

SKYWEST INC  
Form 10-K  
February 23, 2010

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

**For the fiscal year ended December 31, 2009**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 0-14719**

**SKYWEST, INC.**

**Incorporated under the Laws of Utah**

**87-0292166**  
(IRS Employer ID No.)

**444 South River Road  
St. George, Utah 84790  
(435) 634-3000**

Securities Registered Pursuant to Section 12(b) of the Act: **None**

Securities Registered Pursuant to Section 12(g) of the Act:  
**Common Stock, No Par Value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of this Act. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 ý No o

Indicate by checkmark 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 (§ 232.405 of this chapter) during the preceding

## Edgar Filing: SKYWEST INC - Form 10-K

12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy statement incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a  
smaller reporting company)

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

The aggregate market value of the registrant's common stock held by non-affiliates (based upon the closing sale price of the registrant's common stock on The Nasdaq National Market) on June 30, 2009 was approximately \$547,794,710.

As of February 12, 2010, there were 56,013,914 shares of the registrant's common stock outstanding.

### Documents Incorporated by Reference

Portions of the registrant's proxy statement to be used in connection with the Registrant's 2010 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report as specified.

---

Table of Contents

SKYWEST, INC.

ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

	Page No.
<u>PART I</u>	
<u>Cautionary Statement Concerning Forward Looking Statements</u>	<u>3</u>
<u>Item 1. Business</u>	<u>4</u>
<u>Item 1A. Risk Factors</u>	<u>15</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>29</u>
<u>Item 2. Properties</u>	<u>29</u>
<u>Item 3. Legal Proceedings</u>	<u>32</u>
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	<u>33</u>
<u>PART II</u>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>34</u>
<u>Item 6. Selected Financial Data</u>	<u>36</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>55</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>56</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>88</u>
<u>Item 9A. Controls and Procedures</u>	<u>88</u>
<u>Item 9B. Other Information</u>	<u>91</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>91</u>
<u>Item 11. Executive Compensation</u>	<u>91</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>91</u>
<u>Item 13. Certain Relationships and Related Transactions</u>	<u>91</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>91</u>
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>91</u>
<u>Signatures</u>	<u>96</u>

Table of Contents

**PART I**

*Unless otherwise indicated, "SkyWest," "we," "us," "our" and similar terms refer to SkyWest, Inc.; "SkyWest Airlines" refers to our wholly-owned subsidiary, SkyWest Airlines, Inc.; and "ASA" refers to our wholly-owned subsidiary, Atlantic Southeast Airlines, Inc.*

**Cautionary Statement Concerning Forward-Looking Statements**

Certain of the statements contained in this Annual Report on Form 10-K 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 contractual relationships, and our anticipated 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 ASA, our objectives, expectations and intentions and other statements that are not historical facts. Readers should keep in mind that 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 vary, and may vary materially from those anticipated, estimated, projected, or intended. These risks and uncertainties include, but are not limited to, those described below in Item 1A., Risk Factors, and the following:

global and national economic conditions;

the impact of high fuel prices on the airline industry;

our ability to attract and retain code-share partners;

changes in our code-share relationships;

the cyclical nature of the airline industry;

reduced utilization levels of our aircraft under our code-share agreements

competitive practices in the airline industry, including significant fare-restructuring activities, consolidation of major carriers, leaving fewer potential code-share partners, capacity reductions and other restructurings by major and regional carriers, including Delta Air Lines ("Delta"), United Air Lines, Inc. ("United"), Midwest Airlines, Inc. ("Midwest") and AirTran Airways, Inc. ("AirTran");

labor costs;

security-related and insurance costs;

weather conditions;

Edgar Filing: SKYWEST INC - Form 10-K

government legislation and regulation;

relations with our employees, including the impact of labor negotiations and agreements with our unionized and non-unionized employees;

litigation with Delta;

unionization efforts among SkyWest Airlines' employees; and

other risks and uncertainties listed from time to time in our reports filed with the SEC.

Table of Contents

There may be other factors that may affect matters discussed in forward-looking statements set forth in this Report, which factors 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.

**ITEM 1. BUSINESS**

**General**

Through SkyWest Airlines and ASA, our wholly-owned subsidiaries, we offer scheduled passenger service with approximately 2,300 daily departures to 217 destinations in the United States, Canada, Mexico and the Caribbean. Substantially all of our flights are operated as Delta Connection, United Express or AirTran under code-share arrangements with Delta, United or AirTran, respectively, with significant presence in Delta and United's key domestic hubs and focus cities. SkyWest Airlines and ASA generally provide regional flying to our partners under long-term, fixed-fee code-share agreements. Among other features of our fixed-fee agreements, our partners generally reimburse us for specified direct operating expenses (including fuel expense, which is passed through to our partners), and pay us a fee for operating the aircraft.

SkyWest Airlines and ASA have developed industry-leading reputations for providing quality, low-cost regional airline service during their long operating histories. SkyWest Airlines has been flying since 1972 and ASA since 1979. As of December 31, 2009, our consolidated fleet consisted of a total of 449 aircraft, of which 258 were assigned to Delta, 186 were assigned to United, three were assigned to Midwest, and two were assigned to AirTran. We currently operate one type of regional jet aircraft in three different configurations, the 50-seat Bombardier Aerospace ("Bombardier") CRJ200 Regional Jet (the "CRJ200"), the 70-seat Bombardier CRJ700 Regional Jet (the "CRJ700") and the 70-90-seat Bombardier CRJ900 Regional Jet (the "CRJ900"), and one type of turboprop aircraft, the 30-seat Embraer Brasilia EMB-120 turboprop (the "Brasilia turboprop").

We were incorporated in Utah in 1972. Our principal executive offices are located at 444 South River Road, St. George, Utah 84790, and our primary telephone number is (435) 634-3000. We maintain an Internet web site at [www.skywest.com](http://www.skywest.com). Our website provides a link to the web site of the SEC, through which our annual, quarterly and current reports, as well as amendments to those reports, are available. In addition, we provide electronic or paper copies of our filings free of charge upon request.

**Our Operating Platforms**

*SkyWest Airlines*

SkyWest Airlines provides regional jet and turboprop service primarily located in the midwestern and western United States. SkyWest Airlines offered approximately 1,500 daily scheduled departures as of December 31, 2009, of which approximately 1,060 were United Express flights, 410 were Delta Connection flights, 20 were Midwest Connect flights and ten were AirTran coded flights. SkyWest Airlines' operations are conducted from hubs located in Chicago (O'Hare), Denver, Los Angeles, Milwaukee, San Francisco and Salt Lake City. SkyWest Airlines' fleet as of December 31, 2009 consisted of 21 CRJ900s, all of which were flown for Delta, 79 CRJ700s, of which 66 were flown for United and 13 for Delta; 138 CRJ200s, of which 81 were flown for United, 52 were flown for Delta, three were flown for Midwest and two were flown for AirTran, and 51 Brasilia turboprops, of which 39 were flown for United and 12 were flown for Delta.

SkyWest Airlines currently conducts its Delta Connection operations pursuant to the terms of an Amended and Restated Delta Connection Agreement which obligates Delta to compensate SkyWest

Table of Contents

Airlines for its direct costs associated with operating Delta Connection flights, plus a payment based on block hours flown (the "SkyWest Airlines Delta Connection Agreement"). In addition, the SkyWest Airlines Delta Connection Agreement provides for us to increase our profitability if we reduce our total costs. SkyWest Airlines' United code-share operations are conducted under a United Express Agreement pursuant to which SkyWest Airlines is paid primarily on a fee-per-completed block hour and departure basis plus a margin based on performance incentives (the "SkyWest Airlines United Express Agreement"). Under the United Express Agreement, excess margins over certain percentages must be returned or shared with United, depending on various conditions. On June 10, 2009, SkyWest Airlines and Midwest reached a mutual understanding to terminate the service SkyWest Airlines provided under the Airline Services Agreement (the "Midwest Services Agreement"). As a result, SkyWest Airlines removed its remaining 12 CRJ200 regional jet aircraft out of Midwest service in stages through January 2010.

On November 4, 2009, SkyWest Airlines entered into a code-share agreement with AirTran. Under the terms of the code-share agreement, SkyWest Airlines has agreed to operate five CRJ200s for AirTran under a pro-rate arrangement. SkyWest Airlines commenced AirTran service with two aircraft in December 2009, and added three additional aircraft in January and February of 2010. The AirTran code-share agreement has a three-year term; however, after May 15, 2010, either party may terminate the agreement upon 120 days written notice.

ASA

ASA provides regional jet service primarily in the United States primarily from hubs located in Atlanta and Cincinnati. ASA offered more than 780 daily scheduled departures as of December 31, 2009, all of which were Delta Connection flights. ASA's fleet as of December 31, 2009, consisted of ten CRJ900s, 38 CRJ700s, 112 CRJ200s. Under the terms of the Second Amended and Restated Delta Connection Agreement executed by ASA and Delta (the "ASA Delta Connection Agreement"), Delta has agreed to compensate ASA for its direct costs associated with operating Delta Connection flights, plus, if ASA completes a certain minimum percentage of its Delta Connection flights, a specified margin on such costs. Additionally, the ASA Delta Connection Agreement provides for incentive compensation upon satisfaction of certain performance goals. Under the ASA Delta Connection Agreement, excess margins over certain percentages must be returned to or shared with Delta, depending on various conditions.

On February 10, 2010, ASA and United entered into a United Express Agreement, pursuant to which ASA has agreed to operate 14 CRJ200 aircraft as a United Express carrier (the "ASA United Express Agreement"). On February 11, 2010, ASA began operating as a United Express carrier, and we anticipate that the 14 United Express regional jets to be flown by ASA will be in operation by May of 2010. The ASA United Express Agreement is a capacity purchase agreement with a five-year term, and other terms which are generally consistent with the SkyWest Airlines United Express Agreement.

**Competition and Economic Conditions**

The airline industry is highly competitive. SkyWest Airlines and ASA compete principally with other code-sharing regional airlines, but also with regional airlines operating without code-share agreements, as well as low-cost carriers and major airlines. The combined operations of SkyWest Airlines and ASA extend throughout most major geographic markets in the United States. Our competition includes, therefore, nearly every other domestic regional airline, and to a certain extent, most major and low-cost domestic carriers. The primary competitors of SkyWest Airlines and ASA among regional airlines with code-share arrangements include Air Wisconsin Airlines Corporation, American Eagle Airlines, Inc. ("American Eagle") (owned by American Airlines, Inc. ("American")), Comair, Inc. ("Comair") (owned by Delta), Compass Airlines ("Compass") (owned by Delta), Mesaba Airlines ("Mesaba") (owned by Delta), ExpressJet Holdings, Inc. ("ExpressJet"), Horizon Air

Table of Contents

Industries, Inc. ("Horizon") (owned by Alaska Air Group, Inc.), Mesa Air Group, Inc. ("Mesa"), Pinnacle Airlines Corp. ("Pinnacle"), Republic Airways Holdings Inc. ("Republic") and Trans State Airlines, Inc. Major airlines award contract flying to these regional airlines based upon, but not limited to, the following criteria: low cost, financial resources, overall customer service levels relating to on-time arrival and departure statistics, cancellation of flights, baggage handling performance and the overall image of the regional airline as a whole. The principal competitive factors we experience with respect to our pro-rate flying include fare pricing, customer service, routes served, flight schedules, aircraft types and relationships with major partners.

