

SKYWEST INC
Form 10-Q
November 05, 2015
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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 September 30, 2015

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
(Do not check if a smaller reporting company)

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
Common stock, no par value

Outstanding at October 31, 2015
50,752,301

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SKYWEST, INC.

QUARTERLY REPORT ON FORM 10-Q

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(Dollars in Thousands)

ASSETS

| | September 30, 2015 (unaudited) | December 31, 2014 |
|--|--------------------------------------|----------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 126,744 | \$ 132,275 |
| Marketable securities | 429,806 | 415,273 |
| Restricted cash | 11,584 | 11,582 |
| Income tax receivable | 393 | 2,779 |
| Receivables, net | 64,702 | 83,099 |
| Inventories, net | 140,109 | 137,452 |
| Prepaid aircraft rents | 402,685 | 397,850 |
| Deferred tax assets | 148,054 | 94,385 |
| Other current assets | 34,308 | 16,308 |
| Total current assets | \$ 1,358,385 | \$ 1,291,003 |
| PROPERTY AND EQUIPMENT: | | |
| Aircraft and rotatable spares | 5,193,614 | 4,608,663 |
| Deposits on aircraft | 34,822 | 40,000 |
| Buildings and ground equipment | 273,102 | 274,900 |
| | \$ 5,501,538 | \$ 4,923,563 |
| Less-accumulated depreciation and amortization | (2,029,907) | (1,902,375) |
| Total property and equipment, net | \$ 3,471,631 | \$ 3,021,188 |
| OTHER ASSETS | | |
| Intangible assets, net | 11,061 | 12,748 |
| Other assets | 85,366 | 84,989 |
| Total other assets | \$ 96,427 | \$ 97,737 |
| Total assets | \$ 4,926,443 | \$ 4,409,928 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**SKYWEST, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Dollars in Thousands)

LIABILITIES AND STOCKHOLDERS EQUITY

| | September 30, 2015 (unaudited) | December 31, 2014 |
|--|---|------------------------------|
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt | \$ 264,852 | \$ 211,821 |
| Accounts payable | 265,807 | 270,097 |
| Accrued salaries, wages and benefits | 134,725 | 138,902 |
| Accrued aircraft rents | 2,495 | 3,303 |
| Taxes other than income taxes | 22,457 | 17,457 |
| Other current liabilities | 43,798 | 42,775 |
| Total current liabilities | \$ 734,134 | \$ 684,355 |
| OTHER LONG-TERM LIABILITIES | \$ 50,052 | \$ 49,625 |
| LONG-TERM DEBT, net of current maturities | \$ 1,842,855 | \$ 1,533,990 |
| DEFERRED INCOME TAXES PAYABLE | \$ 772,710 | \$ 669,385 |
| DEFERRED AIRCRAFT CREDITS | \$ 64,989 | \$ 72,227 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS EQUITY: | | |
| Preferred stock, 5,000,000 shares authorized; none issued | | |
| Common stock, no par value, 120,000,000 shares authorized; 78,705,286 and 77,951,411 shares issued, respectively | 635,217 | 626,521 |
| Retained earnings | 1,236,627 | 1,165,478 |
| Treasury stock, at cost, 28,015,386 and 26,765,386 shares, respectively | (410,090) | (391,364) |
| Accumulated other comprehensive (loss) | (51) | (289) |
| Total stockholders equity | \$ 1,461,703 | \$ 1,400,346 |
| Total liabilities and stockholders equity | \$ 4,926,443 | \$ 4,409,928 |

See accompanying notes to condensed consolidated financial statements.

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SKYWEST, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| OPERATING REVENUES: | | | | |
| Passenger | \$ 777,480 | \$ 815,867 | \$ 2,293,085 | \$ 2,372,054 |
| Ground handling and other | 16,524 | 18,766 | 49,734 | 51,538 |
| Total operating revenues | \$ 794,004 | \$ 834,633 | \$ 2,342,819 | \$ 2,423,592 |
| OPERATING EXPENSES: | | | | |
| Salaries, wages and benefits | \$ 304,633 | \$ 315,766 | \$ 906,051 | \$ 944,253 |
| Aircraft maintenance, materials and repairs | 147,396 | 159,920 | 461,972 | 509,905 |
| Aircraft rentals | 68,003 | 72,899 | 206,857 | 232,682 |
| Depreciation and amortization | 66,603 | 65,822 | 196,953 | 192,389 |
| Aircraft fuel | 31,762 | 49,177 | 90,254 | 154,420 |
| Ground handling services | 18,892 | 31,114 | 62,981 | 100,446 |
| Special charges | | | | 4,713 |
| Other operating expenses | 78,419 | 80,855 | 235,447 | 240,236 |
| Total operating expenses | \$ 715,708 | \$ 775,553 | \$ 2,160,515 | \$ 2,379,044 |
| OPERATING INCOME | \$ 78,296 | \$ 59,080 | \$ 182,304 | \$ 44,548 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest income | \$ 311 | \$ 2,549 | \$ 1,647 | \$ 3,608 |
| Interest expense | (19,914) | (16,883) | (56,460) | (48,697) |
| Other, net | 1,070 | 23,598 | 1,070 | 20,709 |
| Total other expense, net | \$ (18,533) | \$ 9,264 | \$ (53,743) | \$ (24,308) |
| INCOME BEFORE INCOME TAXES | \$ 59,763 | \$ 68,344 | \$ 128,561 | \$ 20,168 |
| PROVISION FOR INCOME TAXES | 23,495 | 27,006 | 51,198 | 16,455 |
| NET INCOME | \$ 36,268 | \$ 41,338 | \$ 77,363 | \$ 3,713 |
| BASIC EARNINGS PER SHARE | | | | |
| | \$ 0.72 | \$ 0.81 | \$ 1.51 | \$ 0.07 |
| DILUTED EARNINGS PER SHARE | | | | |
| | \$ 0.71 | \$ 0.79 | \$ 1.49 | \$ 0.07 |
| Weighted average common shares: | | | | |
| Basic | 50,616 | 51,322 | 51,143 | 51,324 |
| Diluted | 51,282 | 52,036 | 51,882 | 51,562 |
| Dividends declared per share | \$ 0.04 | \$ 0.04 | \$ 0.12 | \$ 0.12 |
| COMPREHENSIVE INCOME: | | | | |
| Net income | \$ 36,268 | \$ 41,338 | \$ 77,363 | \$ 3,713 |
| Proportionate share of other companies foreign currency translation adjustment, net of taxes | | (1,130) | | (1,130) |
| Net unrealized appreciation (depreciation) on marketable securities, net of taxes | 161 | (222) | 239 | (157) |
| TOTAL COMPREHENSIVE INCOME | \$ 36,429 | \$ 39,986 | \$ 77,602 | \$ 2,426 |

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See accompanying notes to condensed consolidated financial statements

Table of Contents**SKYWEST, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

(In Thousands)

| | Nine Months Ended September 30 | |
|--|---|---------------------|
| | 2015 | 2014 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 313,540 | \$ 186,369 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of marketable securities | \$ (864,241) | \$ (198,690) |
| Sales of marketable securities | 849,942 | 293,056 |
| Proceeds from the sale of equipment | 5,771 | 3,468 |
| Proceeds received from sale of Trip Linhas Aereas S.A. stock | | 17,237 |
| Acquisition of property and equipment: | | |
| Aircraft and rotatable spare parts | (647,250) | (479,451) |
| Buildings and ground equipment | (7,443) | (16,017) |
| Return of deposits on aircraft | 5,178 | |
| Increase in other assets | (2,713) | (12,218) |
| NET CASH USED IN INVESTING ACTIVITIES | \$ (660,756) | \$ (392,615) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of long-term debt | \$ 546,232 | \$ 323,665 |
| Principal payments on long-term debt | (184,336) | (124,660) |
| Tax deficiency from exercise of common stock options | (2,093) | (1,245) |
| Net proceeds from issuance of common stock | 6,791 | 3,831 |
| Purchase of treasury stock | (18,726) | (8,414) |
| Payment of cash dividends | (6,183) | (6,174) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | \$ 341,685 | \$ 187,003 |
| Decrease in cash and cash equivalents | \$ (5,531) | \$ (19,243) |
| Cash and cash equivalents at beginning of period | 132,275 | 170,636 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 126,744 | \$ 151,393 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for: | | |
| Interest, net of capitalized amounts | \$ 56,117 | \$ 46,757 |
| Income taxes | \$ 1,494 | \$ 485 |

See accompanying notes to condensed consolidated financial statements.

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SKYWEST, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note A 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, 2014. The results of operations for the three and nine-month periods ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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.

Note B 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 Airlines 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. 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.

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Under the Company's revenue-sharing arrangements (referred to as revenue-sharing or pro-rate arrangements), the major airline and the Company negotiate a passenger fare proration formula when a passenger has a connecting flight operated by both the Company and the major airline partner, pursuant to which the Company receives a percentage of the ticket revenues for those passengers traveling for the portion of their trip operated by the Company, and the major airline retains the ticket revenues for the other portion of the passengers' trips 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.

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 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.

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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.

