 31, 2016 and December 31, 2015 (in thousands).

| | March 31, 2016 | December 31, 2015 |
|-------------------------------------|----------------|-------------------|
| Total debt | \$ 1,959,838 | \$ 1,948,803 |
| Unamortized debt issue cost, net | (20,747) | (20,902) |
| Total debt, net of debt issue costs | \$ 1,939,091 | \$ 1,927,901 |

During the three months ended March 31, 2016, the Company took delivery of three E175 aircraft, which the Company financed through \$68.2 million of long-term debt. The debt associated with the E175 aircraft delivered during the three months ended March 31, 2016 has a twelve-year term, due in quarterly installments with a fixed annual interest rate ranging from 3.6% to 3.8% and is secured by the E175 aircraft.

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Note 9 — Income Taxes

The Company's estimated annual effective tax rate for the three months ended March 31, 2016 varied from the federal statutory rate of 35% primarily due to the provision for state income taxes and the impact of non-deductible crew per diem meal expenses.

Note 10 — Legal Matters

The Company is subject to certain legal actions which it considers routine to its business activities. As of March 31, 2016, the Company's management believed, after consultation with legal counsel, that the ultimate outcome of such legal matters was not likely to have a material adverse effect on the Company's financial position, liquidity or results of operations.

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ITEM 2:MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis presents factors that had a material effect on the results of operations of SkyWest, Inc. (“SkyWest” “we” or “us”) during the three month periods ended March 31, 2016 and 2015. Also discussed is our financial condition as of March 31, 2016 and December 31, 2015. You should read this discussion in conjunction with our condensed consolidated financial statements for the three months ended March 31, 2016, including the notes thereto, appearing elsewhere in this Report. This discussion and analysis contains forward-looking statements. Please refer to the section of this Report entitled “Cautionary Statement Concerning Forward-Looking Statements” for discussion of uncertainties, risks and assumptions associated with these statements.

Cautionary Statement Concerning Forward-Looking Statements

Certain of the statements contained in this Report should be considered “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by words such as “may,” “will,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “plan,” “project,” “could,” “should,” “continue” and similar terms used in connection with statements regarding our outlook, the revenue environment, our contract relationships and our expected financial performance. These statements include, but are not limited to, statements about our future growth and development plans, including our future financial and operating results, our plans for SkyWest Airlines and ExpressJet, our objectives, expectations and intentions, and other statements that are not historical facts. All forward-looking statements are based on our existing beliefs about present and future events outside of our control and on assumptions that may prove to be incorrect. If one or more risks identified in this Report materializes, or any other underlying assumption proves incorrect, our actual results will likely vary, and may vary materially, from those anticipated, estimated, projected, or intended.

There may be other factors not identified above of which we are not currently aware that may affect matters discussed in the forward-looking statements, and may also cause actual results to differ materially from those discussed. We assume no obligation to publicly update any forward-looking statement to reflect actual results, changes in assumptions or changes in other factors affecting these statements other than as required by law.

Overview

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Through SkyWest Airlines and ExpressJet, we have the largest regional airline operations in the United States. As of March 31, 2016, SkyWest Airlines and ExpressJet offered scheduled passenger service with approximately 3,200 total daily departures to destinations throughout North America. As of March 31, 2016, SkyWest Airlines and ExpressJet had a total fleet of 701 aircraft, of which 656 were in scheduled service, summarized as follows:

| | CRJ200 | CRJ700 | CRJ900 | ERJ135 | ERJ145 | E175 | EMB120 | Total |
|---|--------|--------|--------|--------|--------|------|--------|-------|
| United | 83 | 69 | — | 5 | 161 | 41 | — | 359 |
| Delta | 110 | 60 | 64 | — | — | — | — | 234 |
| American | 31 | — | — | — | 16 | — | — | 47 |
| Alaska | — | 9 | — | — | — | 7 | — | 16 |
| Aircraft in scheduled service | 224 | 138 | 64 | 5 | 177 | 48 | — | 656 |
| Subleased to an un-affiliated entity | 2 | — | — | — | — | — | — | 2 |
| Other* | 10 | 1 | — | 4 | 2 | — | 26 | 43 |
| Total | 236 | 139 | 64 | 9 | 179 | 48 | 26 | 701 |

*As of March 31, 2016, these aircraft have been removed from service and are in the process of being returned under the applicable leasing arrangement, are owned aircraft in the process of being sold or are aircraft transitioning between flying code-share agreements with our major airline partners.