The principal competitive factors for code-share partner regional airlines are code-share agreement terms, customer service, aircraft types, fare pricing, flight schedules and markets and routes served. The combined operations of SkyWest Airlines and ASA represent the largest regional airline operation in the United States. However, some of the major and low-cost carriers are larger, and have greater financial and other resources than SkyWest Airlines and ASA. Additionally, regional carriers owned by major airlines, such as American Eagle, Comair, Compass and Mesaba, may have access to greater resources at the parent level than SkyWest Airlines and ASA, and may have enhanced competitive advantages since they are subsidiaries of major airlines. Moreover, federal deregulation of the industry allows competitors to rapidly enter our markets and to quickly discount and restructure fares. The airline industry is particularly susceptible to price discounting because airlines incur only nominal costs to provide service to passengers occupying otherwise unsold seats.

Generally, the airline industry is highly sensitive to general economic conditions, in large part due to the discretionary nature of a substantial percentage of both business and leisure travel. Many airlines have historically reported lower earnings or substantial losses during periods of economic recession, heavy fare discounting, high fuel costs and other disadvantageous environments. Economic downturns combined with competitive pressures have contributed to a number of reorganizations, bankruptcies, liquidations and business combinations among major and regional carriers. The effect of economic downturns may be somewhat mitigated by the predominantly contract-based flying arrangements of SkyWest Airlines and ASA. Nevertheless, the per passenger component in such fee structure would be affected by an economic downturn. In addition, if Delta or United, or one or more other code-share partners we may secure in the future, experience a prolonged decline in passenger load or are harmed by low ticket prices or high fuel prices, they will likely seek to renegotiate their code-share agreements with SkyWest Airlines and ASA or cancel flights in order to reduce their costs.

## **Industry Overview**

### *Majors, Low Cost Carriers and Regional Airlines*

The airline industry in the United States has traditionally been dominated by several major airlines, including American, Continental Airlines, Inc. ("Continental"), Delta, US Airways and United. The major airlines offer scheduled flights to most major U.S. cities, numerous smaller U.S. cities, and cities throughout the world through a hub and spoke network.

Low cost carriers, such as Southwest Airlines Co. ("Southwest"), JetBlue Airways Corporation ("JetBlue"), Frontier Airlines, Inc. ("Frontier") and AirTran, generally offer fewer conveniences to travelers and have lower cost structures than major airlines, which permits them to offer flights to and from many of the same markets as the major airlines, but at lower prices. Low cost carriers typically fly direct flights with limited service to smaller cities, concentrating on higher demand flights to and from major population bases.

Regional airlines, such as ASA, ExpressJet, Mesa, Pinnacle, Republic and SkyWest Airlines, typically operate smaller aircraft on lower-volume routes than major and low cost carriers. Several regional airlines, including American Eagle, Comair, Compass, Mesaba and Horizon, are wholly-owned subsidiaries of major airlines.

Table of Contents

In contrast to low cost carriers, regional airlines generally do not try to establish an independent route system to compete with the major airlines. Rather, regional airlines typically enter into relationships with one or more major airlines, pursuant to which the regional airline agrees to use its smaller, lower-cost aircraft to carry passengers booked and ticketed by the major airline between a hub of the major airline and a smaller outlying city. In exchange for such services, the major airline pays the regional airline either a fixed flight fee, termed "contract" or "fixed-fee" flights, or receives a percentage of applicable ticket revenues, termed "pro-rate" or "revenue-sharing" flights.

*Relationship of Regional and Major Airlines*

Regional airlines generally enter into code-share agreements with major airlines, pursuant to which the regional airline is authorized to use the major airline's two-letter flight designator codes to identify the regional airline's flights and fares in the central reservation systems, to paint its aircraft with the colors and/or logos of its code-share partner and to market and advertise its status as a carrier for the code-share partner. For example, SkyWest Airlines flies out of Chicago (O'Hare), Denver, Los Angeles and San Francisco as United Express and out of Salt Lake City as Delta Connection and Milwaukee as an AirTran carrier. ASA operates as Delta Connection out of Atlanta and Cincinnati. In addition, the major airline generally provides services such as reservations, ticketing, ground support and gate access to the regional airline, and both partners often coordinate marketing, advertising and other promotional efforts. In exchange, the regional airline provides a designated number of low-capacity (usually between 30 and 70 seats) flights between larger airports served by the major airline and surrounding cities, usually in lower-volume markets. The financial arrangements between the regional airlines and their code-share partners usually involve contractual, or fixed-fee payments based on the flights or a revenue-sharing arrangement based on the flight ticket revenues, as explained below:

*Fixed-Fee Arrangements.* Under a fixed-fee arrangement, the major airline generally pays the regional airline a fixed-fee for each departure, with additional incentives based on completion of flights, on-time performance and baggage handling performance. In addition, the major and regional airline often enter into an arrangement pursuant to which the major airline bears the risk of changes in the price of fuel and other such costs that are passed through to the major airline partner. Regional airlines benefit from a fixed-fee arrangement because they are sheltered from most of the elements that cause volatility in airline earnings, including variations in ticket prices, passenger loads and fuel prices. However, regional airlines in fixed-fee arrangements do not benefit from positive trends in ticket prices, passenger loads or fuel prices and, because the major airlines absorb most of the risks, the margin between the fixed-fees for a flight and the expected per-flight costs tends to be smaller than the margins associated with revenue-sharing arrangements.

*Revenue-Sharing Arrangements.* Under a revenue-sharing arrangement, the major airline and regional airline negotiate a proration formula, pursuant to which the regional airline receives a percentage of the ticket revenues for those passengers traveling for one portion of their trip on the regional airline and the other portion of their trip on the major airline. Substantially all costs associated with the regional airline flight are borne by the regional airline. In such a revenue-sharing arrangement, the regional airline realizes increased profits as ticket prices and passenger loads increase or fuel prices decrease and, correspondingly, realizes decreased profits as ticket prices and passenger loads decrease or fuel prices increase.

**Code-Share Agreements**

SkyWest Airlines and ASA operate under United Express Agreements with United, and SkyWest, SkyWest Airlines and ASA operate under Delta Connection Agreements with Delta. During the fiscal year ended December 31, 2009, SkyWest Airlines operated under the Midwest Services Agreement with Midwest. On November 4, 2009, SkyWest Airlines entered into a code-share agreement with AirTran.

Table of Contents

These code-share agreements authorize Delta, United, Midwest and AirTran to identify our flights and fares under their two-letter flight designator codes ("DL," "UA" "YX", or "FL") in the central reservation systems, and generally require us to paint our aircraft with their colors and logos and to market our status as Delta Connection, United Express, Midwest Connect or AirTran. Under each of our code-share agreements, our passengers participate in the major partner's frequent flyer program, and the major partner provides additional services such as reservations, ticket issuance, ground support services and gate access. We also coordinate our marketing, advertising and other promotional efforts with Delta, United, Midwest and AirTran. As of December 31, 2009, approximately 94% of our passenger revenues related to contract flights, where Delta, United or Midwest controlled scheduling, ticketing, pricing and seat inventories. The remainder of our passenger revenues as of December 31, 2009 related to pro-rate flights, where we controlled scheduling, ticketing, pricing and seat inventories, and shared revenues with Delta, United or AirTran according to pro-rate formulas. The following summaries of our code-share agreements do not purport to be complete and are qualified in their entirety by reference to the applicable agreement.

*SkyWest Airlines Delta Connection Agreement*

SkyWest Airlines and Delta are parties to the SkyWest Airlines Delta Connection Agreement, dated as of September 8, 2005. As of December 31, 2009, SkyWest Airlines operated 21 CRJ900s, 13 CRJ700s and 52 CRJ200s under the SkyWest Airlines Delta Connection Agreement. Additionally, as of December 31, 2009, SkyWest Airlines operated 12 Brasilia turboprops under the Delta code under a revenue-sharing arrangement. SkyWest Airlines operates these aircraft to provide Delta Connection service between Delta hubs and destinations designated by Delta. As of December 31, 2009, SkyWest Airlines was operating approximately 410 Delta Connection flights per day. Delta is entitled to all passenger, cargo and other revenues associated with each flight.

In exchange for providing the designated number of flights and performing SkyWest Airlines' other obligations under the SkyWest Airlines Delta Connection Agreement, SkyWest Airlines is scheduled to receive from Delta on a weekly basis (i) reimbursement for 100% of its direct costs related to the Delta Connection flights plus (ii) a fixed dollar payment per completed flight block hour, subject to annual escalation at an agreed rate. Costs directly reimbursed by Delta under the SkyWest Airlines Delta Connection Agreement include costs primarily related to fuel, aircraft maintenance and ownership.

Among other provisions, the SkyWest Airlines Delta Connection Agreement provides that, beginning with the third anniversary of the execution of the agreement (September 8, 2008), Delta has the right to require that certain contractual rates under that agreement shall not exceed the average rate of all carriers within the Delta Connection Program. On October 23, 2009, Delta sent a letter to SkyWest Airlines requiring it to either adjust the rates payable under the SkyWest Airlines Delta Connection Agreement or accept termination of that agreement, Delta's letter also notified SkyWest Airlines of Delta's estimate of the average rates to be applied under the SkyWest Airlines Delta Connection Agreement. On October 28, 2009, SkyWest Airlines notified Delta of its election to adjust the rates payable under the SkyWest Airlines Delta Connection Agreement; however, SkyWest Airlines also notified Delta of its disagreement with Delta's estimated rates and its belief that the methodology Delta used to calculate its estimated rates is inconsistent with the terms of the SkyWest Airlines Delta Connection Agreement. SkyWest Airlines and Delta have exchanged subsequent correspondence, and SkyWest Airlines continues to negotiate with Delta in an effort to determine an appropriate methodology for calculating the average rates of the carriers within the Delta Connection Program.

The SkyWest Airlines Delta Connection Agreement provides that, beginning with the fifth anniversary of the execution of the agreement (September 8, 2010), Delta has the right to require that certain contractual rates under that agreement shall not exceed the second lowest of all carriers within the Delta Connection Program.

Table of Contents

The SkyWest Airlines Delta Connection Agreement is scheduled to terminate on September 8, 2020, unless Delta elects to exercise its option to extend the term for up to four additional five-year terms. The SkyWest Airlines Delta Connection Agreement is subject to early termination in various circumstances, including:

if SkyWest Airlines or Delta commits a material breach of the SkyWest Airlines Delta Connection Agreement, subject to 30 days notice and cure rights;

if SkyWest Airlines fails to conduct all flight operations and maintain all aircraft under the SkyWest Airlines Delta Connection Agreement in compliance in all material respects with applicable government regulations;

if SkyWest Airlines fails to satisfy certain performance and safety requirements;

if, under certain circumstances, Delta has a right to terminate the ASA Delta Connection Agreement;

if the other party files for bankruptcy, reorganization or similar action (subject to limitations imposed by the U.S. Bankruptcy Code) or if either party makes an assignment for the benefit of creditors; or

if SkyWest Airlines fails to maintain competitive base rate costs (provided that SkyWest Airlines has the right to adjust its rates prior to any such termination).