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

Delta Connection Agreements

| Agreement | Number of aircraft under respective agreement | Term / Termination Dates |
|---|--|--|
| SkyWest Airlines Delta Connection Agreement (fixed-fee arrangement) | <ul style="list-style-type: none"> • CRJ 200 48 • CRJ 700 19 • CRJ 900 36 | <ul style="list-style-type: none"> • The contract expires on an individual aircraft basis with expirations that commenced in 2015 • The final aircraft expires in 2022 • Upon expiration, aircraft may be renewed or extended |
| ExpressJet Delta Connection Agreement (fixed-fee arrangement) | <ul style="list-style-type: none"> • CRJ 200 44 • CRJ 700 41 • CRJ 900 28 | <ul style="list-style-type: none"> • The contract expires on an individual aircraft basis with expirations that commenced in 2015 • The final aircraft expires in 2022 • Upon expiration, aircraft may be renewed or extended |
| SkyWest Airlines Delta Connection Pro-rate Agreement (revenue-sharing arrangement) | <ul style="list-style-type: none"> • CRJ 200 14 | <ul style="list-style-type: none"> • Terminates with 30-day notice |

United Express Agreements

| Agreement | Number of aircraft under respective agreement | Term / Termination Dates |
|---|---|--|
| SkyWest Airlines United Express Agreements (fixed-fee arrangement) | <ul style="list-style-type: none"> • CRJ 200 50 • CRJ 700 70 • E175 40 | <ul style="list-style-type: none"> • The contract expires on an individual aircraft basis with expirations that commenced in 2015 • The final aircraft expires in 2026 |

- Upon expiration, aircraft may be renewed or extended

| | | |
|--|--|--|
| ExpressJet United ERJ Agreement (fixed-fee arrangement) | <ul style="list-style-type: none"> • ERJ 135 5 • ERJ 145 169 | <ul style="list-style-type: none"> • The contract expires on an individual aircraft basis with expirations that commenced in 2015 • The final aircraft expires in 2017 • Upon expiration, aircraft may be renewed or extended |
|--|--|--|

| | | |
|---|--|--|
| SkyWest Airlines United Express Pro-rate Agreement (revenue-sharing arrangement) | <ul style="list-style-type: none"> • CRJ 200 26 | <ul style="list-style-type: none"> • Terminates with 120-day notice |
|---|--|--|

Alaska Capacity Purchase Agreement

| Agreement | Number of aircraft under respective agreement | Term / Termination Dates |
|--|---|---|
| SkyWest Airlines Alaska Agreement (fixed-fee arrangement) | <ul style="list-style-type: none"> • CRJ 700 9 • E175 3 | <ul style="list-style-type: none"> • CRJ 700 portion terminates 2016 • E175 portion terminates 2027 • Upon expiration, aircraft may be renewed or extended |

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| Agreement | Number of aircraft under respective agreement | Term / Termination Dates |
|---|---|---|
| SkyWest Airlines American Agreement Previously under the US Airways Agreement (fixed-fee arrangement) | • CRJ 200 6 | • Terminates by the end of 2015 • Upon expiration, aircraft may be renewed or extended |
| SkyWest Airlines American Agreement Previously under the US Airways Pro-rate Agreement (revenue-sharing arrangement) | • CRJ 200 1 | • Terminated October 2015 |
| SkyWest Airlines American Agreement (fixed-fee arrangement) | • CRJ 200 12 | • Terminates 2016 • Upon expiration, aircraft may be renewed or extended |
| SkyWest Airlines American Pro-rate Agreement (revenue-sharing arrangement) | • CRJ 200 5 | • Terminates with 120- day notice |
| ExpressJet American Agreement (fixed-fee arrangement) | • CRJ 200 12 • ERJ 145 16 | • Terminates 2017 • Upon expiration, aircraft may be renewed or extended |
| ExpressJet American Pro-rate Agreement (revenue-sharing arrangement) | • CRJ 200 2 | • Terminates with 120- day notice |

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 jet (E175) aircraft into service for those major partners. In June 2015, SkyWest Airlines reached an agreement with Alaska to place eight additional E175 aircraft into service pursuant to the SkyWest Airlines Alaska Agreement. The Company anticipates that those eight E175 aircraft, when added to the three E175 aircraft in service for Alaska and four additional E175 aircraft that Alaska has agreed to place into service under the SkyWest Airlines Alaska Agreement, will result in a total of 15 E175 aircraft under contract with Alaska. In September 2015, SkyWest Airlines reached an agreement with United to place 18 additional E175 aircraft into service pursuant to the SkyWest Airlines United Express Agreement, which the Company believes will result in a total of 58 E175 aircraft under contract with United. In October 2015, SkyWest Airlines reached an agreement with Delta to place 19 new E175 aircraft into service pursuant to the SkyWest Airlines Delta Connection Agreement. Under the agreement, the Company anticipates that delivery of the E175 aircraft to be flown for Delta will begin in August 2016, with all 19 aircraft being delivered by mid-2017.

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 C 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 nine months ended September 30, 2015, the Company granted options to purchase 266,304 shares of common stock under the SkyWest, Inc. 2010 Long-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 nine months ended September 30, 2015.

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| | | |
|--|----|-------|
| Expected annual dividend rate | | 1.18% |
| Risk-free interest rate | | 1.62% |
| Average expected life (years) | | 5.7 |
| Expected volatility of common stock | | 0.401 |
| Forfeiture rate | | 0.0% |
| Weighted average fair value of option grants | \$ | 4.75 |

During the nine months ended September 30, 2015, the Company granted 36,950 fully-vested shares of common stock to the Company's directors. Additionally, during the nine months ended September 30, 2015, the Company granted 407,042 restricted stock units and 224,869 performance restricted stock units to employees of the Company and its subsidiaries under the 2010 Incentive Plan. Both the restricted stock and performance restricted 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 performance restricted stock units. Upon vesting, a restricted stock unit and a performance restricted stock unit will be replaced with a share of common stock. The fair value of the restricted stock units on the date of grant was \$13.51 per share.

The Company records share-based compensation expense only for those options and restricted and performance restricted stock units that are expected to vest. The estimated fair value of the stock options and restricted stock units is amortized over the applicable vesting periods. During the three months ended September 30, 2015 and 2014, the Company recorded pre-tax share-based compensation expense of \$1.1 million and \$0.9 million, respectively. During the nine months ended September 30, 2015 and 2014, the Company recorded pre-tax share-based compensation expense of \$4.0 million and \$3.7 million, respectively.

The Company repurchased 1.25 million shares of its common stock for \$18.7 million during the nine months ended September 30, 2015. The Company repurchased 670,000 shares of its common stock for \$8.4 million during the nine months ended September 30, 2014.

Note D Net Income (Loss) 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 and nine months ended September 30, 2015, options to acquire no shares and 672,871 shares, respectively, were excluded from the computation of Diluted EPS as their impact was anti-dilutive. During the three and nine months ended September 30, 2014, options to acquire 2,942,000 and 3,055,000 shares, respectively, were excluded from the computation of Diluted EPS as their impact was anti-dilutive.

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

| Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------------|------|---------------------------------|------|
| 2015 | 2014 | 2015 | 2014 |
| (Unaudited) | | (Unaudited) | |

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| Numerator | | | | | |
|---|----|--------|----|--------|--------------------|
| Net Income | \$ | 36,268 | \$ | 41,338 | \$ 77,363 \$ 3,713 |
| Denominator | | | | | |
| Weighted average number of common shares outstanding | | 50,616 | | 51,322 | 51,143 51,324 |
| Effect of outstanding share-based awards | | 666 | | 714 | 739 238 |
| Weighted average number of shares for diluted net income per common share | | 51,282 | | 52,036 | 51,882 51,562 |
| Basic earnings per share | \$ | 0.72 | \$ | 0.81 | \$ 1.51 \$ 0.07 |
| Diluted earnings per share | \$ | 0.71 | \$ | 0.79 | \$ 1.49 \$ 0.07 |

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Consistent with generally accepted accounting principles, the Company reports its operating results in two segments, based upon the operations of its two operating subsidiaries, SkyWest Airlines and ExpressJet. The following represents the Company's segment data for the three-month periods ended September 30, 2015 and 2014 (in thousands).

| | Three months ended September 30, 2015 | | | |
|---|---------------------------------------|------------|------------------------------|--------------|
| | SkyWest Airlines | ExpressJet | Corporate / Consolidating | Consolidated |
| Operating revenues | \$ 504,531 | \$ 283,034 | \$ 6,439 | \$ 794,004 |
| Operating expense | 428,116 | 286,941 | 651 | 715,708 |
| Depreciation and amortization expense | 44,766 | 21,575 | 262 | 66,603 |
| Interest expense | 17,048 | 2,866 | | 19,914 |
| Segment profit (loss)(1) | 59,367 | (6,773) | 5,788 | 58,382 |
| Identifiable intangible assets, other than goodwill | | 11,061 | | 11,061 |
| Total assets | 3,523,549 | 1,402,894 | | 4,926,443 |
| Capital expenditures (including non-cash) | 144,367 | 5,137 | | 149,504 |

| | Three months ended September 30, 2014 | | | |
|---|---------------------------------------|------------|------------------------------|--------------|
| | SkyWest Airlines | ExpressJet | Corporate / Consolidating | Consolidated |
| Operating revenues | \$ 493,606 | \$ 340,553 | \$ 474 | \$ 834,633 |
| Operating expense | 430,024 | 345,606 | (77) | 775,553 |
| Depreciation and amortization expense | 43,853 | 21,969 | | 65,822 |
| Interest expense | 11,492 | 4,692 | 699 | 16,883 |
| Segment profit (loss)(1) | 52,090 | (9,745) | (148) | 42,197 |
| Identifiable intangible assets, other than goodwill | | 13,311 | | 13,311 |
| Total assets | 2,825,243 | 1,572,389 | | 4,397,632 |
| Capital expenditures (including non-cash) | 186,678 | 6,152 | | 192,830 |

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

The following represents the Company's segment data for the nine-month periods ended September 30, 2015 and 2014 (in thousands).

| | Nine months ended September 30, 2015 | | | |
|---------------------------------------|--------------------------------------|------------|------------------------------|--------------|
| | SkyWest Airlines | ExpressJet | Corporate / Consolidating | Consolidated |
| Operating revenues | \$ 1,430,722 | \$ 896,683 | \$ 15,414 | \$ 2,342,819 |
| Operating expense | 1,246,378 | 911,782 | 2,355 | 2,160,515 |
| Depreciation and amortization expense | 131,249 | 64,917 | 787 | 196,953 |
| Interest expense | 46,515 | 9,945 | | 56,460 |
| Segment profit (loss)(1) | 137,829 | (25,044) | 13,059 | 125,844 |
| | | 11,061 | | 11,061 |

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Identifiable intangible assets, excluding goodwill

| | | | |
|---|-----------|-----------|-----------|
| Total assets | 3,523,549 | 1,402,894 | 4,926,443 |
| Capital expenditures (including non-cash) | 652,714 | 19,860 | 672,574 |

| | Nine months ended September 30, 2014 | | | |
|---|--------------------------------------|--------------|------------------------------|--------------|
| | SkyWest Airlines | ExpressJet | Corporate / Consolidating | Consolidated |
| Operating revenues | \$ 1,416,149 | \$ 1,006,021 | \$ 1,422 | \$ 2,423,592 |
| Operating expense | 1,289,218 | 1,089,923 | (97) | 2,379,044 |
| Depreciation and amortization expense | 125,811 | 66,578 | | 192,389 |
| Interest expense | 32,180 | 14,309 | 2,208 | 48,697 |
| Segment profit (loss)(1) | 94,751 | (98,211) | (689) | (4,149) |
| Identifiable intangible assets, other than goodwill | | 13,311 | | 13,311 |
| Total assets | 2,825,243 | 1,572,389 | | 4,397,632 |
| Capital expenditures (including non-cash) | 487,711 | 18,653 | | 506,364 |

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

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As of September 30, 2015, the Company leased aircraft, as well as airport facilities, office space, and various other property and equipment under non-cancelable operating leases which are generally on a long-term net rent 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 in excess of one year as of September 30, 2015 (in thousands):

| | | |
|-------------------------------|----|-----------|
| October through December 2015 | \$ | 93,236 |
| 2016 | | 267,353 |
| 2017 | | 191,506 |
| 2018 | | 153,042 |
| 2019 | | 120,072 |
| Thereafter | | 472,800 |
| | \$ | 1,298,009 |

During the three months ended September 30, 2015, the Company took delivery of five E175 aircraft and financed the aircraft through the issuance of \$113.7 million of long-term debt. During the nine months ended September 30, 2015, the Company took delivery of 23 E175s and financed the aircraft through the issuance of \$521.2 million of long-term debt. The debt associated with the E175 aircraft delivered during the nine months ended September 30, 2015 has a twelve-year term with a fixed annual interest rate ranging from 3.4% to 4.0% and is secured by the 23 E175 aircraft.