For the three months ended March 31, 2016, approximately 54.4% of our aggregate capacity was operated for United, approximately 35.7% was operated for Delta, approximately 5.3% was operated for Alaska and approximately 4.6% was operated for American.

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Historically, multiple contractual relationships with major airlines have enabled us to reduce our reliance on any single major airline code and to enhance and stabilize operating results through a mix of contract flying arrangements and our pro-rate flying arrangements. For the three months ended March 31, 2016, contract flying revenue and pro-rate revenue represented approximately 88% and 12%, respectively, of our total passenger revenues. On contract routes, the major airline partner controls scheduling, ticketing, pricing and seat inventories and we are compensated by the major airline partner at contracted rates based on completed block hours, flight departures and other operating measures. On pro-rate routes, our revenue may fluctuate based on ticket prices and passenger loads and we are responsible for all costs to operate the flight, including fuel.

First Quarter Summary

We had total operating revenues of \$762.1 million for the three months ended March 31, 2016, a 0.2% increase, compared to total operating revenues of \$760.4 million for the three months ended March 31, 2015. We had net income of \$27.1 million, or \$0.52 per diluted share, for the three months ended March 31, 2016, compared to a net income of \$9.6 million or \$0.18 per diluted share, for the three months ended March 31, 2015.

Significant items affecting our financial performance during the three months ended March 31, 2016 are outlined below:

Revenue

The number of aircraft we have under contract and the number of actual block hours we incur on completed flights are significant revenue drivers under our fixed-fee arrangements. We are currently in the process of a fleet transition that involves increasing the number of large dual-class regional jets we operate, including the E175 aircraft, while reducing the number of less-profitable 50-seat regional jets we operate, including a portion of our Embraer ERJ145 regional jet aircraft (“ERJ145s”), Embraer ERJ135 regional jet aircraft (“ERJ135s”) and Canadair CRJ200 regional jet aircraft (“CRJ200s”). Additionally, in 2015, we completed the removal of all Embraer Brasilia EMB120 turboprop aircraft (“EMB120”) from our scheduled service. Our objective in the fleet transition is to improve our profitability through the addition of new dual class aircraft, including the E175 aircraft, placed into service, while removing aircraft from service that have been operating under unprofitable or less profitable fixed-fee flying contracts.

Despite the reduction in our fleet size and the related reduction in our block hour production, our total revenues increased \$1.7 million for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. This was primarily driven by 29 aircraft added to profitable flying arrangements, improved contract rates from certain existing flying contracts, increased flying under our pro-rate arrangements and additional contract performance

incentives earned as compared to the three months ended March 31, 2015. These improvements to revenue were significantly offset by the removal of 66 aircraft from unprofitable or less-profitable flying agreements since March 31, 2015.

Operating Expenses

Our total operating expenses decreased \$26.1 million for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. This decrease was primarily due to lower direct operating costs from fewer aircraft in service and a reduction in fuel costs, partially offset by additional crew training costs in anticipation of upcoming E175 aircraft deliveries, compared to the three months ended March 31, 2015. Additional details regarding the reduction to our operating expenses are described in more detail in the section of this Report entitled “Results of Operations.”

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Fleet activity

The following table summarizes our fleet scheduled for service as of March 31, 2015, December 31, 2015 and March 31, 2016:

| Aircraft in Service | March 31, 2015 | December 31, 2015 | March 31, 2016 |
|---------------------|----------------|-------------------|----------------|
| CRJ200s | 234 | 225 | 224 |
| CRJ700s | 139 | 139 | 138 |
| CRJ900s | 64 | 64 | 64 |
| ERJ145/135s | 215 | 187 | 182 |
| E175s | 29 | 45 | 48 |
| EMB120s | 12 | — | — |
| Total | 693 | 660 | 656 |

Changes in our fleet activity from March 31, 2015 to March 31, 2016 are summarized as follows:

- SkyWest Airlines placed twelve E175 aircraft into service with United
- SkyWest Airlines placed seven E175 aircraft into service with Alaska
- ExpressJet placed ten ERJ145 aircraft into service with American
- ExpressJet removed 43 ERJ145/135 aircraft from service with United
- ExpressJet/SkyWest Airlines removed ten CRJ200 aircraft from service with multiple partners
- ExpressJet removed one Canadair CRJ700 regional jet aircraft (“CRJ700”) from service with Delta
- SkyWest Airlines removed twelve EMB120 aircraft from service with multiple partners

Critical Accounting Policies

Our significant accounting policies are summarized in Note 1 to our consolidated financial statements for the year ended December 31, 2015, which are presented in our Annual Report on Form 10-K for the year ended December 31, 2015. Critical accounting policies are those policies that are most important to the preparation of our consolidated financial statements and require management’s subjective and complex judgments due to the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies relate to revenue recognition, maintenance, aircraft leases, impairment of long-lived assets and stock-based compensation expense. The application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results will likely differ, and may differ materially, from such estimates.

Other Accounting Items

Directly-reimbursed expenses under our fixed-fee arrangements. Under our fixed-fee arrangements, our major airline partners directly-reimburse us for certain operating expenses such as fuel, station rents and landing fees. When we incur directly-reimbursed expenses under our fixed-fee arrangements, we record the reimbursement as passenger revenue. Thus, the price and volume volatility of directly-reimbursed expenses may impact the comparability of revenue to previous periods and may impact the comparability of operating expenses to previous periods, without impacting the comparability of our operating income of those same periods.

Reimbursement for engine overhaul expenses under our fixed-fee arrangements. Under certain of our fixed fee arrangements, we are directly-reimbursed for engine overhaul costs when incurred (“Directly-Reimbursed Engine Contracts”). Under our other fixed-fee flying arrangements, we are paid fixed hourly rates intended to cover certain operating expenses, including engine overhaul costs (“Fixed-Rate Engine Contracts”). Thus, the price and volume volatility of directly-reimbursed engine expenses may impact the comparability of revenue to previous periods and may impact the comparability of operating expenses to previous periods, without impacting the comparability of our operating income of those same periods.

Engine maintenance expense. We use the direct-expense method of accounting for our regional jet aircraft engine overhaul costs. Under this method, the maintenance liability is recorded when the maintenance services are

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performed. For a portion of our engines, a third-party vendor provides our long-term engine maintenance services, covering scheduled and unscheduled repairs for covered engines. Under the terms of the vendor agreement, we pay a set dollar amount per engine hour flown on a monthly basis and the third-party vendor assumes the obligation to repair the engines at no additional cost to us, subject to certain specified exclusions (“Power-by-the-Hour” Contracts). Under our Power-by-the-Hour Contracts, we expense the engine maintenance cost as flight hours are incurred on the engines using the contractual rate set forth in the applicable Power-by-the-Hour Contract.

The table below summarizes how we are compensated by our major airline partners under our flying contracts for engine expense and the method we use to recognize the corresponding expense.

| Fixed-fee flying contract | Compensation of Engine Expense | Expense Recognition |
|--|--------------------------------------|-----------------------------|
| SkyWest Delta Connection | Directly-Reimbursed Engine Contracts | Direct Expense Method |
| ExpressJet Delta Connection | Directly-Reimbursed Engine Contracts | Direct Expense Method |
| SkyWest United Express (CRJ200) | Fixed-Rate Engine Contracts | Direct Expense Method |
| SkyWest United Express (CRJ700) | Fixed-Rate Engine Contracts | Power-by-the-Hour Agreement |
| SkyWest United Express (E175) | Fixed-Rate Engine Contracts | Power-by-the-Hour Agreement |
| ExpressJet United (ERJ145) | Directly-Reimbursed Engine Contracts | Power-by-the-Hour Agreement |
| Alaska Agreement (CRJ700) | Fixed-Rate Engine Contracts | Power-by-the-Hour Agreement |
| Alaska Agreement (E175) | Fixed-Rate Engine Contracts | Power-by-the-Hour Agreement |
| SkyWest American Agreement (CRJ200) | Fixed-Rate Engine Contracts | Direct Expense Method |
| ExpressJet American Agreement (CRJ200) | Fixed-Rate Engine Contracts | Direct Expense Method |
| ExpressJet American Agreement (ERJ145) | Partner pays directly to vendor | Not applicable |