*ASA Delta Connection Agreement*

ASA and Delta are parties to the ASA Delta Connection Agreement, dated as of September 8, 2005. As of December 31, 2009, ASA operated ten CRJ900s, 38 CRJ700s and 112 CRJ200s for Delta under the ASA Delta Connection Agreement. On January 9, 2009, ASA reached an agreement with Delta to operate an additional ten CRJ900s. The aircraft were previously ordered by Delta and are now being contracted for flying with ASA. As of December 31, 2009, ASA had taken delivery of all of these aircraft. ASA intends to use the aircraft as replacements for 20, 50-seat CRJ200s that are scheduled for removal from contract service between January and August 2010, which is earlier than the existing scheduled termination dates as contained in the Delta Connection Agreement. ASA operates these aircraft to provide Delta Connection service between Delta hubs and destinations designated by Delta. As of December 31, 2009, ASA was operating more than 780 Delta Connection flights per day between Atlanta, Cincinnati and designated outlying destinations. Under the ASA Delta Connection Agreement, Delta is entitled to all passenger, cargo and other revenues associated with each flight. Commencing in 2008, ASA is guaranteed to maintain its percentage of total Delta Connection flights that it had in 2007, so long as its bid for additional regional flying is competitive with bids submitted by other regional carriers.

In exchange for providing the designated number of flights and performing ASA's other obligations under the ASA Delta Connection Agreement, ASA is scheduled to receive from Delta on a weekly basis (i) reimbursement for 100% of its direct costs related to Delta Connection flights plus (ii) if ASA completes a certain minimum percentage of its Delta Connection flights, an amount equal to a certain percentage of the direct costs (not including fuel costs) related to the Delta Connection flights. Costs directly reimbursed by Delta under the ASA Delta Connection Agreement include costs related to fuel, ground handling, and aircraft maintenance and ownership. The ASA Delta Connection Agreement also provides for incentive compensation based upon ASA's performance, including on-time arrival performance and completion percentage rates.

Among other provisions, the ASA Delta Connection Agreement provides that, beginning with the third anniversary of the execution of the agreement (September 8, 2008), Delta has the right to require that certain contractual rates under that agreement shall not exceed the average rate of all carriers

Table of Contents

within the Delta Connection Program. On October 23, 2009, Delta sent a letter to ASA requiring it to either adjust the rates payable under the ASA Delta Connection Agreement or accept termination of that agreement. Delta's letter also notified ASA of Delta's estimate of the average rates to be applied under the ASA Delta Connection Agreement. On October 28, 2009, ASA notified Delta of its election to adjust the rates payable under the ASA Delta Connection Agreement; however, ASA also notified Delta of its disagreement with Delta's estimated rates and its belief that the methodology Delta used to calculate its estimated rates is inconsistent with the terms of the ASA Delta Connection Agreement. ASA and Delta have exchanged subsequent correspondence, and ASA continues to negotiate with Delta in an effort to determine an appropriate methodology for calculating the average rates of the carriers within the Delta Connection Program.

The ASA Delta Connection Agreement provides that, beginning with the fifth anniversary of the execution of the agreement (September 8, 2010), Delta has the right to require that certain contractual rates under that agreement shall not exceed the second lowest of all carriers within the Delta Connection Program.

The ASA Delta Connection Agreement is scheduled to terminate on September 8, 2020, unless Delta elects to exercise its option to extend the term for up to four additional five-year terms. The ASA Delta Connection Agreement is subject to early termination in various circumstances including:

if ASA or Delta commits a material breach of the ASA Delta Connection Agreement, subject to 30 days notice and cure rights;

if ASA fails to conduct all flight operations and maintain all aircraft under the ASA Delta Connection Agreement in compliance in all material respects with applicable government regulations;

if ASA fails to satisfy certain performance and safety requirements;

if, under certain circumstances, Delta has a right to terminate the SkyWest Airlines Delta Connection Agreement;

if the other party files for bankruptcy, reorganization or similar action (subject to limitations imposed by the U. S. Bankruptcy Code) or if either party makes an assignment for the benefit of creditors; or

if ASA fails to maintain competitive base rate costs (provided that ASA has the right to adjust its rates prior to any such termination).

*SkyWest, Inc. Delta Connection Agreement*

In December 2007, we expanded our relationship with Delta by entering into a Delta Connection Agreement which awarded us the right to operate 12 CRJ700s, previously operated by Comair. This Delta Connection Agreement is ancillary to, and satisfied certain obligations of Delta under the ASA Delta Connection Agreement. We have the right to designate either SkyWest Airlines or ASA to operate the 12 aircraft to provide service, primarily to and from Delta's Cincinnati hub through February 2012 (subject to Delta's right to extend the arrangement for up to three additional three-year terms). Under the arrangement, Delta has agreed to pay ASA or SkyWest Airlines, as applicable, a fixed-fee per completed block hour, a fixed-fee per completed departure, a fixed-fee for overhead, a one-time start-up payment for each aircraft delivered and incentive payments based upon performance, including on-time arrival performance and completion percentage rates. Additionally, Delta has agreed to reimburse SkyWest Airlines or ASA, as applicable, for certain operating costs under this Delta Connection Agreement.

Table of Contents*SkyWest Airlines United Express Agreement*

SkyWest Airlines and United are parties to the United Express Agreement entered into on July 31, 2003. As of December 31, 2009, SkyWest Airlines operated 66 CRJ700s, 81 CRJ200s and 39 Brasilia turboprops under the United Express Agreement, flying a total of approximately 1,060 United Express flights per day between Chicago (O'Hare), Denver, Los Angeles, San Francisco, Portland and Seattle/Tacoma and designated outlying destinations. Generally, under the United Express Agreement, United retains all air fares, cargo rates, mail charges and other revenues associated with each flight.

In exchange for providing the designated number of flights and performing SkyWest Airlines' obligations under the United Express Agreement, SkyWest Airlines receives from United compensation (subject to an annual adjustment) of a fixed-fee per completed block hour, a fixed-fee per completed departure, a fixed-fee per passenger, a fixed-fee for overhead and aircraft costs, and a one-time start-up payment for each aircraft delivered. The United Express Agreement provides for incentives based upon SkyWest Airlines' performance, including on-time arrival performance and completion percentage rates. Additionally, certain of SkyWest Airlines' operating costs are reimbursed by United, including costs related to fuel and aircraft ownership. As of December 31, 2009, 27 of the 39 Brasilia turboprops and 14 of the 81 CRJ200s were operated under a revenue-sharing arrangement.

On October 16, 2009, SkyWest Airlines extended to United a secured term loan in the amount of \$80 million. The term loan bears interest at a rate of 11%, with a ten-year amortization period. The loan is secured by certain ground equipment and airport slot rights held by United. SkyWest Airlines also agreed to defer certain amounts otherwise payable to SkyWest Airlines under the existing United Express Agreement. The maximum deferral amount is \$49 million and any amounts deferred accrue a deferral fee of 8%, payable weekly. United's right to defer such payments is scheduled to terminate in ten years.

On October 16, 2009, SkyWest Airlines extended existing rights to operate 40 regional jet aircraft under the United Express Agreement until the end of their current lease terms (on average 8.4 years). The following table is the updated schedule of expirations for the SkyWest Airlines United Express contract aircraft:

<b>Year</b>	<b>Brasilia Turboprops</b>	<b>CRJ200s</b>	<b>CRJ700s</b>
2010	1	2	
2011		4	
2013	9	11	1
2014			10
2015		10	31
2016			10
2017		2	
2018		7	
2019		2	9
2020			9
2021		15	
2022		8	
2024		6	

United has the option, upon one year's notice, of extending the United Express Agreement for five years. The United Express Agreement is subject to early termination in various circumstances including:

if SkyWest Airlines or United fails to fulfill an obligation under the United Express Agreement for a period of 60 days after written notice to cure;

Table of Contents

if SkyWest Airlines' operations fall below certain performance levels for a period of three consecutive months;

subject to limitations imposed by the U.S. Bankruptcy Code, if the other party becomes insolvent, fails to pay its debts when due, takes action leading to its cessation as a going concern, makes an assignment of substantially all of its assets, or ceases or suspends operations;

if bankruptcy proceedings are commenced against the other party (subject to limitations imposed by the U.S. Bankruptcy Code) and certain specified conditions are not satisfied; or

if SkyWest Airlines operates, subject to certain exceptions, any additional regional jets or turboprop aircraft pursuant to a marketing or code-share relationship with any party other than United to provide hub service at United's hubs in Chicago (O'Hare), Denver, San Francisco, Seattle/Tacoma, or Washington, D.C. (Dulles International Airport).

*ASA United Express Agreement*

On February 10, 2010, ASA and United entered into the ASA United Express Agreement, pursuant to which ASA has agreed to operate 14 CRJ200 aircraft as a United Express carrier. On February 11, 2010, ASA began operating as a United Express carrier, and we anticipate that the 14 United Express regional jets to be flown by ASA will be in operation by May of 2010. The ASA United Express Agreement is a capacity purchase agreement with a five-year term, and other terms which are generally consistent with the SkyWest Airlines United Express Agreement.

*AirTran*

On November 4, 2009, SkyWest Airlines entered into a code-share agreement with AirTran. Under the terms of the code-share agreement, SkyWest Airlines has agreed to operate five CRJ200s for AirTran under a pro-rate arrangement. SkyWest Airlines commenced AirTran service with two aircraft in December 2009 and added three additional aircraft in January and February of 2010. The code-share agreement has a three-year term; however, after May 15, 2010, either party may terminate the agreement upon 120 days written notice.

*Midwest Airline Services Agreement*

On June 10, 2009, SkyWest Airlines announced the wind down of the Midwest Services Agreement. As a result, SkyWest Airlines and Midwest terminated the Midwest Services Agreement on December 31, 2009 and SkyWest Airlines removed the remaining 12 CRJ200s out of Midwest service by January 2010.

**Markets and Routes**

As of December 31, 2009, SkyWest Airlines and ASA scheduled the following daily flights as Delta Connection carriers: 754 flights to or from Hartsfield- Jackson Atlanta International Airport, 388 flights to or from Salt Lake City International Airport and 22 flights to or from Cincinnati/Northern Kentucky International Airport.

As of December 31, 2009, SkyWest Airlines scheduled the following daily flights as a United Express carrier: 250 flights to or from Chicago O'Hare International Airport, 320 flights to or from Denver International Airport, 210 flights to or from Los Angeles International Airport, 238 flights to or from San Francisco International Airport and 42 flights to or from other outlying airports.

As of December 31, 2009, SkyWest Airlines scheduled 20 daily flights as a Midwest Connect carrier to or from Milwaukee International Airport.

Table of Contents

As of December 31, 2009, SkyWest Airlines scheduled 10 daily flights as an AirTran carrier to or from Milwaukee International Airport.

Our flight schedules are structured to facilitate the connection of our passengers with flights of our major partners at the airports we serve.

**Training and Aircraft Maintenance**

SkyWest Airlines' and ASA's employees perform substantially all routine airframe and engine maintenance and periodic inspection of equipment at their respective maintenance facilities, and provide substantially all training to SkyWest Airlines and ASA crew members and maintenance personnel at their respective training facilities. SkyWest Airlines and ASA also contract with third party vendors for non-routine airframe and engine maintenance.