As of September 30, 2015 and December 31, 2014, the Company had accrued future lease obligations of \$1.5 million and \$3.8 million, respectively, associated with Embraer Brasilia EMB120 aircraft (EMB120s) removed from service. The lease payments for the EMB120s are scheduled to continue through June 2016.

As of September 30, 2015, the Company had a firm purchase commitment for 49 E175 aircraft with scheduled delivery dates from October 2015 to mid-2017.

During the nine months ended September 30, 2015, the Company borrowed \$25 million from a bank. The debt has a four year term with a fixed annual interest rate of 3.3% with monthly payments and is secured by spare engines.

Note G 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:

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| | |
|----------------|---|
| <i>Level 1</i> | Quoted prices in active markets for identical assets or liabilities. |
| <i>Level 2</i> | 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. |
| <i>Level 3</i> | 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. |

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As of September 30, 2015 and December 31, 2014, 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):

| | Total | Fair Value Measurements as of September 30, 2015 | | |
|---|------------|--|------------|----------|
| | | Level 1 | Level 2 | Level 3 |
| Marketable Securities | | | | |
| Bonds and bond funds | \$ 429,756 | \$ | \$ 429,756 | \$ |
| Asset backed securities | 50 | | 50 | |
| | \$ 429,806 | | \$ 429,806 | |
| Cash, Cash Equivalents and Restricted Cash | | | | |
| | 138,328 | 138,328 | | |
| Other Assets | 2,313(a) | | | 2,313 |
| Total Assets Measured at Fair Value | \$ 570,447 | \$ 138,328 | \$ 429,806 | \$ 2,313 |

| | Total | Fair Value Measurements as of December 31, 2014 | | |
|---|------------|---|------------|----------|
| | | Level 1 | Level 2 | Level 3 |
| Marketable Securities | | | | |
| Bonds and bond funds | \$ 410,163 | \$ | \$ 410,163 | \$ |
| Asset backed securities | 5,110 | | 5,110 | |
| | \$ 415,273 | | \$ 415,273 | |
| Cash, Cash Equivalents and Restricted Cash | | | | |
| | 143,857 | 143,857 | | |
| Other Assets | 2,309(a) | | | 2,309 |
| Total Assets Measured at Fair Value | \$ 561,439 | \$ 143,857 | \$ 415,273 | \$ 2,309 |

(a) Comprised of auction rate securities which are reflected in 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 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 nine months ended September 30, 2015. 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 September 30, 2015 and December 31, 2014, the Company classified \$429.8 million and \$415.3 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

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September 30, 2015 and December 31, 2014, 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 amortized discounts, recorded as other assets) was \$556.5 million and \$548.0 million, respectively. As of September 30, 2015 and December 31, 2014, 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 \$556.6 million and \$547.5 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 September 30, 2015 (in thousands):

Table of Contents**Fair Value Measurements Using Significant Unobservable Inputs****(Level 3)**

| | Auction Rate Securities |
|---|------------------------------------|
| Balance at January 1, 2015 | \$ 2,309 |
| Total realized and unrealized gains or (losses) | |
| Included in earnings | |
| Included in other comprehensive income | 4 |
| Transferred out | |
| Settlements | |
| Balance at September 30, 2015 | \$ 2,313 |

The fair value of the Company's long-term debt classified as Level 2 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 \$2,129.6 million as of September 30, 2015, as compared to the carrying amount of \$2,107.7 million as of September 30, 2015. The fair value of the Company's long-term debt is estimated based on current rates offered to the Company for similar debt and approximated \$1,813.1 million as of December 31, 2014, as compared to the carrying amount of \$1,745.8 million as of December 31, 2014.

Note H Income Taxes

The Company's estimated annual effective tax rate for the three and nine months ended September 30, 2015 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 I Legal Matters

The Company is subject to certain legal actions which it considers routine to its business activities. As of September 30, 2015, 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.

Note J Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU No. 2015-03). In August 2015, ASU No. 2015-03 was amended to modify existing guidance to

require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of as a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. The Company anticipates reclassifying the unamortized debt issuance costs and present debt net of those unamortized costs on its balance sheet upon adoption of ASU No. 2015-03.

In May 2014, 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 to January 1, 2018. The FASB also proposed permitting early adoption of the standard, 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 the impact the adoption of ASU No. 2014-09 is anticipated to have on the Company's consolidated financial statements.

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 and nine-month periods ended September 30, 2015 and 2014. Also discussed is our financial position as of September 30, 2015 and December 31, 2014. You should read this discussion in conjunction with our condensed consolidated financial statements for the three and nine months ended September 30, 2015, including the notes thereto,

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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 the 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, hope, likely, and 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

Through SkyWest Airlines and ExpressJet, we operate the largest regional airline in the United States. As of September 30, 2015, SkyWest Airlines and ExpressJet offered scheduled passenger service with approximately 3,500 total daily departures to destinations in the United States, Canada, Mexico and the Caribbean. As of September 30, 2015, SkyWest Airlines and ExpressJet had a total fleet of 715 aircraft, of which 656 were in scheduled service, summarized as follows:

| | CRJ200 | ERJ145 | ERJ135 | CRJ700 | CRJ900 | E175 | EMB120 | Total |
|--------------------------------------|--------|--------|--------|--------|--------|------|--------|-------|
| United | 76 | 169 | 5 | 70 | | 40 | | 360 |
| Delta | 106 | | | 60 | 64 | | | 230 |
| American | 38 | 16 | | | | | | 54 |
| Alaska | | | | 9 | | 3 | | 12 |
| Aircraft in scheduled service | 220 | 185 | 5 | 139 | 64 | 43 | | 656 |
| Subleased to an un-affiliated entity | 2 | | | | | | | 2 |
| Unassigned (a) | 20 | 3 | 4 | | | | 30 | 57 |
| Total | 242 | 188 | 9 | 139 | 64 | 43 | 30 | 715 |

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(a) As of September 30, 2015, these aircraft have been removed from service and are in the process for lease returns or are transitioning between flying code -share agreements with our major airline partners.

For the nine months ended September 30, 2015, approximately 57.6% of our aggregate capacity was operated for United, approximately 33.1% was operated for Delta, approximately 4.8% was operated for American, approximately 2.7% was operated for Alaska and approximately 1.8% was operated for US Airways.

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 nine months ended September 30, 2015, 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.

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Third Quarter Summary

We had total operating revenues of \$794 million for the three months ended September 30, 2015, a 4.9% decrease, compared to total operating revenues of \$834.6 million for the three months ended September 30, 2014. We had net income of \$36.3 million, or \$0.71 per diluted share, for the three months ended September 30, 2015, compared to a net income of \$41.3 million or \$0.79 per diluted share, for the three months ended September 30, 2014.

The significant items affecting our financial performance during the three months ended September 30, 2015 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, during the three months ended June 30, 2015, we completed the removal of all EMB120 turboprop aircraft from our scheduled service. We anticipate our fleet transition will result in net decreases in our total fleet size, block hour production, and total revenue in quarterly year-over-year comparisons at least through 2015. Our objective in the fleet transition is to improve our profitability through the additional new dual class aircraft, including the E175 aircraft, placed into service, while removing aircraft from service that have been operating under less profitable fixed-fee flying contracts.

The reduction in our fleet size and the related reduction in our block hour production were the primary drivers for the reduction in our total revenues of \$40.6 million for the three months ended September 30, 2015 compared to the three months ended September 30, 2014. However, the revenue reduction was partially offset by revenue improvements of approximately \$31 million from our additional E175 operations, improved contract rates from flying contract renewals and extensions, achieving higher operating performance incentives, and earning approximately \$4 million from higher flight completion rates.

Operating Income and Operating Expenses

Our operating income increased \$19.2 million for the three months ended September 30, 2015 compared to the three months ended September 30, 2014. The increase in our operating income was primarily due to placement of 29 E175 aircraft into service subsequent to September 30, 2014, higher operational performance incentives earned under our flying contracts and rate increases we received under new and extended flying contracts subsequent to September 30, 2014. Our total operating expenses decreased \$59.8 million for the three months ended September 30, 2015 compared to the three months ended September 30, 2014. This decrease was primarily due to the reduction in our fleet size and a reduction in the related number of departures and completed block hours and improved operating efficiencies, for the comparable period. 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 December 31, 2014, March 31, 2015, June 30, 2015 and September 30, 2015:

| Aircraft in Service | December 31, 2014 | March 31, 2015 | June 30, 2015 | September 30, 2015 |
|----------------------------|--------------------------|-----------------------|----------------------|---------------------------|
| CRJ200s | 242 | 234 | 234 | 220 |
| CRJ700s | 139 | 139 | 139 | 139 |
| CRJ900s | 64 | 64 | 64 | 64 |
| ERJ145/135s | 225 | 215 | 201 | 190 |
| E175s | 20 | 29 | 38 | 43 |
| EMB120s | 27 | 12 | | |
| Total | 717 | 693 | 676 | 656 |

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Our fleet activity during the nine months ended September 30, 2015 is summarized as follows:

- SkyWest Airlines placed 20 E175 aircraft into service with United
- SkyWest Airlines placed three E175 aircraft into service with Alaska
- SkyWest Airlines placed five used CRJ200 aircraft into service with Delta (aircraft are leased from Delta)
- ExpressJet placed 16 used ERJ145 aircraft into service with American (aircraft are leased from American)
- SkyWest Airlines removed 27 EMB120 aircraft from service with multiple partners
- ExpressJet removed 51 ERJ145/135 aircraft from service with United
- SkyWest Airlines and ExpressJet removed 27 CRJ200 aircraft from service previously operated with multiple partners.