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers”- (“ASU No. 2014-09”). Under ASU No. 2014-09, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. In July 2015, the FASB deferred the effective date of ASU No. 2014-09 for annual reporting periods beginning after December 15, 2017. The FASB also proposed permitting early adoption of ASU No. 2014-09, but not before January 2, 2017. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. Our management is currently evaluating what the impact the adoption of ASU No. 2014-09 is anticipated to have on our consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU No. 2015-17). ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by ASU No. 2015-17. ASU No. 2015-17 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Our management is currently evaluating the impact the adoption of ASU 2015-17 is anticipated to have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”). ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will be effective beginning in the first quarter of 2019. Early adoption of ASU 2016-02 is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. Our management is currently evaluating the impact of adopting ASU 2016-02 on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718). (“ASU 2016-09”). ASU 2016-09 makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based

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awards. ASU 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. Our management is currently evaluating how the adoption of ASU 2016-09 will impact our consolidated financial statements.

Results of Operations

Three Months Ended March 31, 2016 and 2015

Operational Statistics. The following table sets forth our major operational statistics and the associated percentages-of-change for the periods identified below.

| | Three Months Ended March 31, | | | |
|---------------------------------------|------------------------------|------------|----------|-----|
| | 2016 | 2015 | % Change | |
| Revenue passenger miles (000) | 6,721,216 | 6,967,911 | (3.5) | % |
| Available seat miles ("ASMs") (000) | 8,506,355 | 8,692,116 | (2.1) | % |
| Block hours | 486,872 | 516,774 | (5.8) | % |
| Departures | 286,475 | 304,599 | (6.0) | % |
| Passengers carried | 12,668,546 | 13,190,537 | (4.0) | % |
| Passenger load factor | 79.0 | % 80.2 | % (1.2) | pts |
| Revenue per available seat mile | 9.0 | ¢ 8.7 | ¢ 3.0 | % |
| Cost per available seat mile | 8.4 | ¢ 8.6 | ¢ (2.3) | % |
| Average passenger trip length (miles) | 531 | 528 | 0.6 | % |

Revenues. Total operating revenues increased \$1.7 million, or 0.2%, during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. This increase in total operating revenues was primarily driven by 29 aircraft added to profitable flying arrangements, improved contract rates from certain existing flying contracts, increased flying under our pro-rate arrangements and additional contract performance incentives earned compared to the three months ended March 31, 2015. These improvements to revenue were significantly offset by the removal of 66 aircraft from unprofitable or less-profitable flying arrangements that resulted in a net reduction in our fleet size and related production compared to the three months ended March 31, 2015.

Our total operating revenue includes passenger revenues, which primarily consist of revenue earned on flights we operate under our fixed-fee and pro-rate arrangements, and airport customer service revenue, including airport counter, gate, and ramp services, on flights we operate under our flying arrangements. Our total operating revenue also includes ground handling and other revenues, which primarily consist of revenue earned from providing airport

counter, gate and ramp services to other airlines on flights operated by other airlines, and government subsidy revenue we receive for providing flight service to certain locations.

Passenger revenues. Under our fixed-fee flying contracts, we are directly-reimbursed for certain expenses from our major airline partners and we record such reimbursements as passenger revenue. The following table summarizes our passenger revenues less directly-reimbursed expenses that impacted the comparability of our passenger revenues for the periods indicated (dollar amounts in thousands).

| | For the three months ended March 31, | | | | |
|--|--------------------------------------|------------|-----------|----------|---|
| | 2016 | 2015 | \$ Change | % Change | |
| Passenger revenues | \$ 744,390 | \$ 742,498 | \$ 1,892 | 0.3 | % |
| Less: directly-reimbursed fuel from airline partners | 10,491 | 8,953 | 1,538 | 17.2 | % |
| Less: directly-reimbursed landing fee and station rent from airline partners | 2,439 | 5,753 | (3,314) | (57.6) | % |
| Less: directly-reimbursed engine maintenance from airline partners | 17,565 | 29,784 | (12,219) | (41.0) | % |
| Passenger revenue excluding directly-reimbursed fuel, landing fee, station rent and engine maintenance | \$ 713,895 | \$ 698,008 | \$ 15,887 | 2.3 | % |

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Passenger revenues (excluding fuel, landing fee, station rent and engine overhaul directly-reimbursed expenses from our major airline partners) increased \$15.9 million, or 2.3%, during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. The increase in passenger revenues (excluding fuel, landing fees, station rents and engine overhaul reimbursements) was primarily driven by 29 aircraft added to profitable flying arrangements, improved contract rates from certain existing flying contracts, increased flying under our pro-rate arrangements and additional contract performance incentives earned compared to the three months ended March 31, 2015. These improvements to revenue were significantly offset by the removal of 66 aircraft from unprofitable flying or less profitable flying arrangements that resulted in a net reduction in our fleet size and related production compared to the three months ended March 31, 2015.