**Fuel**

Historically, we have not experienced problems with the availability of fuel, and believe we will be able to obtain fuel in quantities sufficient to meet our existing and anticipated future requirements at competitive prices. Standard industry contracts generally do not provide protection against fuel price increases, nor do they ensure availability of supply. However, our code-share agreements with Delta and United provide for fuel used in the performance of the code-share agreements to be reimbursed by our major partners, thereby reducing our exposure to fuel price fluctuations. United purchased fuel directly from a fuel vendor for our United Express aircraft under contract operated out of Chicago, San Francisco, Los Angeles and Denver; Midwest purchased all of the fuel for our Midwest aircraft directly from Midwest's fuel vendors and as of June 1, 2009, Delta purchased the majority of the fuel for our Delta aircraft under contract directly from its fuel vendors. During the year ended December 31, 2009, approximately 92.2% of our fuel purchases were associated with our Delta and United code-share agreements and were reimbursed by our major partners. A substantial increase in the price of jet fuel, to the extent our fuel costs are not reimbursed, or the lack of adequate fuel supplies in the future, could have a material adverse effect on our business, financial condition, results of operations and liquidity.

**Employees**

As of December 31, 2009, SkyWest and SkyWest Airlines collectively employed 8,654 full-time equivalent employees consisting of 4,232 pilots and flight attendants, 2,833 customer service personnel, 1,106 mechanics and other maintenance personnel, and 483 administration and support personnel. None of these employees are currently represented by a union. We are aware, however, that collective bargaining group organization efforts among SkyWest Airlines' employees occur from time to time and we anticipate that such efforts will continue in the future. If unionization efforts are successful, we may be subjected to risks of work interruption or stoppage and/or incur additional expenses associated with increased union representation of our employees. SkyWest Airlines has never experienced a work stoppage due to a strike or other labor dispute, and we consider SkyWest Airlines' relationships with its employees to be good.

As of December 31, 2009, ASA employed approximately 3,604 full-time equivalent employees consisting of 2,227 pilots and flight attendants, 240 customer service personnel, 901 mechanics and other maintenance personnel, and 236 administration and support personnel. Three of ASA's employee groups are represented by unions. ASA's pilots are represented by the Air Line Pilots Association International, ASA's flight attendants are represented by the Association of Flight Attendants CNA, and ASA's flight controllers are represented by the Professional Airline Flight Control Association. ASA's collective bargaining agreement with its pilots will become amendable on November 20, 2010. ASA's collective bargaining agreement with its flight attendants will become amendable in July 20, 2011.

Table of Contents

The collective bargaining agreement between ASA and its flight controllers became amendable in April 2006, and ASA is currently engaged in negotiations with its flight controllers. ASA has never experienced a work stoppage due to a strike or other labor dispute, and considers its relationships with employees to be good.

**Government Regulation**

All interstate air carriers, including SkyWest Airlines and ASA, are subject to regulation by the U.S. Department of Transportation (the "DOT"), the U.S. Federal Aviation Administration (the "FAA") and other governmental agencies. Regulations promulgated by the DOT primarily relate to economic aspects of air service. The FAA requires operating, air worthiness and other certificates; approval of personnel who may engage in flight, maintenance or operating activities; record-keeping procedures in accordance with FAA requirements; and FAA approval of flight training and retraining programs. Generally, governmental agencies enforce their regulations through, among other ways, certifications, which are necessary for the continued operations of SkyWest Airlines and ASA, and proceedings, which can result in civil or criminal penalties or revocation of operating authority. The FAA can also issue maintenance directives and other mandatory orders relating to, among other things, grounding of aircraft, inspection of aircraft, installation of new safety-related items and the mandatory removal and replacement of aircraft parts.

We believe SkyWest Airlines and ASA are operating in compliance with FAA regulations and hold all operating and airworthiness certificates and licenses which are necessary to conduct their respective operations. We incur substantial costs in maintaining current certifications and otherwise complying with the laws, rules and regulations to which SkyWest Airlines and ASA are subject. SkyWest Airlines' and ASA's flight operations, maintenance programs, record keeping and training programs are conducted under FAA approved procedures. SkyWest Airlines and ASA do not currently operate at any airports where landing slots are restricted.

All air carriers are required to comply with federal laws and regulations pertaining to noise abatement and engine emissions. All air carriers are also subject to certain provisions of the Federal Communications Act of 1934, as amended, because of their extensive use of radio and other communication facilities. SkyWest Airlines and ASA are also subject to certain other federal and state laws relating to protection of the environment, labor relations and equal employment opportunity. We believe SkyWest Airlines and ASA are in compliance in all material respects with these laws and regulations.

**Environmental Matters**

SkyWest, SkyWest Airlines and ASA are subject to various federal, state, local and foreign laws and regulations relating to environmental protection matters. These laws and regulations govern such matters as environmental reporting, storage and disposal of materials and chemicals and aircraft noise. We are, and expect in the future to be, involved in various environmental matters and conditions at, or related to, our properties. We are not currently subject to any environmental cleanup orders or actions imposed by regulatory authorities. We are not aware of any active material environmental investigations related to our assets or properties.

**Safety and Security**

We are committed to the safety and security of our passengers and employees. Since the September 11, 2001 terrorist attacks, SkyWest Airlines and ASA have taken many steps, both voluntarily and as mandated by governmental agencies, to increase the safety and security of their operations. Some of the safety and security measures we have taken with our code-share partners include: aircraft security and surveillance, positive bag matching procedures, enhanced passenger and baggage screening and search procedures, and securing of cockpit doors. We are committed to complying with future safety and security requirements.

Table of Contents

**Insurance**

SkyWest Airlines and ASA maintain insurance policies we believe are of types customary in the industry and in amounts we believe are adequate to protect against material loss. These policies principally provide coverage for public liability, passenger liability, baggage and cargo liability, property damage, including coverages for loss or damage to our flight equipment, and workers' compensation insurance. We cannot assure, however, that the amount of insurance we carry will be sufficient to protect us from material loss.

**Seasonality**

Our results of operations for any interim period are not necessarily indicative of those for the entire year, since the airline industry is subject to seasonal fluctuations and general economic conditions. Our operations are somewhat favorably affected by pleasure travel on our pro-rate routes, historically contributing to increased travel in the summer months, and are unfavorably affected by decreased business travel during the months from November through January and by inclement weather which occasionally results in cancelled flights, principally during the winter months.

**ITEM 1A. RISK FACTORS**

*In addition to factors discussed elsewhere in this Report, the following are important risks which could adversely affect our future results. Additional risks and uncertainties not presently known to us or that we currently do not deem material may also impair our business operations. If any of the risks we describe below occur, or if any unforeseen risk develops, our operating results may suffer, our financial condition may deteriorate, the trading price of our common stock may decline and investors could lose all or part of their investment in us.*

**Risks Related to Our Operations**

***We are highly dependent on Delta and United.***

If any of our code-share agreements with Delta or United are terminated, we would be significantly impacted and likely would not have an immediate source of revenue or earnings to offset such loss. A termination of any of these agreements would likely have a material adverse effect on our financial condition, operating revenues and net income unless we are able to enter into satisfactory substitute arrangements for the utilization of the affected aircraft by other code-share partners, or, alternatively, obtain the airport facilities and gates and make the other arrangements necessary to fly as an independent airline. We may not be able to enter into substitute code-share arrangements, and any such arrangements we might secure may not be as favorable to us as our current agreements. Operating our airline independent from major partners would be a significant departure from our business plan, would likely be very difficult and may require significant time and resources, which may not be available to us at that point.

The current terms of the SkyWest, SkyWest Airlines and ASA Delta Connection Agreements are subject to certain early termination provisions. Delta's termination rights include cross-termination rights (meaning that a breach by SkyWest, SkyWest Airlines or ASA of its Delta Connection Agreement could, under certain circumstances, permit Delta to terminate any or all of the Delta Connection Agreements), the right to terminate each of the agreements upon the occurrence of certain force majeure events (including certain labor-related events) that prevent SkyWest Airlines or ASA from performance for certain periods and the right to terminate each of the agreements if SkyWest Airlines or ASA, as applicable, fails to maintain competitive base rate costs, subject to certain rights of SkyWest Airlines to take corrective action to reimburse Delta for lost revenues. The current terms of the SkyWest Airlines and ASA United Express Agreements are subject to certain early termination provisions and subsequent renewals. United may terminate the SkyWest Airlines and ASA United

Table of Contents

Express Agreements due to an uncured breach by SkyWest Airlines or ASA of certain operational and performance provisions, including measures and standards related to flight completions, baggage handling and on-time arrivals.

We currently use Delta's and United's systems, facilities and services to support a significant portion of our operations, including airport and terminal facilities and operations, information technology support, ticketing and reservations, scheduling, dispatching, fuel purchasing and ground handling services. If Delta or United were to cease any of these operations or no longer provide these services to us, due to termination of one of our code-share agreements, a strike or other labor interruption by Delta or United personnel or for any other reason, we may not be able to replace these services on terms and conditions as favorable as those we currently receive, or at all. Since our revenues and operating profits are dependent on our level of flight operations, we could then be forced to significantly reduce our operations. Furthermore, upon certain terminations of our code-share agreements, Delta and United could require us to sell or assign to them facilities and inventories, including maintenance facilities, we use in connection with the code-share services we provide. As a result, in order to offer airline service after termination of any of our code-share agreements, we may have to replace these airport facilities, assets and services. We may be unable to arrange such replacements on satisfactory terms, or at all.

***We may be negatively impacted by the troubled financial condition of Delta and United.***

For the year ended December 31, 2009 approximately 98.1% of our ASMs were attributable to our code-share agreements with Delta and United. Both Delta and United have incurred significant losses in recent years, which materially weakened their financial condition. Because of their weakened financial condition, there is no assurance that either United or Delta will ultimately succeed or will remain a going concern over the long term. Volatility in fuel prices may negatively impact both Delta's and United's results of operations and financial condition. Among other risks, Delta and United are vulnerable both to unexpected events (such as additional terrorist attacks or additional spikes in fuel prices) and to deterioration of the operating environment (such as a recession or significant increased competition). There is no assurance that Delta or United will be able to operate successfully under these financial conditions.

In light of the importance of our code-share agreements with Delta and United to our business, the termination of these agreements could jeopardize our operations. Such events could leave us unable to operate many of our current aircraft, as well as additional aircraft we are obligated to purchase, which would likely result in a material adverse effect on our operations and financial condition.

The financial condition of Delta and United will continue to pose risks for our operations. Serial bankruptcies are not unprecedented in the commercial airline industry, and Delta and/or United could file for bankruptcy again, in which case our code-share agreements could be subject to termination under the U.S. Bankruptcy Code. Regardless of whether subsequent bankruptcy filings prove to be necessary, Delta and United have required, and will likely continue to require, our participation in efforts to reduce costs and improve their respective financial positions. These efforts could result in lower utilization rates of our aircraft, lower departure rates on the contract flying portion of our business, more volatile operating margins and more aggressive contractual positions, which could result in additional litigation. We believe that any of these developments could have a negative effect on many aspects of our operations and financial condition.

On October 16, 2009, SkyWest Airlines entered into a series of transactions with United that provided operational funding to United, extended SkyWest Airlines' existing rights to operate 40 regional jet aircraft under the SkyWest Airlines United Express Agreement until the end of their current lease terms and created an opportunity for ASA to operate 14 regional jet aircraft as a United Express carrier. We anticipate that ASA will begin operating as a United Express carrier starting in the

Table of Contents

first quarter of 2010, and the 14 United Express regional jets to be flown by ASA will be in operation by May of 2010. We also anticipate that ASA will operate these aircraft under a capacity purchase agreement with a five-year term, and other terms which are generally consistent with the existing SkyWest Airlines United Express Agreement.