Anticipated significant fleet changes for the period between September 30, 2015 and December 31, 2015 are summarized as follows:

- SkyWest Airlines is scheduled to take delivery of two E175 aircraft for Alaska between October 2015 and December 2015.
- ExpressJet is scheduled to remove three ERJ145/ERJ135 aircraft from service with United reducing its ERJ145s/ERJ135s fleet with United to a total of 171 aircraft by December 31, 2015.
- ExpressJet is scheduled to remove three CRJ200 aircraft from service with Delta by December 31, 2015.

Critical Accounting Policies

Our significant accounting policies are summarized in Note 1 to our consolidated financial statements for the year ended December 31, 2014, which are presented in our Annual Report on Form 10-K for the year ended December 31, 2014. 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 intangibles, stock-based compensation expense and fair value. 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 to the same periods. Over the past few years, some of our major airline partners have paid for fuel, landing fees and station rents directly to vendors on flights we operated under our fixed-fee arrangements, which has decreased both revenue and operating expenses as compared to previous periods presented in this Report.

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*). Under our Fixed-Rate Engine Contracts, the timing and amount of our engine overhaul expenses may impact the comparability of our operating expenses and operating income as compared to previous periods presented in this Report.

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 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.

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We used the deferral method of accounting for our EMB120 engine overhauls, which provides for engine overhaul costs to be capitalized and depreciated to the next estimated overhaul event or to the remaining useful life. We ceased operating the EMB120 aircraft as of June 30, 2015.

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 / 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 |
| US Airways Agreement (CRJ200 / CRJ900) | Fixed-Rate Engine Contracts | Direct Expense Method |

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU No. 2015-03). In August 2015, ASU No. 2015-03 was amended to modify existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of as a deferred charge. ASU No. 2015-03 is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. We anticipate reclassifying the unamortized debt issuance costs and present debt net of those unamortized costs on our balance sheet upon adoption of ASU No. 2015-03.

In May 2014, 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 to January 2, 2018. The FASB also proposed permitting early adoption of the standard, 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 the impact the adoption of ASU No. 2014-09 is anticipated to have on our consolidated financial statements.

Results of Operations**Three Months Ended September 30, 2015 and 2014**

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

| | For the three months ended September 30, | | |
|---|--|------------|----------|
| | 2015 | 2014 | % Change |
| Revenue passenger miles (000) | 7,753,692 | 8,342,394 | (7.1)% |
| Available seat miles (ASMs) (000) | 9,265,717 | 10,037,729 | (7.7)% |
| Block hours | 526,217 | 590,534 | (10.9)% |
| Departures | 314,745 | 355,273 | (11.4)% |
| Passengers carried | 14,757,355 | 15,630,168 | (5.6)% |
| Passenger load factor | 83.7% | 83.1% | 0.60Pts |
| Revenue per available seat mile | 8.6¢ | 8.3¢ | 3.6% |
| Cost per available seat mile | 7.9¢ | 7.9¢ | 0% |
| Cost per available seat mile excluding fuel | 7.6¢ | 7.4¢ | 2.7% |
| Fuel cost per available seat mile | 0.3¢ | 0.5¢ | (40.0)% |
| Average passenger trip length (miles) | 525 | 534 | (1.7)% |

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Revenues. Total operating revenues decreased \$40.6 million, or 4.9%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014, primarily due to the reduction in our fleet size and the related reduction in our block hour production. 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 price and volume volatility of directly-reimbursed expenses may impact the comparability of revenue to previous periods without impacting the comparability of our operating income to the same periods. The following table summarizes our passenger revenues less certain directly-reimbursed expenses that may impact the comparability for the periods indicated (dollar amounts in thousands).

| | For the three months ended September 30, | | | |
|--|--|------------|-----------|----------|
| | 2015 | 2014 | \$ Change | % Change |
| Passenger revenues | \$ 777,480 | \$ 815,867 | (38,387) | (4.7)% |
| Less: Fuel reimbursement from major airline partners | 12,065 | 16,666 | (4,601) | (27.6)% |
| Less: Landing fee and station rent reimbursements from major airline partners | 5,152 | 4,699 | 453 | 9.6% |
| Less: Engine overhaul reimbursement from major airline partners | 17,840 | 31,470 | (13,630) | (43.3)% |
| Passenger revenue excluding fuel, landing fee, station rent and engine overhaul reimbursements | \$ 742,423 | \$ 763,032 | (20,609) | (2.7)% |

Passenger revenues (excluding fuel, landing fee, station rent and engine overhaul directly-reimbursed expenses from our major airline partners) decreased \$20.6 million, or 2.7%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The decrease in passenger revenues (excluding fuel, landing fees, station rents and engine overhaul reimbursements) was primarily related to a revenue decrease from the reduced fleet size, including a 10.9% reduction in block hours. However, the reduction in revenue from a reduced fleet size was partially offset by approximately \$31 million from the additional E175 operations, improved contract rates from flying contract renewals and extensions, higher operating performance incentives earned under our fixed-fee arrangements, and approximately \$4 million earned from higher flight completion rates.

Our directly-reimbursed fuel expense, landing fee, station rent and engine overhaul expenses decreased by \$17.8 million, or 33.7%, during the three months ended September 30, 2015, from the three months ended September 30, 2014, due primarily to our major airline partners paying for such expenses directly to third party vendors, a reduction in the fuel costs per gallon and a reduction in directly-reimbursed engine events.

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Ground handling and other. Total ground handling and other revenues decreased \$2.2 million, or 11.9%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. 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 ASM. (dollar amounts in thousands).

| | For the three months ended September 30, | | | | 2015 | 2014 |
|---|--|------------|-----------|----------|-----------|-----------|
| | 2015 | 2014 | \$ Change | % Change | Cents Per | Cents Per |
| | Amount | Amount | Amount | Percent | ASM | ASM |
| Salaries, wages and benefits | \$ 304,633 | \$ 315,766 | (11,133) | (3.5)% | 3.3 | 3.1 |
| Aircraft maintenance, materials and repairs | 147,396 | 159,920 | (12,524) | (7.8)% | 1.6 | 1.6 |
| Aircraft rentals | 68,003 | 72,899 | (4,896) | (6.7)% | 0.7 | 0.7 |
| Depreciation and amortization | 66,603 | 65,822 | 781 | 1.2% | 0.7 | 0.7 |
| Aircraft fuel | 31,762 | 49,177 | (17,415) | (35.4)% | 0.3 | 0.5 |
| Ground handling services | 18,892 | 31,114 | (12,222) | (39.3)% | 0.2 | 0.3 |
| Other operating expenses | 78,419 | 80,855 | (2,436) | (3.0)% | 0.8 | 0.8 |
| Total operating expenses | \$ 715,708 | \$ 775,553 | (59,845) | (7.7)% | 7.6 | 7.7 |
| Interest | 19,914 | 16,883 | 3,031 | 18.0% | 0.2 | 0.2 |
| Total airline expenses | \$ 735,622 | \$ 792,436 | (56,814) | (7.2)% | 7.8 | 7.9 |

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Salaries wages and employee benefits. Salaries, wages and employee benefits decreased \$11.1 million, or 3.5%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The decrease in salaries, wages and employee benefits was primarily due to the decrease in our fleet size and related level of departures and block hours compared to the three months ended September 30, 2014, which was partially offset by additional training costs for the E175 aircraft deliveries.

Aircraft maintenance, materials and repairs. Aircraft maintenance expense decreased \$12.5 million, or 7.8%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. Under our Directly-Reimbursed Engine Contracts, we are reimbursed for engine overhaul costs by our applicable major partner at the time the maintenance event occurs. Such reimbursements are reflected as passenger revenue in the same amount and during the same period we recognized the expense in our consolidated statements of comprehensive income. 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 September 30, | | | |
|---|--|------------|-------------|----------|
| | 2015 | 2014 | \$ Change | % Change |
| Aircraft maintenance, materials and repairs | \$ 147,396 | \$ 159,920 | \$ (12,524) | (7.8)% |
| Less: Directly-reimbursed engine overhaul costs from major airline partners | 17,840 | 31,470 | (13,630) | (43.3)% |
| Aircraft maintenance, materials and repairs excluding directly-reimbursed engine overhaul costs from major airline partners | \$ 129,556 | \$ 128,450 | \$ 1,106 | 0.9% |

Other aircraft maintenance, materials and repairs, excluding our directly-reimbursed engine overhaul costs, increased \$1.1 million, or 0.9%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The increase in aircraft maintenance expense (excluding directly-reimbursed engine overhaul costs) was primarily due to an increase in airframe inspection costs and the related maintenance labor associated with those maintenance activities and an increase in power-by-the-hour costs associated with additional E175 aircraft.

Aircraft rentals. Aircraft rentals decreased \$4.9 million, or 6.7%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The decrease in aircraft rentals was primarily due to a reduction of our fleet size subsequent to September 30, 2014 that were financed through leases.

Depreciation and amortization. Depreciation and amortization expense increased \$0.8 million, or 1.2%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The increase in depreciation and amortization expense was primarily due to the purchase of 29 E175 aircraft and spare engines subsequent to September 30, 2014, which was partially offset by the removal of owned aircraft during the same period.

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Aircraft Fuel. Fuel costs decreased \$17.4 million, or 35.4%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. Under our fixed-fee flying arrangements, fuel is a directly-reimbursed expense. 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 September 30, | | | |
|---|--|-----------|-------------|----------|
| | 2015 | 2014 | \$ Change | % Change |
| Aircraft fuel expenses | \$ 31,762 | \$ 49,177 | \$ (17,415) | (35.4)% |
| Less: Directly-reimbursed fuel from major airline partners | 12,065 | 16,666 | (4,601) | (27.6)% |
| Aircraft fuel less fuel reimbursement from major airline partners | \$ 19,697 | \$ 32,511 | \$ (12,814) | (39.4)% |

The decrease in fuel cost was primarily due to the decrease in our average fuel cost per gallon in 2015 compared to 2014, 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 average fuel cost per gallon was \$2.02 and \$3.42 for the three months ended September 30, 2015 and 2014, 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, except per gallon amounts) | For the three months ended September 30, | | |
|---|--|------------|----------|
| | 2015 | 2014 | % Change |
| Fuel gallons purchased | 15,739,115 | 14,370,097 | 9.5% |
| Fuel expense | \$ 31,762 | \$ 49,177 | (35.4)% |

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Ground handling service. Ground handling service expense decreased \$12.2 million, or 39.3%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. Ground handling service expense includes airport -related customer service costs, such as outsourced airport agent services, airport ramp services, airport security fees and passenger interruption costs. The decrease in ground handling service expense was primarily due to a reduction in the volume of departures at locations for which SkyWest Airlines provides ground handling services subsequent to September 30, 2014.