Our passenger revenue attributed to our directly-reimbursed fuel expense, landing fee, station rent and engine overhaul expenses decreased by \$14.0 million, or 31.5%, during the three months ended March 31, 2016, from the three months ended March 31, 2015. This decrease in directly-reimbursed expenses was due primarily to a reduction in directly-reimbursed engine events and an increase in our major airline partners paying landing fee and station rents directly to third party vendors.

Ground handling and other. Total ground handling and other revenues decreased \$0.2 million, or 1.2%, during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. The decrease was primarily related to decreases in flight activity at locations that provide government subsidies.

Individual expense components attributable to our operations are expressed in the following table in total and on the basis of cents per available seat mile (“ASM”) (dollar amounts in thousands).

| | For the three months ended March 31, | | | | | 2016 Cents | 2015 Cents |
|---|--------------------------------------|------------|-------------|----------|---|------------|------------|
| | 2016 | 2015 | \$ Change | % Change | | Per ASM | Per ASM |
| | Amount | Amount | Amount | Percent | | | |
| Salaries, wages and benefits | \$ 305,557 | \$ 302,845 | \$ 2,712 | 0.9 | % | 3.6 | 3.5 |
| Aircraft maintenance, materials and repairs | 138,859 | 158,257 | (19,398) | (12.3) | % | 1.6 | 1.8 |
| Aircraft rentals | 67,124 | 70,412 | (3,288) | (4.7) | % | 0.8 | 0.8 |
| Depreciation and amortization | 67,801 | 65,691 | 2,110 | 3.2 | % | 0.8 | 0.8 |
| Aircraft fuel | 25,332 | 27,300 | (1,968) | (7.2) | % | 0.3 | 0.3 |
| Ground handling services | 20,984 | 23,973 | (2,989) | (12.5) | % | 0.2 | 0.3 |
| Other | 74,609 | 77,845 | (3,236) | (4.2) | % | 0.9 | 0.9 |
| Total operating expenses | \$ 700,266 | \$ 726,323 | \$ (26,057) | (3.6) | % | 8.2 | 8.4 |
| Interest expense | 17,725 | 18,465 | (740) | (4.0) | % | 0.2 | 0.2 |
| Total airline expenses | \$ 717,991 | \$ 744,788 | \$ (26,797) | (3.6) | % | 8.4 | 8.6 |

Salaries wages and employee benefits. Salaries, wages and employee benefits increased \$2.7 million, or 0.9%, during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. The increase in salaries, wages and employee benefits was primarily due to an increase in crew training costs for the anticipated E175 deliveries, higher crew compensation costs resulting from labor agreements executed since March 31, 2015, and an increase in employee benefit costs compared to the three months ended March 31, 2015, which was partially offset by the decrease in direct labor costs resulting from a net reduction in our fleet size and related level of departures and block hours.

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Aircraft maintenance, materials and repairs. Aircraft maintenance expense decreased \$19.4 million, or 12.3%, during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. The following table summarizes our aircraft maintenance, materials and repairs less the directly-reimbursed engine overhaul costs under our fixed-fee arrangements for the periods indicated (dollar amounts in thousands).

| | For the three months ended March 31, | | | | |
|--|--------------------------------------|------------|-------------|----------|---|
| | 2016 | 2015 | \$ Change | % Change | |
| Aircraft maintenance, materials and repairs | \$ 138,859 | \$ 158,257 | \$ (19,398) | (12.3) | % |
| Less: directly-reimbursed engine maintenance from airline partners | 17,565 | 29,784 | (12,219) | (41.0) | % |
| Aircraft maintenance, materials and repairs excluding directly-reimbursed engine maintenance from airline partners | \$ 121,294 | \$ 128,473 | \$ (7,179) | (5.6) | % |

Other aircraft maintenance, materials and repairs, excluding our directly-reimbursed engine overhaul costs, decreased \$7.2 million, or 5.6%, during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. The decrease in aircraft maintenance expense (excluding directly-reimbursed engine overhaul costs) was primarily due to a decrease in direct maintenance costs that corresponds with our net decrease in fleet size and block hour reduction of 5.8%.