Also on October 16, 2009, SkyWest Airlines extended to United a secured term loan in the amount of \$80 million. The term loan bears interest at a rate of 11%, with a ten-year amortization period. The loan is secured by certain ground equipment and airport slot rights held by United. SkyWest Airlines also agreed to defer certain amounts otherwise payable to SkyWest Airlines under the existing SkyWest Airlines United Express Agreement. The maximum deferral amount is \$49 million and any amounts deferred accrue a deferral fee of 8%, payable weekly. United's right to defer such payments is scheduled to terminate in ten years.

A default by United under the SkyWest Airlines United Express Agreement, the ASA United Express Agreement, the term loan extended by SkyWest Airlines to United or United's obligation to repay certain amounts deferred pursuant to the financing arrangement we established with United in October 2009, could have a material adverse effect on our financial condition, results of operations, liquidity and the price of our common stock.

***The amounts we receive under our code-share agreements may be less than the actual amounts of the corresponding costs we incur.***

Under our code-share agreements with Delta and United, we are compensated for certain costs we incur in providing services. With respect to costs that are defined as "pass-through" costs, our code-share partner is obligated to pay to us the actual amount of the cost (and, with respect to the ASA Delta Connection Agreement, a pre-determined rate of return based upon the actual cost we incur). With respect to other costs, our code-share partner is obligated to pay to us amounts based, in part, on pre-determined rates for certain costs. During the year ended December 31, 2009, approximately 46% of our costs were pass-through costs and approximately 54% of our costs were reimbursable at pre-determined rates. These pre-determined rates may not be based on the actual expenses we incur in delivering the associated services. If we incur expenses that are greater than the pre-determined reimbursement amounts payable by our code-share partners, our financial results will be negatively affected.

***The rates we are paid under the Delta Connection Agreements are subject to adjustment and, if adjusted downward beyond our current estimates, our financial results would be negatively affected.***

SkyWest Airlines and ASA have each entered into a Delta Connection Agreement with Delta, pursuant to which SkyWest Airlines and ASA provide contract flight services for Delta. Among other provisions, those Delta Connection Agreements provide that, beginning with the third anniversary of the execution of the agreements (September 8, 2008), Delta has the right to require that certain contractual rates under those agreements shall not exceed the average rate of all carriers. As of December 31, 2009, SkyWest Airlines and ASA had not finalized the contractual rates under their respective Delta Connection Agreements. On October 23, 2009, Delta sent letters to SkyWest Airlines and ASA requiring them to either adjust the rates payable under their respective Delta Connection Agreements or accept termination of those agreements. Delta also notified SkyWest Airlines and ASA of Delta's estimate of the average rates to be applied under the Delta Connection Agreements. On October 28, 2009, SkyWest Airlines and ASA notified Delta of their election to adjust the rates payable under the Delta Connection Agreements; however, they also notified Delta of their disagreement with Delta's estimated rates and their belief that the methodology Delta used to calculate its estimated rates is inconsistent with the terms of the Delta Connection Agreements. SkyWest Airlines and ASA have exchanged subsequent correspondence with Delta, and SkyWest Airlines and ASA continue to negotiate with Delta in an effort to determine an appropriate methodology for calculating the average rates of

Table of Contents

the carriers within the Delta Connection program. Because SkyWest Airlines and ASA have not reached an agreement with Delta regarding the final contractual rates to be established under the Delta Connection Agreements, we have evaluated our method for calculating the average rate of the carriers within the Delta Connection Program under the revenue recognition accounting guidance and recorded revenue under those agreements based on our management's understanding of the applicable terms in the Delta Connection Agreements and our management's best estimate of the revenue that will ultimately be realized upon settlement of the contractual rates with Delta with respect to the year ended December 31, 2009. There can be no assurance that the methodology we have used to estimate the average rate which will be established pursuant to the Delta Connection Agreements will ultimately be used for purposes of determining the average rate to which we will be subject. If our disagreement with Delta on this issue is not resolved consistent with management's interpretation, our operating results and financial condition may be negatively impacted.

The SkyWest Airlines and ASA Delta Connection Agreements provide that, beginning with the fifth anniversary of the execution of the agreements (September 8, 2010), Delta has the right to require that certain contractual rates under those agreements shall not exceed the 2<sup>nd</sup> lowest of all carriers within the Delta Connection Program.

***SkyWest Airlines and ASA are engaged in litigation with Delta, which may negatively impact our financial results and our relationship with Delta***

During the quarter ended December 31, 2007, Delta notified SkyWest, SkyWest Airlines and ASA of a dispute under the Delta Connection Agreements executed by Delta with SkyWest Airlines and ASA. The dispute relates to allocation of liability for IROP expenses that are paid by SkyWest Airlines and ASA to their passengers under certain situations. As a result, Delta withheld a combined total of approximately \$25 million (pretax) from one of the weekly scheduled wire payments to SkyWest Airlines and ASA during December 2007. Delta continues to withhold a portion of the funds we believe are payable as weekly scheduled wire payments to SkyWest Airlines and ASA. As of December 31, 2009, we had recognized a cumulative total of \$32.4 million of revenue associated with the funds withheld by Delta. On February 1, 2008, SkyWest Airlines and ASA filed a lawsuit in Georgia state court disputing Delta's treatment of the matter (the "Complaint"). Delta filed an Answer to the Complaint and a Counterclaim against SkyWest Airlines and ASA on March 24, 2008. Delta's Counterclaim alleges that ASA and SkyWest Airlines breached the Delta Connection Agreements by invoicing Delta for the IROP expenses that were paid pursuant to Delta's policies, and claims only a portion of those expenses may be invoiced to Delta. Delta seeks unspecified damages in its counterclaim.

On March 24, 2008, Delta filed a Motion to Dismiss the Complaint (the "Motion to Dismiss"). A hearing on the Motion to Dismiss was held September 5, 2008. In an order entered September 13, 2008, the Court granted in part and denied in part the Motion to Dismiss. The Court denied the Motion to Dismiss with respect to the breach of contract claim contained in the Complaint. The Court denied in part the Motion to Dismiss with respect to the action for declaratory judgment contained in the Complaint, and granted in part the Motion to Dismiss to the extent the Complaint seeks to read alternative or supplemental obligations created by prior conduct into the Delta Connection Agreements. The Court granted the Motion to Dismiss with respect to claims for estoppel, unilateral mistake, and mutual mistake contained in the Complaint. The Court's ruling affects the current posture of the case, but does not preclude pursuit of the claim for breach of contract or the claim for declaratory relief, under which SkyWest Airlines and ASA continue to seek recovery of all amounts withheld by Delta.

On July 31, 2009, SkyWest Airlines and ASA filed an Amended Complaint in the lawsuit adding claims under Georgia law for voluntary payment and mutual departure from the strict terms of the Delta Connection Agreements. Under those theories, SkyWest Airlines and ASA seek recovery of all of

Table of Contents

the approximately \$25 million withheld by Delta during December 2007. SkyWest Airlines and ASA are also seeking recovery of additional amounts withheld by Delta subsequent to December 2007. Discovery on all of SkyWest's Airlines' and ASA's claims and defenses is in process. On September 4, 2009, Delta filed a motion to dismiss the Amended Complaint in part. Delta asserts that the claims added by SkyWest Airlines and ASA in the Amended Complaint should be dismissed based on legal arguments set forth in Delta's memorandum in support of its motion. On January 22, 2010, the Court granted Delta's motion in part, dismissing the claims under Georgia law for voluntary payment and mutual departure from the strict terms of the Connection Agreements. SkyWest Airlines and ASA have filed an application seeking an interlocutory appeal of the Court's order and continue to vigorously pursue their claims set forth in the Amended Complaint, to the extent permitted by the Court's ruling on the Motion to Dismiss, and their defenses to Delta's counterclaims.

There can be no assurance that the dispute will be resolved consistent with the position taken by SkyWest Airlines and ASA. If the dispute is not resolved consistent with the position taken by SkyWest Airlines and ASA our financial results would be negatively impacted. The litigation may have other negative effects on our relationship with Delta and our operations under the existing Delta Connection Agreements.

***Disagreements regarding the interpretation of our code-share agreements with our major partners could have an adverse effect on our operating results and financial condition.***

SkyWest and its subsidiaries have entered into code-share agreements with Delta and United. For the year ended December 31, 2009, more than 98% of our ASMs were attributable to flights we flew under those agreements. We anticipate that, for the foreseeable future, substantially all of our revenues will be generated under existing or future code-share agreements.

Contractual agreements, such as our code-share agreements, are subject to interpretation and disputes may arise under such agreements if the parties to an agreement apply different interpretations to that agreement. Those disputes may divert management time and resources from the core operation of the business, and may result in litigation, arbitration or other forms of dispute resolution.

In recent years we have experienced disagreements with our major partners regarding the interpretation of various provisions of our code-share agreements. Some of those disagreements have resulted in litigation (see the preceding risk factor entitled *SkyWest Airlines and ASA are engaged in litigation with Delta, which may negatively impact our financial results and our relationship with Delta*), and we may be subject to additional disputes and litigation in the future. Those disagreements have also required a significant amount of management time and financial resources.

To the extent that we continue to experience disagreements regarding the interpretation of our code-share or other agreements, we will likely expend valuable management time and financial resources in our efforts to resolve those disagreements. Those disagreements may result in litigation, arbitration or other proceedings. Furthermore, there can be no assurance that any or all of those proceedings, if commenced, would be resolved in our favor. An unfavorable result in any such proceeding could have adverse financial consequences or require us to modify our operations. Such disagreements and their consequences could have an adverse effect on our operating results and financial condition.

***We have a significant amount of contractual obligations.***

As of December 31, 2009, we had a total of approximately \$2.0 billion in total long-term debt obligations. Substantially all of this long-term debt was incurred in connection with the acquisition of aircraft, engines and related spare parts. We also have significant long-term lease obligations primarily relating to our aircraft fleet. These leases are classified as operating leases and therefore are not reflected as liabilities in our consolidated balance sheets. At December 31, 2009, we had 284 aircraft

Table of Contents

under lease, with remaining terms ranging from one to 17 years. Future minimum lease payments due under all long-term operating leases were approximately \$2.9 billion at December 31, 2009. At a 5.8% discount factor, the present value of these lease obligations was equal to approximately \$2.1 billion at December 31, 2009. As of December 31, 2009, we had commitments of approximately \$98.0 million to purchase four CRJ700s. We expect to complete these deliveries by the first quarter of 2010. Our high level of fixed obligations could impact our ability to obtain additional financing to support additional expansion plans or divert cash flows from operations and expansion plans to service the fixed obligations.

***There are risks associated with our regional jet strategy, including potential oversupply and possible passenger dissatisfaction.***

Our selection of Bombardier Regional Jets as the primary aircraft for our existing operations and projected growth involves risks, including the possibility that there may be an oversupply of regional jets available for sale in the foreseeable future, due, in part, to the financial difficulties of regional and major airlines, including Delta, United, Comair, Mesa and ExpressJet. A large supply of regional jets may allow other carriers, or even new carriers, to acquire aircraft for unusually low acquisition costs, allowing them to compete more effectively in the industry, which may ultimately harm our operations and financial performance.

Our regional jet strategy also presents the risk that passengers may find the Bombardier Regional Jets to be less attractive than other aircraft, including other regional jets. Recently, several other models of regional jets have been introduced by manufacturers other than Bombardier. If passengers develop a preference for other regional jet models, our results of operation and financial condition could be negatively impacted.