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 \$2.4 million, or 3.0%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. 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 September 30, | | | |
|---|--|-----------|------------|----------|
| | 2015 | 2014 | \$ Change | % Change |
| Other operating expenses | \$ 78,419 | \$ 80,855 | \$ (2,436) | (3.0)% |
| Less: Landing fee and station rent reimbursements from major airline partners | 5,152 | 4,699 | 453 | 9.6% |
| Other operating expenses less landing fee and station rent reimbursements from major airline partners | \$ 73,267 | \$ 76,156 | \$ (2,889) | (3.8)% |

The decrease in other operating expense (less directly-reimbursed landing fees and station rents, expenses) was primarily related to a reduction in crew hotel costs and crew per diems associated with the decrease in the fleet size and related reductions in departures.

Total airline expense. Total airline expense (consisting of total operating expense and interest expense) decreased \$56.8 million, or 7.2%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The following table summarizes our total airline expense less the directly-reimbursed expenses with significant changes impacting comparability for the periods indicated (dollar amounts in thousands).

| | For the three months ended September 30, | | | |
|--|--|------------|-------------|----------|
| | 2015 | 2014 | \$ Change | % Change |
| Total airline expense | \$ 735,622 | \$ 792,436 | \$ (56,814) | (7.2)% |
| Less: Directly-reimbursed fuel | 12,065 | 16,666 | (4,601) | (27.6)% |
| Less: Directly-reimbursed engine overhauls | 17,840 | 31,470 | (13,630) | (43.3)% |
| Less: Directly-reimbursed landing fees and station rents | 5,152 | 4,699 | 453 | 9.6% |
| Total airline expense excluding directly reimbursed fuel, landing fee, station rent and engine overhaul reimbursements | \$ 700,565 | \$ 739,601 | \$ (39,036) | (5.3)% |

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Total airline expenses (excluding directly-reimbursed fuel, engine overhaul, landing fees and station rents) decreased \$39.0 million, or 5.3%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The overall decrease was primarily related to the reduction in fleet size, including a 10.9% reduction in block hours during the three months ended September 30, 2015 compared to the three months ended September 30, 2014.

Other income (expense), net. Other income, net, decreased \$22.5 million, or 95.5% during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. We recognized a gain of \$1.1 million during the three months ended September 30, 2015, resulting primarily from the early payoff of debt. We recorded a gain of \$24.9 million recorded during the three months ended September 30, 2014 resulting from the sale of stock we owned in Trip Linhas Aereas S.A., a Brazilian regional airline (TRIP), and recorded interest income of \$2.1 million received in conjunction with the TRIP transaction.

Income taxes, our estimated annual effective tax rate for the three months ended September 30, 2015 and 2014 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.

Net income. Primarily due to factors described above, we generated net income of \$36.3 million, or \$0.71 per diluted share, for the three months ended September 30, 2015, compared to a net income of \$41.3 million, or \$0.79 per diluted share, for the three months ended September 30, 2014.

Table of Contents**Nine Months Ended September 30, 2015 and 2014**

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

| | For the nine months ended September 30, | | | % Change |
|---|---|------------|--|----------|
| | 2015 | 2014 | | |
| Revenue passenger miles (000) | 22,439,946 | 23,783,610 | | (5.6)% |
| Available seat miles (ASMs) (000) | 27,134,415 | 28,767,497 | | (5.7)% |
| Block hours | 1,574,364 | 1,716,419 | | (8.3)% |
| Departures | 933,430 | 1,029,619 | | (9.3)% |
| Passengers carried | 42,613,648 | 44,622,305 | | (4.5)% |
| Passenger load factor | 82.7% | 82.7% | | Pts |
| Revenue per available seat mile | 8.6¢ | 8.4¢ | | 2.4% |
| Cost per available seat mile | 8.2¢ | 8.4¢ | | (2.4)% |
| Cost per available seat mile excluding fuel | 7.9¢ | 7.9¢ | | 0% |
| Fuel cost per available seat mile | 0.3¢ | 0.5¢ | | (40.0)% |
| Average passenger trip length (miles) | 527 | 533 | | (1.1)% |

Revenues. Total operating revenues decreased \$80.8 million, or 3.3%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. Our total operating revenue includes passenger revenues, which primarily consists 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 consists 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 price and volume volatility of directly-reimbursed expenses may impact the comparability of revenue to previous periods without impacting the comparability of our operating income to the same periods. The following table summarizes our passenger revenues less certain directly-reimbursed expenses that may impact the comparability for the periods indicated (dollar amounts in thousands).

| | For the nine months ended September 30, | | | |
|---|---|--------------|-----------|----------|
| | 2015 | 2014 | \$ Change | % Change |
| Passenger revenues | 2,293,085 | \$ 2,372,054 | (78,969) | (3.3)% |
| Less: Fuel reimbursement from major airline partners | 31,159 | 63,776 | (32,617) | (51.1)% |
| Less: Landing fee and station rent reimbursements from major airline partners | 15,777 | 17,866 | (2,089) | (11.7)% |
| | 74,722 | 95,023 | (20,301) | (21.4)% |

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Less: Engine overhaul reimbursement from major airline partners

| | | | | |
|--|--------------|--------------|----------|--------|
| Passenger revenue excluding fuel, landing fee, station rent and engine overhaul reimbursements | \$ 2,171,427 | \$ 2,195,389 | (23,962) | (1.1)% |
|--|--------------|--------------|----------|--------|

Passenger revenues (excluding fuel, landing fee, station rent, and engine overhaul directly-reimbursed expenses from our major airline partners), decreased \$24.0 million during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. Our passenger revenues (excluding fuel, landing fees, station rents, and engine overhaul reimbursements) decreased primarily due to a reduction in our fleet size, including a related 8.3% reduction in block hours incurred. This reduction in passenger revenue was offset by \$96 million from the additional E175 operations, improved contract rates from flying contract renewals and extensions, higher operating performance incentives earned under our fixed-fee arrangements, and approximately \$36 million from higher flight completion rates.

Our directly-reimbursed fuel expense, landing fee, station rent and engine overhaul expenses decreased by \$55.0 million, or 31.1%, during the nine months ended September 30, 2015, from the nine months ended September 30, 2014, due primarily to our major airline partners paying for such expenses directly to third party vendors, a reduction in fuel costs per gallon and a reduction in directly-reimbursed engine events.

Ground handling and other. Total ground handling and other revenues decreased \$1.8 million, or 3.5%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The decrease was primarily related to a reduction in flight activity at locations that provide government subsidies.

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

| | For the nine months ended September 30, | | | | 2015 | 2014 |
|---|---|----------------|---------------------|---------------------|------------------|------------------|
| | 2015 Amount | 2014 Amount | \$ Change Amount | % Change Percent | Cents Per ASM | Cents Per ASM |
| Salaries, wages and benefits | \$ 906,051 | \$ 944,253 | (38,202) | (4.0)% | 3.4 | 3.3 |
| Aircraft maintenance, materials and repairs | 461,972 | 509,905 | (47,933) | (9.4)% | 1.7 | 1.8 |
| Aircraft rentals | 206,857 | 232,682 | (25,825) | (11.1)% | 0.8 | 0.8 |
| Depreciation and amortization | 196,953 | 192,389 | 4,564 | 2.4% | 0.7 | 0.7 |
| Aircraft fuel | 90,254 | 154,420 | (64,166) | (41.6)% | 0.3 | 0.5 |
| Ground handling services | 62,981 | 100,446 | (37,465) | (37.3)% | 0.2 | 0.3 |
| Special charges | | 4,713 | (4,713) | (100.0)% | | |
| Other operating expenses | 235,447 | 240,236 | (4,789) | (2.0)% | 0.9 | 0.8 |
| Total operating expenses | \$ 2,160,515 | \$ 2,379,044 | (218,529) | (9.2)% | 8.0 | 8.2 |
| Interest | 56,460 | 48,697 | (7,763) | 15.9% | 0.2 | 0.2 |
| Total airline expenses | \$ 2,216,975 | \$ 2,427,741 | (210,766) | (8.7)% | 8.2 | 8.4 |

Salaries wages and employee benefits. Salaries, wages and employee benefits decreased \$38.2 million, or 4.0%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The decrease in salaries, wages and employee benefits was primarily due to the decrease in our fleet size and related decrease in the number of departures and block hours compared to the nine months ended September 30, 2014, which was partially offset by additional training costs for the E175 deliveries.

Aircraft maintenance, materials and repairs. Aircraft maintenance expense decreased \$47.9 million, or 9.4%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. Under our Directly-Reimbursed Engine Contracts, we are reimbursed for engine overhaul costs by our applicable major airline partner at the time the maintenance event occurs. Such reimbursements are reflected as passenger revenue in the same amount and during the same period we recognized the expense in our consolidated statements of comprehensive income. 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 nine months ended September 30, | | | |
|---|---|------------|-------------|----------|
| | 2015 | 2014 | \$ Change | % Change |
| Aircraft maintenance, materials and repairs | \$ 461,972 | \$ 509,904 | \$ (47,932) | (9.4)% |
| Less: Directly-reimbursed engine overhaul costs from major airline partners | 74,722 | 95,023 | (20,301) | (21.4)% |
| Aircraft maintenance, materials and repairs excluding directly-reimbursed engine overhaul costs from major airline partners | \$ 387,250 | \$ 396,729 | \$ (27,632) | (6.7)% |

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Other aircraft maintenance, materials and repairs, excluding our directly-reimbursed engine overhaul costs, decreased \$27.6 million, or 6.7%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The decrease in aircraft maintenance expense (excluding directly-reimbursed engine overhaul costs) was primarily due to a decrease in our fleet size and a related decrease in the number of scheduled maintenance events. Additionally, our expense associated with engine overhauls not subject to direct-reimbursement under our Directly-Reimbursed Engine Contracts, decreased \$6.4 million during the nine months ended September 30, 2015 compared to the nine months engine September 30, 2014, primarily due to a decrease in the number of engine overhaul events incurred under our Fixed-Rate Engine Contracts.

Aircraft rentals. Aircraft rentals decreased \$25.8 million, or 11.1%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The decrease in aircraft rentals was primarily due to a reduction in the number of aircraft that were financed through leases subsequent to September 30, 2014.

Depreciation and amortization. Depreciation and amortization expense increased \$4.6 million, or 2.4%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The increase in depreciation and amortization expense was primarily due to the purchase of 29 E175 aircraft and spare engines subsequent to September 30, 2014, which was partially offset by the removal of owned aircraft during the same period.