Aircraft rentals. Aircraft rentals decreased \$3.3 million, or 4.7%, during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. The decrease in aircraft rentals was primarily due to a reduction of our fleet size that were financed through leases subsequent to March 31, 2015.

Depreciation and amortization. Depreciation and amortization expense increased \$2.1 million, or 3.2%, during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. The increase in depreciation and amortization expense was primarily due to the purchase of 19 E175 aircraft and spare engines subsequent to March 31, 2015, which was partially offset by the removal of owned aircraft during the same period.

Aircraft Fuel. Fuel costs decreased \$2.0 million, or 7.2%, during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. The following table summarizes our aircraft fuel expenses less directly-reimbursed fuel expense under our fixed-fee flying arrangements for the periods indicated (dollar amounts in thousands).

| For the three months ended March 31, | | | |
|--------------------------------------|------|-----------|----------|
| 2016 | 2015 | \$ Change | % Change |

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| | | | | | |
|---|-----------|-----------|------------|--------|---|
| Aircraft fuel expenses | \$ 25,332 | \$ 27,300 | \$ (1,968) | (7.2) | % |
| Less: directly-reimbursed fuel from airline partners | 10,491 | 8,953 | 1,538 | 17.2 | % |
| Aircraft fuel less directly-reimbursed fuel from airline partners | \$ 14,841 | \$ 18,347 | \$ (3,506) | (19.1) | % |

The decrease in fuel cost (less directly-reimbursed fuel) was primarily due to the decrease in our average fuel cost per gallon in 2016 compared to 2015, which was partially offset by an increase in the volume of gallons purchased. In the event one of our major airline partners purchases fuel directly from vendors on flights we operate pursuant to a fixed-fee arrangement, we do not incur the fuel expense. The increase in gallons we purchased was due to an increase in the number of pro-rate flights we operated and additional gallons we purchased under certain of our fixed-fee flying contracts. The average fuel cost per gallon was \$1.49 and \$2.23 for the three months ended March 31, 2016 and 2015, respectively. The following table summarizes the gallons of fuel we purchased directly from fuel vendors and our fuel expense, for the periods indicated:

| (in thousands) | For the three months ended | | | | |
|------------------------|----------------------------|-----------|----------|---|--|
| | March 31, | | | | |
| | 2016 | 2015 | % Change | | |
| Fuel gallons purchased | 17,032 | 12,241 | 39.1 | % | |
| Fuel expense | \$ 25,332 | \$ 27,300 | (7.2) | % | |

Ground handling service. Ground handling service expense decreased \$3.0 million, or 12.5%, during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. Ground handling service expense

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includes airport-related customer service costs, such as outsourced airport gate and ramp agent services, airport security fees and passenger interruption costs. The decrease in ground handling service expense was primarily due to a reduction in the number of departures at locations for which SkyWest Airlines provides ground handling services subsequent to March 31, 2015.

Other operating expenses. Other operating expenses, primarily consisting of property taxes, hull and liability insurance, landing fees, station rents, crew simulator training, crew per diem, and crew hotel costs, decreased \$3.2 million, or 4.2%, during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. This decrease was primarily due to the reduction in directly-reimbursed landing fee and station rent expense during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. Under our fixed-fee flying arrangements, landing fee and station rent expense are directly-reimbursed expenses. The following table summarizes our other operating expenses (less directly-reimbursed landing fees and station rents under our fixed-fee flying arrangements) for the periods indicated (dollar amounts in thousands).

| | For the three months ended March 31, | | | | |
|--|--------------------------------------|-----------|------------|----------|---|
| | 2016 | 2015 | \$ Change | % Change | |
| Other operating expenses | \$ 74,609 | \$ 77,845 | \$ (3,236) | (4.2) | % |
| Less: directly-reimbursed landing fee and station rent from airline partners | | | | | |