***We may be limited from expanding our flying within the Delta and United flight systems, and there are constraints on our ability to provide airline services to airlines other than Delta and United.***

Additional growth opportunities within the Delta and United flight systems are limited by various factors. Except as currently contemplated by our existing code-share agreements, we cannot assure that Delta or United will contract with us to fly any additional aircraft. We may not receive additional growth opportunities, or may agree to modifications to our code-share agreements that reduce certain benefits to us in order to obtain additional aircraft, or for other reasons. Furthermore, the troubled financial condition, bankruptcies and restructurings of Delta and United may reduce the growth of regional flying within their flight systems. Given the troubled nature of the airline industry, we believe that some of our competitors may be more inclined to accept reduced margins and less favorable contract terms in order to secure new or additional code-share operations. Even if we are offered growth opportunities by our major partners, those opportunities may involve economic terms or financing commitments that are unacceptable to us. Any one or more of these factors may reduce or eliminate our ability to expand our flight operations with our existing code-share partners. Additionally, even if Delta and/or United choose to expand our fleet on terms acceptable to us, they may be allowed at any time to subsequently reduce the number of aircraft covered by our code-share agreements. We also cannot provide any assurance that we will be able to obtain the additional ground and maintenance facilities, including gates, and support equipment, to expand our operations. The failure to obtain these facilities and equipment would likely impede our efforts to implement our business strategy and could materially adversely affect our operating results and our financial condition.

Delta, United and/or AirTran may be restricted in increasing their business with us, due to "scope" clauses in the current collective bargaining agreements with their pilots that restrict the number and size of regional jets that may be operated in their flight systems not flown by their pilots. Delta's scope limitations restrict its partners from operating aircraft with over 76 seats, even if those aircraft are operated for an airline other than Delta. We cannot assure that these scope clauses will not become more restrictive in the future. Any additional limit on the number of regional jets we can fly for our code-share partners could have a material adverse effect on our expansion plans and the price of our common stock.

Table of Contents

Our business model depends on major airlines, including Delta and United, electing to contract with us instead of operating their own regional jets. Some major airlines, including Delta, American and Alaska Airlines, own their own regional airlines or operate their own regional jets instead of entering into contracts with regional carriers. We have no guarantee that in the future our code-share partners will choose to enter into contracts with us instead of operating their own regional jets. Our partners are not prohibited from doing so under our code-share agreements. A decision by Delta or United to phase out code-share relationships and instead acquire and operate their own regional jets could have a material adverse effect on our financial condition, results of operations or the price of our common stock.

Additionally, our code-share agreements limit our ability to provide airline services to other airlines in certain major airport hubs of each of Delta and United. Under the SkyWest Airlines Delta Connection Agreement, our growth is contractually restricted in Atlanta, Cincinnati, Orlando and Salt Lake City. Under the ASA Delta Connection Agreement, our growth is restricted in Atlanta, Cincinnati, New York (John F. Kennedy International Airport), Orlando and Salt Lake City. Under the SkyWest Airlines United Express Agreement, growth is restricted in Chicago (O'Hare International Airport), Denver, San Francisco, Seattle/Tacoma and Washington D.C. (Dulles International Airport).

***Economic and industry conditions constantly change, and negative economic conditions in the United States and other countries may create challenges for us that could materially and adversely affect our operations and financial condition.***

Our operations and financial condition are affected by many changing economic and other conditions beyond our control, including, among others:

disruptions in the credit markets, which have resulted in greater volatility, less liquidity, widening of credit spreads, and decreased availability of financing;

actual or potential changes in international, national, regional and local economic, business and financial conditions, including recession, inflation, higher interest rates, wars, terrorist attacks or political instability;

changes in consumer preferences, perceptions, spending patterns or demographic trends;

changes in the competitive environment due to industry consolidation and other factors;

actual or potential disruptions to U.S. air traffic control systems;

outbreaks of diseases that affect travel behavior; and

weather and natural disasters.

The aggregate effect of any, or some combination, of the foregoing economic and industry conditions on our operations or financial condition is virtually impossible to forecast; however, the occurrence of any or all of such conditions in a significant manner could materially and adversely affect our operations and financial condition.

***Reduced utilization levels of our aircraft under our code-share agreements would adversely impact our financial results.***

Our code-share agreements set forth minimum levels of flight operations which our major partners are required to schedule for our operations and we are required to provide. These minimum flight operating levels are intended to compensate us for reduced operating efficiencies caused by production decreases made by our major partners under our respective code-share agreements. Generally, our major partners have utilized our flight operations at levels which exceed the minimum levels set forth in our code-share agreements. For the year ended December 31, 2009 our block hours decreased

Table of Contents

approximately 1.0% from the year ended December 31, 2008 and for certain months of the year ended December 31, 2009 the block hours flown under certain of our code-share agreements were lower than the minimum levels set forth in those agreements. However, if our major partners schedule the utilization of our aircraft below historical levels (including taking into account the stage length and frequency of our scheduled flights), we may not be able to maintain operating efficiencies previously obtained, which would negatively impact our operating results and financial condition. Continued reduced utilization levels of our aircraft under our code-share agreements would adversely impact our financial results.

***Increased labor costs, strikes, labor disputes and increased unionization of our workforces may adversely affect our ability to conduct our business.***

Our business is labor intensive, requiring large numbers of pilots, flight attendants, mechanics and other personnel. Labor costs constitute a significant percentage of our total operating costs. For example, during the year ended December 31, 2009, our salary, wage and benefit costs constituted approximately 29.1% of our total operating costs. Increases in our unionized labor costs could result in a material reduction in our earnings. Any new collective bargaining agreements entered into by other regional carriers with their work forces may also result in higher industry wages and increased pressure on us to increase the wages and benefits of our employees. Future agreements with unionized and non-unionized employees may be on terms that are not as attractive as our current agreements or comparable to agreements entered into by our competitors.

ASA's pilots, flight attendants and flight controllers are represented by unions, including: The Air Line Pilots Association, International, the Association of Flight Attendants CNA and the Professional Airline Flight Control Association. ASA's collective bargaining agreement with its pilots will become amendable on November 20, 2010. ASA's collective bargaining agreement with its flight attendants will become amendable in July 20, 2011. The contract with ASA's flight controllers became amendable in April 2006, and ASA is currently engaged in negotiations with its flight controllers. Negotiations with unions representing ASA's employees could divert management attention and disrupt operations, which may result in increased operating expenses and may negatively impact our financial results. In addition, there are other ASA employees that are not currently represented by any union; however, collective bargaining group organization efforts among those employees occur from time to time. We recognize that such efforts will likely continue in the future and may ultimately result in additional ASA employees being represented by one or more unions. Moreover, we cannot predict the outcome of any future negotiations relating to union representation or collective bargaining agreements.

SkyWest Airlines' employees are not currently represented by any union; however, collective bargaining group organization efforts among those employees occur from time to time. We recognize that such efforts will likely continue in the future and may ultimately result in some or all of SkyWest Airlines' employees being represented by one or more unions. Moreover, one or more unions representing ASA employees may seek a single carrier determination by the National Mediation Board, which could require SkyWest Airlines to recognize such union or unions as the certified bargaining representative of SkyWest Airlines' employees. One or more unions representing ASA employees may also assert that SkyWest Airlines' employees should be subject to ASA collective bargaining agreements. If SkyWest Airlines' employees were to unionize or be deemed to be represented by one or more unions, negotiations with unions representing SkyWest Airlines' employees could divert management attention and disrupt operations, which may result in increased operating expenses and may negatively impact our financial results. Moreover, we cannot predict the outcome of any future negotiations relating to union representation or collective bargaining agreements. Agreements reached in collective bargaining may increase our operating expenses and negatively impact our financial results.

Table of Contents

If unionizing efforts among SkyWest Airlines' employees are successful, we may be subjected to risks of work interruption or stoppage and/or incur additional administrative expenses associated with union representation.

If we are unable to reach labor agreements with any current or future unionized work groups, we may be subject to work interruptions or stoppages, which may adversely affect our ability to conduct our operations and may even allow Delta or United to terminate their respective code-share agreement.

***We have been adversely affected by increases in fuel prices, and we would be adversely affected by disruptions in the supply of fuel.***

Dependence on foreign imports of crude oil, limited refining capacity and the possibility of changes in government policy on jet fuel production, transportation and marketing make it impossible to predict the future availability of jet fuel. If there are additional outbreaks of hostilities or other conflicts in oil-producing areas or elsewhere, or a reduction in refining capacity (due to weather events, for example), or governmental limits on the production or sale of jet fuel, there could be a reduction in the supply of jet fuel and significant increases in the cost of jet fuel. Major reductions in the availability of jet fuel or significant increases in its cost, or a continuation of current high prices for a significant period of time, would have a material adverse impact on us.

Pursuant to our contract flying arrangements, Delta and United 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. As of December 31, 2009, essentially all of our Brasilia turboprops flown for Delta were flown under pro-rate arrangements while, approximately 47% of our Brasilia turboprops flown in the United system were flown under pro-rate arrangements. As of December 31, 2009, we operated 14 CRJ200s under a pro-rate agreement with United. On November 4, 2009, we entered into a code-share agreement with AirTran. Under the terms of the code-share agreement, SkyWest Airlines has agreed to operate five CRJ200s for AirTran under a pro-rate arrangement. As of December 31, 2009, we operated two CRJ 200s with AirTran. We anticipate that SkyWest Airlines will add three additional aircraft in early 2010. Our operating and financial results can be affected by the price and availability of jet fuel. Due to the competitive nature of the airline industry, we may not be able to pass on increased fuel prices to our pro-rate customers by increasing fares. Fuel prices are volatile, and changed since 2007.

***The Airline Safety and Pilot Training Improvement Act of 2009 could negatively affect our operations and our financial condition.***

Prompted by the crash of a Colgan aircraft, which killed 50 people near Buffalo, New York, passengers and governmental authorities have raised questions about pilot qualifications, training and fatigue. The Airline Safety and Pilot Training Improvement Act of 2009 was introduced in the United States House of Representatives and, as of the date of this Report, was under consideration by the United States Senate. If adopted in the manner currently proposed, the Airline Safety and Pilot Training Improvement Act of 2009 would add new certification requirements for entry-level commercial pilots, require additional emergency training, improve availability of pilot records and mandate stricter rules to minimize pilot fatigue.

The Airline Safety and Pilot Training Improvement Act of 2009 would also:

Require that all airline pilots obtain an Airline Transport Pilot license, which is currently only needed by captains.

Table of Contents

Mandate that the Federal Aviation Administration (FAA) within 90 days set up a new database of pilot records so that airlines will have access to more information before they hire someone for the cockpit.

Direct the FAA within one year to rewrite the rules for how long pilots can work.

***Declining interest rates could have a negative effect on our financial results.***

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. However, under our contractual arrangement with our major partners, the majority of the decline in interest expense would be passed through to our major partners and recorded as passenger revenue in the consolidated statement of income. Interest expense decreased \$19.7 million, or 18.6%, during the year ended December 31, 2009 compared to the year ended December 31, 2008. The decrease in interest expense was substantially due to a decrease in interest rates and the majority of this reduction was passed through to our major partners. Interest income decreased \$9.7 million, or 46.5% during the year ended December 31, 2009, compared to the year ended December 31, 2008. The decrease in interest income was substantially due to the decrease in interest rates. If interest rates continue to decline, our financial results will be negatively affected.