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Aircraft Fuel. Fuel costs decreased \$64.2 million, or 41.6%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. Under our fixed-fee flying arrangements, fuel is a directly-reimbursed expense. 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 nine months ended September 30, | | | |
|---|---|------------|-------------|----------|
| | 2015 | 2014 | \$ Change | % Change |
| Aircraft fuel expenses | \$ 90,254 | \$ 154,420 | \$ (64,166) | (41.6)% |
| Less: Directly-reimbursed fuel from major airline partners | 31,159 | 63,776 | (32,617) | (51.1)% |
| Aircraft fuel less fuel reimbursement from major airline partners | \$ 59,095 | \$ 90,644 | \$ (31,549) | (34.8)% |

The decrease in fuel cost was primarily due to our decrease in the average fuel cost per gallon in 2015 compared to 2014 and a decrease in the volume in gallons purchased. In the event the major airline partner purchases fuel directly from vendors on flights we operate pursuant to a fixed-fee arrangement, we do not incur the fuel expense. The average fuel cost per gallon was \$2.19 and \$3.46 for the nine months ended September 30, 2015 and 2014, 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, except per gallon amounts) | For the nine months ended September 30, | | |
|---|---|------------|----------|
| | 2015 | 2014 | % Change |
| Fuel gallons purchased | 41,263,366 | 44,609,431 | (7.5)% |
| Fuel expense | \$ 90,254 | \$ 154,420 | (41.6)% |

Ground handling service. Ground handling service expense decreased \$37.5 million, or 37.3%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. Ground handling service expense includes airport -related customer service costs, such as outsourced airport agent services, airport ramp services, airport security fees, and passenger interruption costs. The decrease in ground handling service expense was primarily due to a reduction in the volume of departures at locations for which SkyWest Airlines provides ground handling services subsequent to September 30, 2014.

Special charges. During the nine months ended September 30, 2014, we initiated the sale of a paint facility we owned in Saltillo, Mexico and we wrote down the value of assets to our estimated net realizable value of the facility. We subsequently sold the facility in 2014 for an amount that approximated our estimated net realizable value as of June 30, 2014.

Other operating expenses. Other operating expenses, primarily consisting of property taxes, hull and liability insurance, crew simulator training, crew per diem, crew hotel costs, landing fees and station rents, decreased \$4.8 million, or 2.0%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. Under our fixed-fee flying arrangements, landing fees and station rents are directly-reimbursed expenses. The following table summarizes our other operating expenses (less directly-reimbursed landing fees and station rents

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under our fixed-fee flying arrangements) for the periods indicated (dollar amounts in thousands).

| | For the nine months ended September 30, | | | |
|---|---|------------|------------|----------|
| | 2015 | 2014 | \$ Change | % Change |
| Other operating expenses | \$ 235,447 | \$ 240,236 | \$ (4,789) | (2.0)% |
| Less: Landing fee and station rent reimbursements from major airline partners | 15,777 | 17,866 | (2,089) | (11.7)% |
| Other operating expenses less landing fee and station rent reimbursements from major airline partners | \$ 219,670 | \$ 222,370 | \$ (2,700) | (1.2)% |

The decrease in other operating expense (less directly reimbursed landing fees and station rents) was primarily related to a reduction in fleet size and the number of related departures, partially offset by additional training costs associated with E175 deliveries, including the use of simulators, hotels and crew per diem costs.

Total airline expenses. Total airline expenses (consisting of total operating and interest expenses) decreased \$210.8 million, or 8.7%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The following table summarizes our total airline expense less the directly-reimbursed expenses with significant changes impacting comparability for the periods indicated (dollar amounts in thousands).

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| | For the nine months ended September 30, | | | |
|--|---|--------------|--------------|----------|
| | 2015 | 2014 | \$ Change | % Change |
| Total airline expense | \$ 2,216,975 | \$ 2,427,741 | \$ (210,766) | (8.7)% |
| Less: Directly-reimbursed fuel | 31,159 | 63,776 | (32,617) | (51.1)% |
| Less: Directly-reimbursed engine overhauls | 74,722 | 95,023 | (20,301) | (21.4)% |
| Less: Directly-reimbursed landing fees and station rents | 15,777 | 17,866 | (2,089) | (11.7)% |
| Total airline expense excluding directly reimbursed fuel, landing fee, station rent and engine overhaul reimbursements | \$ 2,095,317 | \$ 2,251,076 | \$ (155,759) | (6.9)% |

Total airline expenses (excluding directly-reimbursed fuel, engine overhaul, landing fees and station rents) decreased \$155.8 million, or 6.9%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The decrease was primarily related to the reduction in fleet size and related block hour production of 8.3% during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014.

Other Income (expense), net. We recognized a gain of \$1.1 million during the nine months ended September 30, 2015, resulting primarily from the early payoff of debt. We realized a gain of \$24.9 million resulting from the sale of TRIP stock and interest income of \$2.1 million received in conjunction with the TRIP stock sale during the nine months ended September 30, 2014.

Income taxes, our estimated annual effective tax rate for the nine months ended September 30, 2015 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. The income tax provision for the nine months ended September 30, 2014 included a valuation allowance of \$5.5 million for previously generated state net operating loss benefits specific to ExpressJet that are scheduled to expire before the benefits are expected to be utilized.

Net income. Primarily due to factors described above, we generated net income of \$77.4 million, or 1.49 per diluted share, for the nine months ended September 30, 2015, compared to a net income of \$3.7 million, or \$0.07 per diluted share, for the nine months ended September 30, 2014.

Our Business Segments**Three Months Ended September 30, 2015 and 2014**

For the three months ended September 30, 2015 and 2014, we had two reportable segments which are the basis of our internal financial reporting: SkyWest Airlines and ExpressJet.

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For the three months ended September 30,
(dollar amounts in thousands)

| | 2015 Amount | 2014 Amount | \$ Change Amount | % Change Percent |
|------------------------------------|----------------|----------------|---------------------|------------------------|
| Operating Revenues: | | | | |
| SkyWest Airlines Operating Revenue | \$ 504,531 | \$ 493,606 | \$ 10,925 | 2.2% |
| ExpressJet Operating Revenues | 283,034 | 340,553 | (57,519) | (16.9)% |
| Other Operating Revenues | 6,439 | 474 | 5,965 | NM |
| Total Operating Revenues | \$ 794,004 | \$ 834,633 | \$ (40,629) | (4.9)% |
| Airline Expenses: | | | | |
| SkyWest Airlines Airline Expense | \$ 445,164 | \$ 441,516 | \$ 3,648 | 0.8% |
| ExpressJet Airline Expense | 289,807 | 350,298 | (60,491) | (17.3)% |
| Other Airline Expense | 651 | 622 | 29 | 4.7% |
| Total Airline Expense(1) | \$ 735,622 | \$ 792,436 | \$ (56,814) | (7.2)% |
| Segment profit: | | | | |
| SkyWest Airlines segment profit | \$ 59,367 | \$ 52,090 | \$ 7,277 | 14.0% |
| ExpressJet segment loss | (6,773) | (9,745) | 2,972 | (30.5)% |
| Other profit | 5,788 | (148) | 5,936 | NM |
| Total Segment profit | \$ 58,382 | \$ 42,197 | \$ 16,185 | 38.4% |
| Interest Income | 311 | 2,549 | (2,238) | (87.8)% |
| Other | 1,070 | 23,598 | (22,528) | (95.5)% |
| Consolidated Income before taxes | \$ 59,763 | \$ 68,344 | \$ (8,581) | (12.6)% |

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- (1) Total Airline Expense includes operating expense and interest expense

SkyWest Airlines Segment Profit. SkyWest Airlines segment profit increased \$7.3 million, or 14.0%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. SkyWest Airlines block hour production increased to 278,074, or 0.5% for the three months ended September 30, 2015, from 276,577 for the three months ended September 30, 2014 primarily due to the additional block hour production from the new E175 aircraft added subsequent to September 30, 2014, which was partially offset by a reduction in block hour production from removing the EMB120 aircraft type from service during the three months ended June 30, 2015. Significant items contributing to the SkyWest Airlines segment profit are set forth below.

SkyWest Airlines Operating Revenues increased by \$10.9 million, or 2.2%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The increase was primarily due to our additional E175 operations, improved contract performance incentives, partially offset by a reduction in the EMB120 operations and the loss of Essential Air Service (EAS) subsidy revenue associated with the elimination of our EMB120 pro-rate operations subsequent to September 30, 2014.

SkyWest Airlines Airline Expense increased by \$3.6 million, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The increase in the SkyWest Airlines Airline Expense was primarily due to the following factors:

- SkyWest Airlines salaries, wages, and benefits increased by \$11.3 million, or 7.3%, for the three months ended September 30, 2015 compared to the corresponding period of 2014, primarily due to the additional block hour production and related crew training associated with the new E175 aircraft deliveries.
- SkyWest Airlines ground handling service expense decreased \$7.3 million, or 34.0%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The decrease in ground handling service expense was primarily due to a reduction in the locations for which SkyWest Airlines provided ground handling services subsequent to September 30, 2014.
- SkyWest Airlines fuel expense (excluding directly-reimbursed fuel expense under its fixed-fee arrangements) decreased \$13.3 million, or 40.8% compared to the three months ended September 30, 2014. The decrease in fuel cost was primarily due to a decrease in the average fuel cost per gallon in 2015 compared to 2014, which was partially offset by an increase in the volume of gallons purchased. The average fuel cost per gallon was \$2.02 and \$3.42 for the three months ended September 30, 2015 and 2014, respectively.

- SkyWest Airlines aircraft maintenance, materials and repairs expense, excluding directly-reimbursed engine overhauls under its fixed-fee arrangements, increased by \$7.7 million, or 11.5%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The increase was primarily attributable to an increase in scheduled maintenance events and the replacement and repair of aircraft parts and components.
- SkyWest Airlines other airline expense increased \$5.6 million, or 13.4%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014, primarily due to the additional block hour production and crew related training associated with the new E175 aircraft deliveries.

ExpressJet Segment Loss. ExpressJet segment loss decreased \$3.0 million, or 30.5%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. ExpressJet's block hour production decreased to 248,143, or 21.0% for the three months ended September 30, 2015, from 313,957 for the three months ended September 30, 2014, primarily due to the removal of ERJ145 aircraft previously operated under its United fixed-fee agreement, which was partially offset by additional block hour production from ExpressJet's ERJ145 agreement with American Airlines subsequent to September 30, 2014. Significant items contributing to the ExpressJet segment loss are set forth below.

ExpressJet Operating Revenues decreased by \$57.5 million, or 16.9% during the three months ended September 30, 2015 compared to the corresponding period of 2014. The decrease was primarily due to a reduction in scheduled departures in ExpressJet's ERJ145 fleet operating under its United fixed-fee arrangement, which was partially offset by an increase in contract performance incentives earned and higher completion rates.

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ExpressJet's Airline Expense decreased \$60.5 million, or 17.3%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The decrease in the ExpressJet Airlines Expense was primarily due to the following factors:

- ExpressJet's salaries, wages and benefits decreased \$22.4 million, or 13.8%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The decrease was primarily due to a decrease in scheduled production subsequent to September 30, 2014 that resulted, from the decreased number of ERJ145 aircraft and CRJ200 aircraft in operation under ExpressJets fixed-fee arrangements.

- ExpressJet's aircraft maintenance, materials and repairs expense decreased \$18.0 million, or 20.0%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014. The decrease was primarily due to the reduced fleet size and a reduction in the related scheduled production subsequent to September 30, 2014.

- ExpressJet's aircraft rental expenses decreased \$3.3 million, or 16.4%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014, primarily due to the termination aircraft leases on CRJ200 aircraft since September 30, 2014.

- ExpressJet's ground handling services expenses decreased \$4.9 million, or 51.0%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014, primarily due to a decrease in scheduled production and reduced fleet size.

- ExpressJet's other airline expenses decreased \$7.9 million, or 20.1%, during the three months ended September 30, 2015, compared to the three months ended September 30, 2014, primarily due to a decrease in scheduled production subsequent to September 30, 2014.

Nine Months Ended September 30, 2015 and 2014

For the nine months ended September 30, 2015 and 2014, we had two reportable segments which are the basis of our internal financial reporting: SkyWest Airlines and ExpressJet.

| | For the nine months ended September 30, | |
|-------------|--|------------------|
| | (dollar amounts in thousands) | |
| 2015 | 2014 | \$ Change |

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| | Amount | Amount | Amount | % Change Percent |
|---|---------------------|---------------------|---------------------|------------------------|
| Operating Revenues: | | | | |
| SkyWest Airlines Operating Revenues | \$ 1,430,722 | \$ 1,416,149 | \$ 14,573 | 1.0% |
| ExpressJet Operating Revenues | 896,683 | 1,006,021 | (109,338) | (10.9)% |
| Other Operating Revenues | 15,414 | 1,422 | 13,992 | 984.0% |
| Total Operating Revenues | \$ 2,342,819 | \$ 2,423,592 | \$ (80,773) | (3.3)% |
| Airline Expenses: | | | | |
| SkyWest Airlines Airline Expense | \$ 1,292,893 | \$ 1,321,398 | \$ (28,505) | (2.2)% |
| ExpressJet Airline Expense | 921,727 | 1,104,232 | (182,505) | (16.5)% |
| Other Airline Expense | 2,355 | 2,111 | 244 | 11.6% |
| Total Airline Expense(1) | \$ 2,216,975 | \$ 2,427,741 | \$ (210,766) | (8.7)% |
| Segment profit (loss): | | | | |
| SkyWest Airlines segment profit | \$ 137,830 | \$ 94,751 | \$ 43,079 | 45.5% |
| ExpressJet segment loss | (25,045) | (98,211) | 73,166 | (74.5)% |
| Other profit | 13,059 | (689) | 13,748 | (1,995.4)% |
| Total Segment profit (loss) | \$ 125,844 | \$ (4,149) | \$ 129,993 | (3,133.1)% |
| Interest Income | 1,647 | 3,608 | (1,961) | (54.4)% |
| Other | 1,070 | 20,709 | (19,639) | (94.8)% |
| Consolidated Income before taxes | \$ 128,561 | \$ 20,168 | \$ 108,393 | 537.5% |

(1) Total Airline Expense includes operating expense and interest expense

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SkyWest Airlines Segment Profit. SkyWest Airlines segment profit increased \$43.1 million, or 45.5%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. SkyWest Airlines block hour production increased to 803,741, or 1.1% for the nine months ended September 30, 2015 from 794,761 for the nine months ended September 30, 2014 primarily due to the additional block hour production from the new E175 aircraft added subsequent to September 30, 2014, which was partially offset by a reduction in block hour production from removing the EMB120 aircraft type from service. Significant items contributing to the SkyWest Airlines segment profit are set forth below.

SkyWest Airlines Operating Revenues increased by \$14.6 million, or 1.0%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The increase was primarily due to the additional E175 operations, improved contract performance incentives, which was partially offset by a reduction in EMB120 operations and EAS subsidy revenue from the reduction in EMB120 pro-rate operations subsequent to September 30, 2014.

SkyWest Airlines Airline Expense decreased by \$75.0 million, or 5.7% during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The decrease in the SkyWest Airlines Airline Expense was primarily due to the following factors:

- SkyWest Airlines salaries, wages, and benefits increased by \$25.1 million, or 5.6% for the nine months ended September 30, 2015 compared to the corresponding period of 2014, primarily due to the additional block hour production and related crew training associated with the new E175 aircraft deliveries.
- SkyWest Airlines ground handling service expense decreased \$19.7 million, or 29.0%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The decrease in ground handling service expense was primarily due to a reduction in the locations at which SkyWest Airlines provided ground handling services subsequent to September 30, 2014.
- SkyWest Airlines fuel expense decreased \$50.5 million, or 36.6%, compared to the nine months ended September 30, 2014. The decrease in fuel cost was primarily due to a decrease in the average fuel cost per gallon in 2015 compared to 2014, which was partially offset by an increase in the volume of gallons purchased. The average fuel cost per gallon was \$2.19 and \$3.46 for the nine months ended September 30, 2015 and 2014, respectively.
- SkyWest Airlines aircraft maintenance, materials and repairs expense decreased by \$13.1 million, or 5.8%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The decrease was primarily attributable to a decrease in scheduled maintenance events and the replacement and repair of aircraft parts and components.

ExpressJet Segment Loss. ExpressJet segment loss decreased \$73.2 million, or 74.5%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. ExpressJet's block hour production decreased to 770,623, or 16.4% for the nine months ended September 30, 2015 from 921,658 for the nine months ended September 30, 2014 primarily due to the removal of ERJ145 aircraft previously operated under its United fixed-fee agreement, which was partially offset by additional block hour production from its ERJ145 agreement with American Airlines subsequent to September 30, 2014. Significant items contributing to the ExpressJet segment loss are set forth below:

ExpressJet Operating Revenues decreased by \$109.3 million, or 10.9% during the nine months ended September 30, 2015 compared to the corresponding period of 2014. The decrease was primarily due to a reduction in scheduled departures in ExpressJet's ERJ145 fleet operating under its United fixed-fee arrangement, which was partially offset by an increase in contract performance incentives earned and higher completion rates.

ExpressJet's Airline Expense decreased \$192.5 million, or 17.4%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The decrease in the ExpressJet Airlines Expense was primarily due to the following factors:

- ExpressJet's salaries, wages and benefits decreased \$63.3 million, or 12.8%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The decrease was primarily due to a decrease in scheduled production subsequent to September 30, 2014 that resulted, from the decreased number of ERJ145 and CRJ200 aircraft in operation under ExpressJet's United fixed-fee arrangements.

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- ExpressJet's aircraft maintenance, materials and repairs expense, decreased \$34.9 million, or 12.3%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The decrease was primarily due to the reduced fleet size and related production subsequent to September 30, 2014.
- ExpressJet's aircraft rental expenses decreased \$17.0 million, or 24.1%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, primarily due to the termination of aircraft leases on CRJ200 aircraft since September 30, 2014.
- ExpressJet's ground handling services expenses decreased \$17.7 million, or 55.0%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, primarily due to a decrease in scheduled production and reduced fleet size.
- ExpressJet's other airline expenses decreased \$25.2 million, or 20.6%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, primarily due to a decrease in scheduled production subsequent to September 30, 2014.
- The special charge of \$4.7 million asset write-down during the nine months ended September 30, 2014 associated with the paint facility ExpressJet owned in Saltillo, Mexico was reflected in the ExpressJet other airline expense segment.

Liquidity and Capital Resources*Sources and Uses of Cash*

Cash Position and Liquidity. The following table provides a summary of the net cash provided by (used in) our operating, investing and financing activities for the nine months ended September 30, 2015 and 2014, and our total cash and marketable securities positions as of September 30, 2015 and December 31, 2014 (in thousands).

| | For the nine months ended September 30, | | | |
|---|---|-------------------------|-------------------------|----------------|
| | 2015 | 2014 | \$ Change | % Change |
| Net cash provided by operating activities | \$ 313,540 (660,756) | \$ 186,389 (392,615) | \$ 127,171 (268,141) | 68.2% 68.3% |

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Net cash used in investing activities

| | | | | |
|---|---------|---------|---------|-------|
| Net cash provided by financing activities | 341,685 | 187,003 | 154,682 | 82.7% |
|---|---------|---------|---------|-------|

| | September 30, 2015 | December 31, 2014 | \$ Change | % Change |
|---------------------------|-----------------------|----------------------|------------|----------|
| Cash and cash equivalents | \$ 126,744 | \$ 132,275 | \$ (5,531) | (4.2)% |
| Restricted cash | 11,584 | 11,582 | 2 | 0.0% |
| Marketable securities | 429,806 | 415,273 | 14,533 | 3.5% |
| Total | \$ 568,134 | \$ 559,130 | \$ 9,004 | 1.6% |

Cash Flows from Operating Activities.

Net cash provided by operating activities increased \$127.2 million, or 68.2%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The increase was primarily due to our income before income taxes of \$128.6 million for the nine months ended September 30, 2015, compared to our income before income taxes of \$20.2 million for the nine months ended September 30, 2014, representing a change in income before income taxes of \$108.4 million for the comparable periods. The remaining change was primarily due to changes in working capital account balances from December 31, 2014 to September 30, 2015 compared to the corresponding periods in 2014.

Cash Flows used in Investing Activities.

Net cash used in investing activities increased \$268.1 million, or 68.3%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The increase in cash used in investing activities was primarily due to the acquisition of 23 E175 aircraft and related rotatable spare assets, which represented an increase of \$167.8 million during the nine months ended September 30, 2015 compared to the acquisition of 14 E175 aircraft during the nine months ended September 30, 2014. Additionally, during the nine months ended September 30, 2015, net sales of marketable securities provided \$108.7 million less cash than the nine months ended September 30, 2014. The remaining difference in cash flows from investing activities was primarily related to cash used for purchases of additional ground equipment and other investing activities.