***Our insurance costs have increased and further increases in insurance costs or reductions in coverage could have an adverse impact on us.***

We carry insurance for public liability, passenger liability, property damage and all-risk coverage for damage to our aircraft. As a result of terrorist attacks occurring during recent years, aviation insurers significantly reduced the amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events (war-risk coverage). At the same time, these insurers significantly increased the premiums for aviation insurance in general.

The U.S. government has agreed to provide commercial war-risk insurance for U.S.-based airlines through August 31, 2010, covering losses to employees, passengers, third parties and aircraft. If the U.S. government ceases to provide such insurance beyond that date, or reduces the coverage provided by such insurance, we will attempt to purchase insurance coverage, likely with a narrower scope, from commercial insurers at an additional cost. To the extent this coverage is not available at commercially reasonable rates, we would be adversely affected.

While the price of commercial insurance had declined since the period immediately after the 2001 terrorist attacks, in the event commercial insurance carriers further reduce the amount of insurance coverage available to us, or significantly increase the cost of obtaining such coverage, we would be adversely affected.

***We could be adversely affected by an outbreak of a disease that affects travel behavior.***

In the second quarter of 2009, there was an outbreak of the H1N1 flu virus which had an adverse impact throughout our network. In 2003, there was an outbreak of Severe Acute Respiratory Syndrome ("SARS"), which had an adverse impact on travel behavior. In addition, in the past there have been concerns about outbreaks or potential outbreaks of other diseases, such as avian flu. Any outbreak of a disease (including a worsening of the outbreak of the H1N1 flu virus) that affects travel behavior could have a material adverse impact on our operating results and financial condition. In addition, outbreaks of disease could result in quarantines of our personnel or an inability to access facilities or our aircraft, which could adversely affect our operations and financial condition.

Table of Contents

***We may be unable to obtain all of the aircraft, engines, parts or related maintenance and support services we require, which could have a material adverse impact on our operations and financial condition.***

We rely on a limited number of aircraft types, and are dependent on Bombardier as the sole manufacturer of our regional jets. For the year ended December 31, 2009, 47.6% of our available seat miles were flown using CRJ200s, 37.6% of our available seat miles were flown using CRJ700s and 11.5% of our available seat miles were flown using CRJ900s. As of December 31, 2009, we had commitments of approximately \$98.0 million to purchase four CRJ700s. We expect to complete these deliveries by the first quarter of 2010. Additionally, we have obtained options to acquire another 22 regional jets that can be delivered in 70 to 90-seat configurations. Delivery dates for these aircraft remain subject to final determination as agreed upon by us and our major partners.

Any significant disruption or delay in the expected delivery schedule of our fleet would adversely affect our business strategy and overall operations and could have a material adverse impact on our operating results or our financial condition. Certain of Bombardier's aerospace workers are represented by unions and have participated in at least one strike in recent history. Any future prolonged strike at Bombardier or delay in Bombardier's production schedule as a result of labor matters could disrupt the delivery of regional jets to us, which could adversely affect our planned fleet growth. We are also dependent on General Electric as the sole manufacturer of our aircraft engines. General Electric also provides parts, repair and overhaul services, and other types of support services on our engines. Our operations could be materially and adversely affected by the failure or inability of Bombardier or General Electric to provide sufficient parts or related maintenance and support services to us on a timely or economical basis, or the interruption of our flight operations as a result of unscheduled or unanticipated maintenance requirements for our aircraft or engines. In addition, the issuance of FAA directives restricting or prohibiting the use of Bombardier aircraft types we operate would have a material adverse effect on our business and operations.

***Maintenance costs will likely continue to increase as the age of our regional jet fleet increases.***

Our maintenance costs increased \$54.4 million, or 14.3%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. The average age of our CRJ200s is approximately 8.3 years. Most of the parts on the CRJ200 fleet are no longer under warranty and we have started to incur more heavy airframe inspections and engine overhauls on those aircraft. Our maintenance costs are expected to continue to increase on our CRJ200 fleet. Under our SkyWest Airlines United Express Agreement, specific amounts are included in the current rates for future maintenance on CRJ200 engines used in SkyWest Airlines' United Express operations. The ASA United Express Agreement contains similar provisions. The actual cost of maintenance on CRJ200 engines may vary from the agreed upon rates. During the year ended December 31, 2009, our CRJ200 engine expense for aircraft operated under our SkyWest Airlines United Express Agreement increased \$29.7 million as compared to the year ended December 31, 2009.

Because the average age of our CRJ900s and CRJ700s as of December 31, 2009 was approximately 2.1 and 4.8 years, respectively, our CRJ900 and CRJ700 fleets require less maintenance now than we anticipate they will require in the future. We have incurred relatively low maintenance expenses on our CRJ900 and CRJ700 fleets because most of the parts on these aircraft are under multi-year warranties and a limited number of heavy airframe checks and engine overhauls have occurred. Our maintenance costs will increase significantly, both on an absolute basis and as a percentage of our operating expenses, as our fleet ages and these warranties expire. Those increased costs will have a negative impact on our financial results.

Table of Contents

***If we incur problems with any of our third-party service providers, our operations could be adversely affected.***

Our reliance upon others to provide essential services on behalf of our operations may limit our ability to control the efficiency and timeliness of contract services. We have entered into agreements with contractors to provide various facilities and services required for our operations, including fuel supply and delivery, aircraft maintenance, services and ground facilities, and software and expect to enter into additional similar agreements in the future. These agreements are generally subject to termination after notice. Any material problems with the efficiency and timeliness of our automated or contract services could have a material adverse effect on our business, financial condition and results of operations.

***Interruptions or disruptions in service at one of our hub airports, due to adverse weather or for any other reason, could have a material adverse impact on our operations.***

We currently operate primarily through hubs in Atlanta, Los Angeles, Milwaukee, San Francisco, Salt Lake City, Chicago, Denver, Cincinnati/Northern Kentucky and the Pacific Northwest. Nearly all of our flights either originate from or fly into one of these hubs. Our revenues depend primarily on our completion of flights and secondarily on service factors such as timeliness of departure and arrival. Any interruptions or disruptions could, therefore, severely and adversely affect us. Extreme weather can cause flight disruptions, and during periods of storms or adverse weather, fog, low temperatures, etc., our flights may be canceled or significantly delayed. Hurricanes Katrina and Rita, in particular, caused severe disruption to air travel in the affected areas and adversely affected airlines operating in the region, including ASA. We operate a significant number of flights to and from airports with particular weather difficulties, including Atlanta, Salt Lake City, Chicago, Milwaukee and Denver. A significant interruption or disruption in service at one of our hubs, due to adverse weather or otherwise, could result in the cancellation or delay of a significant portion of our flights and, as a result, could have a severe adverse impact on our, operations and financial performance.

***Our investment in a foreign airline may negatively impact our profitability.***

On September 4, 2008, we announced our intention to acquire a 20% interest in a Brazilian regional airline, Trip Linhas Aereas ("Trip"), for \$30 million. As of December 31, 2009, we had invested \$20 million for a 16.4% interest in Trip, which is recorded under "Other assets" on our consolidated balance sheet. If Trip meets or exceeds certain financial targets, we are scheduled to make another \$10 million investment on March 1, 2010. There is no assurance that Trip will ultimately succeed in its business plan. In the event that Trip incurs operating losses or files for bankruptcy, our investment may have little or no value and our financial results and condition would be negatively impacted.

***Our business could be harmed if we lose the services of our key personnel.***

Our business depends upon the efforts of our chief executive officer, Jerry C. Atkin, and our other key management and operating personnel. We may have difficulty replacing management or other key personnel who leave and, therefore, the loss of the services of any of these individuals could harm our business. We do not maintain key-man insurance on any of our executive officers.

### **Risks Related to the Airline Industry**

***We may be materially affected by uncertainties in the airline industry.***

The airline industry has experienced tremendous challenges in recent years and will likely remain volatile for the foreseeable future. Among other factors, the financial challenges faced by major carriers, including Delta and United, the slowing U.S. economy and increased hostilities in Iraq, the Middle East and other regions have significantly affected, and are likely to continue to affect, the U.S.

Table of Contents

airline industry. These events have resulted in declines and shifts in passenger demand, increased insurance costs, increased government regulations and tightened credit markets, all of which have affected, and will continue to affect, the operations and financial condition of participants in the industry, including us, major carriers (including our major partners), competitors and aircraft manufacturers. These industry developments raise substantial risks and uncertainties which will affect us, major carriers (including our major partners), competitors and aircraft manufacturers in ways that we are unable to currently predict.

***The airline industry is highly competitive and has undergone a period of consolidation and transition leaving fewer potential code-share partners.***

The airline industry is highly competitive. We not only compete with other regional airlines, some of which are owned by or operated as code-share partners of major airlines, but we also face competition from low-cost carriers and major airlines on many of our routes. Low-cost carriers such as Southwest, JetBlue, US Airways and Frontier among others, operate at many of our hubs, resulting in significant price competition. Additionally, a large number of other carriers operate at our hubs, creating intense competition. Certain of our competitors are larger and have significantly greater financial and other resources than we do. Moreover, federal deregulation of the industry allows competitors to rapidly enter our markets and to quickly discount and restructure fares. The airline industry is particularly susceptible to price discounting because airlines incur only nominal costs to provide service to passengers occupying otherwise unsold seats. Increased fare competition could adversely affect our operations and the price of our common stock. The airline industry has undergone substantial consolidation, and it may in the future undergo additional consolidation. Recent examples include the merger between Delta and Northwest Airlines, Inc. ("Northwest") in November 2008, America West Airlines and US Airways in September 2005, and American's acquisition of the majority of Trans World Airlines' assets in 2001. Several of the major airlines are currently in discussions related to consolidation in the industry. Other developments include domestic and international code-share alliances between major carriers. Any additional consolidation or significant alliance activity within the airline industry could limit the number of potential partners with whom we could enter into code-share relationships and materially adversely affect our relationship with our code-share partners.

As a result of the Delta and Northwest merger, Delta may change its strategy regarding the use of its wholly owned regional carriers and the use of third party regional carriers such as SkyWest Airlines and ASA. Delta may also make other strategic changes such as changing and or consolidating hub locations. If Delta were to make changes such as these in its strategy and operations, our operations and financial results could be adversely impacted.

***Terrorist activities or warnings have dramatically impacted the airline industry, and will likely continue to do so.***

The terrorist attacks of September 11, 2001 and their aftermath have negatively impacted the airline industry in general, including our operations. The primary effects experienced by the airline industry include a substantial loss of passenger traffic and revenue. Although, to some degree, airline passenger traffic and revenue have recovered since the September 11<sup>th</sup> attacks, additional terrorist attacks could have a similar or even more pronounced effect. Even if additional terrorist attacks are not launched against the airline industry, there will be lasting consequences of the attacks, including increased security and insurance costs, increased concerns about future terrorist attacks, increased government regulation and airport delays due to heightened security. Additional terrorist attacks and the fear of such attacks could negatively impact the airline industry, and result in further decreased passenger traffic and yields, increased flight delays or cancellations associated with new government mandates, as well as increased security, fuel and other costs. We cannot provide any assurance that

Table of Contents

these events will not harm the airline industry generally or our operations or financial condition in particular.