Table of Contents***Cash Flows provided by Financing Activities.***

Net cash provided by financing activities increased \$154.7 million or 82.7%, during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. The increase was primarily related to proceeds from the issuance of long-term debt of \$521.2 million associated with 23 E175 aircraft acquired and the issuance of \$25.0 million in a term loan during the nine months ended September 30, 2015, compared to the proceeds from issuance of debt of \$323.7 million associated with 14 E175 aircraft acquired during the nine months ended September 30, 2014. During the nine months ended September 30, 2015, we used an additional \$59.7 million as principal payments on long-term debt primarily due to the additional E175 aircraft acquired after September 30, 2014. Additionally, during the nine months ended September 30, 2015, we used \$18.7 million to purchase treasury shares, compared to \$8.4 million during the nine months ended September 30, 2014.

Liquidity and Capital Resources

We believe that in the absence of unusual circumstances, the working capital currently available to us will be sufficient to meet our present financial requirements, including anticipated expansion, planned capital expenditures, and scheduled lease payments and debt service obligations for at least the next 12 months.

At September 30, 2015, our total capital mix was 44.1% equity and 55.9% long-term debt, compared to 47.7% equity and 52.3% long-term debt at December 31, 2014.

Significant Commitments and Obligations*General*

The following table summarizes our commitments and obligations as noted for each of the next five years and thereafter (in thousands):

| | Total | Oct 2015 | Dec 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter |
|--|--------------|-------------|--------------|--------------|------------|------------|--------------|------------|
| Operating lease payments for aircraft and facility obligations | \$ 1,298,009 | \$ 93,236 | \$ 267,353 | \$ 191,506 | \$ 153,042 | \$ 120,072 | \$ 472,800 | |
| Firm aircraft purchase commitments | 1,458,517 | 60,871 | 886,809 | 510,837 | | | | |
| Interest commitments(A) | 422,040 | 22,157 | 76,571 | 67,038 | 58,003 | 49,502 | 148,769 | |
| Principal maturities on long term debt | 2,107,707 | 76,526 | 267,836 | 245,491 | 228,040 | 221,753 | 1,068,061 | |
| | \$ 5,286,273 | \$ 252,790 | \$ 1,498,569 | \$ 1,014,872 | \$ 439,085 | \$ 391,327 | \$ 1,689,630 | |

Total commitments and obligations

(A) At September 30, 2015, we had variable rate notes representing 12.5% of our total long-term debt. Actual interest commitments will change based on the actual variable interest.

Purchase Commitments and Options

On May 21, 2014, we announced our execution of an agreement with Embraer, S.A. for the purchase of 100 new E175 aircraft. Of the 100 aircraft, 92 are considered firm deliveries and the remaining 8 aircraft are considered conditional until we enter into capacity purchase agreements with other major airlines to operate the aircraft. As of September 30, 2015, we had taken delivery of 43 E175s. We anticipate that we will take delivery of the remaining E175s covered by the firm order through mid-2017.

We have not historically funded a substantial portion of our aircraft acquisitions with working capital. Rather, we have generally funded our aircraft acquisitions through a combination of operating leases and long-term debt financing. At the time of each aircraft acquisition, we evaluate the financing alternatives available to us, and select one or more of these methods to fund the acquisition. At present, we intend to fund our acquisition of any additional aircraft through debt financing. Based on current market conditions and discussions with prospective leasing organizations and financial institutions, we currently believe that we will be able to obtain financing for our committed acquisitions, as well as additional aircraft, without materially reducing the amount of working capital available for our operating activities.

Aircraft Lease and Facility Obligations

We also have significant long-term lease obligations primarily relating to our aircraft fleet. At September 30, 2015, we had 483 aircraft under lease with remaining terms ranging from one to 13 years. Future minimum lease payments due under all long-term operating leases were approximately \$1.3 billion at September 30, 2015. Assuming a 4.83% discount rate, which is the average rate used to approximate the implicit rates within the applicable aircraft leases, the present value of these lease obligations would have been equal to approximately \$1.0 billion at September 30, 2015.

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Long-term Debt Obligations

As of September 30, 2015, we had \$2.1 billion of long-term debt obligations related to the acquisition of CRJ200s, Bombardier CRJ700 Regional Jets (CRJ700s), Bombardier CRJ900 Regional Jets (CRJ900 s), E175 aircraft and spare engine financings. The average effective interest rate on the debt related to such aircraft and spare engine financings was approximately 3.9% at September 30, 2015.

Guarantees

We have guaranteed the obligations of SkyWest Airlines under the SkyWest Airlines Delta Connection Agreement and the SkyWest Airlines United Express Agreement for the E175 aircraft. We have also guaranteed the obligations of ExpressJet under the ExpressJet Delta Connection Agreement and the ExpressJet United ERJ Agreement.

Seasonality

Our results of operations for any interim period are not necessarily indicative of those for an entire year, since the airline industry is subject to seasonal fluctuations and general economic conditions. Our operations are somewhat favorably affected by increased travel on our pro-rate routes, historically occurring during the summer months, and unfavorably affected by decreased travel during the months November through February and by inclement weather, which may occasionally or frequently, depending on the severity of the inclement weather in any given winter, result in cancelled flights during the winter months.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Aircraft Fuel

In the past, we have not experienced difficulties with fuel availability and we currently expect to be able to obtain fuel at prevailing prices in quantities sufficient to meet our future needs. Pursuant to our contract flying arrangements, United, Delta, Alaska and American have agreed to bear the economic risk of fuel price fluctuations on our contracted flights. We bear the economic risk of fuel price fluctuations on our pro-rate operations. For the nine months ended September 30, 2015, approximately 3.7% of our ASMs were flown under pro-rate arrangements. For illustrative purposes only, we have estimated the impact of the market risk of fuel on our pro-rate operations using a hypothetical increase of 25% in the price per gallon we purchase. Based on this hypothetical assumption, we would have incurred an additional \$14.8 million in fuel expense for the nine months ended September 30, 2015.

Interest Rates

Our earnings are affected by changes in interest rates due to the amounts of variable rate long-term debt and the amount of cash and securities held. The interest rates applicable to variable rate notes may rise and increase the amount of interest expense. We would also receive higher amounts of interest income on cash and securities held at the time; however, the market value of our available-for-sale securities would likely decline. At September 30, 2015, we had variable rate notes representing 12.5% of our total long-term debt compared to 41.3% of our long-term debt at December 31, 2014. For illustrative purposes only, we have estimated the impact of market risk using a hypothetical increase in interest rates of one percentage point for both variable rate long-term debt and cash and securities. Based on this hypothetical assumption, we would have incurred an additional \$1.6 million in interest expense and received \$1.3 million in additional interest income for the three months ended September 30, 2015. For the nine months ended September 30, 2015, we would have incurred an additional \$3.8 million in interest expense and received \$3.9 million in additional interest income. However, under our contractual arrangements with our major airline partners, the majority of the increase in interest expense would be passed through and recorded as passenger revenue in our consolidated statements of operations and comprehensive loss. Also for illustrative purposes only, we have estimated the impact of a hypothetical decrease in interest rates of one percentage point for both variable rate long-term debt and cash and securities. Based upon this hypothetical example, we would have recognized \$1.6 million less in interest expense and received \$1.3 million less in interest income for the three months ended September 30, 2015. For the nine months ended September 30, 2015, we would have recognized \$3.8 million less in interest expense and received \$3.9 million less in interest income. If interest rates were to decline, our major airline partners would receive the principal benefit of the decline, since interest expense is generally passed through to our major airline partners, resulting in a reduction to passenger revenue in our consolidated statement of operations and comprehensive loss.

We currently intend to finance the acquisition of aircraft through manufacturer financing, third-party leases or long-term borrowings. Changes in interest rates may impact the actual cost to us to acquire these aircraft. To the extent we place these aircraft in service

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under our code-share agreements with Delta, United, or other carriers, our code-share agreements currently provide that reimbursement rates will be adjusted higher or lower to reflect changes in our aircraft rental rates.

Auction Rate Securities

We have investments in auction rate securities, which are classified as available for sale securities and reflected at fair value. As of September 30, 2015, we had investments in auction rate securities valued at a total of \$2.3 million which were classified as Other Assets on our consolidated balance sheet.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, performed an evaluation of our disclosure controls and procedures, which have been designed to ensure that information we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Our management, including our Chief Executive Officer and Chief Financial Officer, concluded that, as of September 30, 2015, those controls and procedures were effective to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control

During the nine months ended September 30, 2015, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to certain legal actions which we consider routine to our business activities. As of September 30, 2015, our 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 our financial position, liquidity or results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014 other than the following risk factor:

We have aircraft lease and debt commitments that extend beyond our existing fixed-fee contractual term on certain aircraft.

Under our fixed-fee arrangements with Delta, United and US Airways, we have a total of 64 CRJ700s with various flying contract expirations through the end of 2016. Our underlying lease or debt financing obligations associated with these aircraft are scheduled to terminate between 2018 and 2024 on an aircraft-by-aircraft basis. We may not be successful in extending the flying contract terms on these aircraft with our major airline partners at acceptable economic terms. In the event we are unsuccessful in extending the flying contract terms on these aircraft, we intend to pursue alternative uses for the aircraft over the remaining aircraft financing term including, but not limited to, operating the aircraft with another major carrier under a negotiated code-share agreement, subleasing the aircraft to another operator, and/or marketing the debt financed aircraft for sale. In the event we are unable to extend the flying contract terms at similar or improved economics for these aircraft upon each respective contract's expiration, or if we pursue alternative uses for these aircraft that result in reduced economics than our current flying contracts, we may have non-cash and cash special charges, direct transition costs such as livery changes, and other related costs that could adversely affect our financial results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Our Board of Directors has adopted a stock repurchase program which authorizes us to repurchase shares of our common stock in the public market, from time to time, at prevailing prices. Our stock repurchase program currently authorizes the repurchase of up to 25,000,000 shares of our common stock. As of September 30, 2015, we had spent approximately \$347.1 million to repurchase approximately 19,171,330 shares of the 25,000,000 shares of common stock designated for repurchase by our Board of Directors. We did not repurchase any shares of our common stock during the three months ended September 30, 2015.

ITEM 6: EXHIBITS

| | |
|---------|--|
| 31.1 | Certification of Chief Executive Officer |
| 31.2 | Certification of Chief Financial Officer |
| 32.1 | Certification of Chief Executive Officer |
| 32.2 | Certification of Chief Financial Officer |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, to be signed on its behalf by the undersigned, thereunto duly authorized, on November 5, 2015

SKYWEST, INC.

By

/s/ Robert J. Simmons
Robert J. Simmons
Chief Financial Officer