***Fuel costs have adversely affected, and will likely continue to adversely affect, the operations and financial performance of the airline industry.***

The price of aircraft fuel is unpredictable and was volatile during much of 2007, 2008 and 2009. Higher fuel prices may lead to higher airfares, which would tend to decrease the passenger load of our code-share partners. In the long run, such decreases will likely have an adverse effect on the number of flights such partner will ask us to provide and the revenues associated with such flights. Additionally, fuel shortages have been threatened. The future cost and availability of fuel to us cannot be predicted, and substantial fuel cost increases or the unavailability of adequate supplies of fuel may have a material adverse effect on our results of operations. During periods of increasing fuel costs, our operating margins have been, and will likely continue to be, adversely affected.

***We are subject to significant governmental regulation.***

All interstate air carriers, including SkyWest Airlines and ASA, are subject to regulation by the DOT, the FAA and other governmental agencies. Regulations promulgated by the DOT primarily relate to economic aspects of air service. The FAA requires operating, air worthiness and other certificates; approval of personnel who may engage in flight, maintenance or operation activities; record keeping procedures in accordance with FAA requirements; and FAA approval of flight training and retraining programs. We cannot predict whether we will be able to comply with all present and future laws, rules, regulations and certification requirements or that the cost of continued compliance will not have a material adverse effect on our operations. We incur substantial costs in maintaining our current certifications and otherwise complying with the laws, rules and regulations to which we are subject. A decision by the FAA to ground, or require time-consuming inspections of or maintenance on, all or any of our aircraft for any reason may have a material adverse effect on our operations. In addition to state and federal regulation, airports and municipalities enact rules and regulations that affect our operations. From time to time, various airports throughout the country have considered limiting the use of smaller aircraft, such as our aircraft, at such airports. The imposition of any limits on the use of our aircraft at any airport at which we operate could have a material adverse effect on our operations.

***The occurrence of an aviation accident would negatively impact our operations and financial condition.***

An accident or incident involving one of our aircraft could result in significant potential claims of injured passengers and others, as well as repair or replacement of a damaged aircraft and its consequential temporary or permanent loss from service. In the event of an accident, our liability insurance may not be adequate to offset our exposure to potential claims and we may be forced to bear substantial losses from the accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our operational and financial results. Moreover, any aircraft accident or incident, even if fully insured, could cause a public perception that our operations are less safe or reliable than other airlines.

#### **Risks Related to Our Common Stock**

***We can issue additional shares without shareholder approval.***

Our Restated Articles of Incorporation, as amended (the "Restated Articles"), authorize the issuance of up to 120,000,000 shares of common stock, all of which may be issued without any action or approval by our shareholders. As of December 31, 2009, we had 55,609,015 shares outstanding. In addition, as of December 31, 2009, we had equity-based incentive plans under which 1,453,234 shares are reserved for issuance and an employee stock purchase plan under which 2,847,093 shares are

Table of Contents

reserved for issuance, both of which may dilute the ownership interest of our shareholders. Our Restated Articles also authorize the issuance of up to 5,000,000 shares of preferred stock. Our board of directors has the authority to issue preferred stock with the rights and preferences, and at the price, which it determines. Any shares of preferred stock issued would likely be senior to shares of our common stock in various regards, including dividends, payments upon liquidation and voting. The value of our common stock could be negatively affected by the issuance of any shares of preferred stock.

***The amount of dividends we pay may decrease or we may not pay dividends.***

Historically, we have paid dividends in varying amounts on our common stock. The future payment and amount of cash dividends will depend upon our financial condition and results of operations, loan covenants and other factors deemed relevant by our board of directors. There can be no assurance that we will continue our practice of paying dividends on our common stock or that we will have the financial resources to pay such dividends.

***Provisions of our charter documents and code-share agreements may limit the ability or desire of others to gain control of our company.***

Our ability to issue preferred and common shares without shareholder approval may have the effect of delaying or preventing a change in control and may adversely affect the voting and other rights of the holders of our common stock, even in circumstances where such a change in control would be viewed as desirable by most investors. The provisions of the Utah Control Shares Acquisitions Act may also discourage the acquisition of a significant interest in or control of our company. Additionally, our code-share agreements contain termination and extension trigger provisions related to change in control type transactions that may have the effect of deterring a change in control of our company.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

**ITEM 2. PROPERTIES****Flight Equipment**

As of December 31, 2009, our fleet consisted of the following types of owned and leased aircraft:

Aircraft Type	Number of Owned Aircraft	Number of Leased Aircraft	Passenger Capacity	Scheduled Flight Range (miles)	Average Cruising Speed (mph)	Average Age (years)
CRJ200s	84	166	50	1,500	530	8.3
CRJ700s	61	56	70	1,600	530	4.8
CRJ900s	11	20	90	1,500	530	2.1
Brasilia Turboprops	9	42	30	300	300	12.5

SkyWest Airlines has firm orders to acquire four new CRJ700s. In addition, gross committed expenditures for these four aircraft and related equipment, including estimated amounts for contractual price escalations will be approximately \$98.0 million through the first quarter of 2010. SkyWest Airlines and ASA have also obtained combined options for another 22 Bombardier Regional Jets that can be delivered in either 70 or 90-seat configurations.

The following table outlines the number of Bombardier Regional Jets that SkyWest Airlines and ASA are scheduled to receive during each of the periods set forth below and the expected size and composition of our combined fleet following the receipt of these aircraft. The projected fleet size

Table of Contents

schedule below assumes aircraft financed under operating leases will be returned to the lessor at the end of the lease.

	During the fiscal year ending December 31,			
	2010	2011	2012	2013
<i>Additional aircraft deliveries</i>				
Additional CRJ200s	0	0	0	0
Additional CRJ700s	4	0	0	0
Additional CRJ900s	0	0	0	0

	As of December 31,			
	2010	2011	2012	2013
<i>Expected fleet size</i>				
Total Bombardier Regional Jets	386	382	368	368
Total Brasilia Turboprops	42	28	26	17
Total Combined Fleet	428	410	394	385

*Bombardier Regional Jets*

The Bombardier Regional Jets are among the quietest commercial jets currently available and offer many of the amenities of larger commercial jet aircraft, including flight attendant service, as well as a stand-up cabin, overhead and under seat storage, lavatories and in-flight snack and beverage service. The speed of Bombardier Regional Jets is comparable to larger aircraft operated by the major airlines, and they have a range of approximately 1,600 miles; however, because of their smaller size and efficient design, the per-flight cost of operating a Bombardier Regional Jet is generally less than that of a 120-seat or larger jet aircraft.

*Brasilia Turboprops*

The Brasilia turboprops are 30-seat, pressurized aircraft designed to operate more economically over short-haul routes than larger jet aircraft. These factors make it economically feasible for SkyWest Airlines to provide high frequency service in markets with relatively low volumes of passenger traffic. Passenger comfort features of the Brasilia turboprops include stand-up headroom, a lavatory, overhead baggage compartments and flight attendant service. We expect that Delta and United will want us to continue to operate Brasilia turboprops in markets where passenger load and other factors make the operation of a regional jet impractical. As of December 31, 2009, SkyWest Airlines operated 51 Brasilia turboprops out of Los Angeles, San Francisco, Salt Lake City, Seattle/Tacoma and Portland. SkyWest Airlines' Brasilia turboprops are generally used in its California markets, which are characterized by high frequency service on shorter stage lengths.

**Ground Facilities**

SkyWest Airlines and ASA own or lease the following principal properties:

*SkyWest Airlines Facilities*

SkyWest Airlines owns a 56,600 square foot aircraft maintenance facility in Palm Springs, California.

SkyWest Airlines leases a 131,300 square foot facility at the Salt Lake International Airport. This facility consists of a 58,400 square-foot aircraft maintenance hangar and a 72,900 square-foot training and office facility. In January 2002, SkyWest Airlines entered into a sale lease-back

## Edgar Filing: SKYWEST INC - Form 10-K

### Table of Contents

agreement with the Salt Lake Airport Authority. SkyWest Airlines is leasing the facility under an operating lease arrangement over a 26-year term.

SkyWest Airlines leases a 90,000 square foot aircraft maintenance and training facility at the Salt Lake City International Airport. The Salt Lake City facility consists of 40,000 square feet of maintenance facilities and 50,000 square feet of training and other facilities. We originally constructed the Salt Lake City facility and subsequently sold it to and leased it back from the Salt Lake City Airport Authority. SkyWest Airlines is leasing the facility under an operating lease arrangement over a 36-year term.

SkyWest Airlines owns a 55,000 square-foot maintenance accessory shop and a 5,000 square-foot office facility in Salt Lake City, Utah.

SkyWest Airlines leases a 90,000 square-foot maintenance hangar and a 15,000 square-foot office facility in Fresno, California.

SkyWest Airlines leases a 70,000 square-foot maintenance hangar in Tucson, Arizona.

SkyWest Airlines leases a 70,000 square-foot hangar and office facility in Milwaukee, Wisconsin.

SkyWest Airlines owns a 57,000 square-foot maintenance facility and a 28,000 square-foot office facility in Chicago, Illinois.

SkyWest Airlines owns a 55,000 square-foot hangar and a 46,000 square-foot office facility in Colorado Springs, Colorado.

SkyWest Airlines leases ticket counters, check-in and boarding and other facilities in the passenger terminal areas in the majority of the airports it serves and staffs those facilities with SkyWest Airlines personnel. Other airlines, including Delta, United and AirTran, provide ticket handling and/or ground support services for SkyWest Airlines in 94 of the 159 airports SkyWest Airlines serves.

We own the corporate headquarters facilities of SkyWest and SkyWest Airlines, located in St. George, Utah, which consist of two adjacent buildings of 63,000 and 55,000 square feet, respectively.

### *ASA Facilities*

ASA leases from the City of Atlanta Department of Aviation an aircraft hangar facility consisting of 203,170 square-foot of building space, a 15,015 square-foot ground service equipment maintenance facility, aircraft parking, employee parking, a newly-constructed 18,110 square-foot training facility and 71,209 square feet of newly-renovated office space which is utilized ASA's corporate headquarters. The lease agreement for the Aircraft Hanger Complex has a 25-year term and is scheduled to expire on April 30, 2033.

ASA leases from Macon-Bib County Industrial Authority an aircraft hangar complex located at the Middle Georgia Regional Airport. The complex includes a 77,425 square-foot aircraft hangar facility and 41,140 square feet of training and office space. The lease agreement has a sixteen-year term and is scheduled to expire on April 1, 2018. ASA has subleased the hangar complex to an unrelated aircraft maintenance provider; however ASA remains obligated for payment and other obligations of the lessee under the lease agreement.

Edgar Filing: SKYWEST INC - Form 10-K

ASA leases from the City of Baton Rouge/Parish of East Baton Rouge an aircraft hangar Complex located at the Baton Rouge Metropolitan Airport District. The complex includes a 27,000 square-foot hangar facility and 12,000 square feet of office support space. ASA has the right to occupy the Baton Rouge Aircraft Hangar Complex rent-free until 2022.

Table of Contents

ASA leases a 33,000 square-foot warehouse facility located at the Hartsfield-Jackson Atlanta International Airport. The lease agreement has a ten-year term and is scheduled to expire on June 30, 2010.

ASA leases smaller aircraft line maintenance facilities in Atlanta, Georgia; Cincinnati, Ohio; Columbia, South Carolina and Fort Walton Beach, Florida.

ASA leases from the City of Atlanta Department of Aviation 13 gates and other premises of the Central Passenger Terminal Complex (CPTC) located on Concourse C at Hartsfield-Jackson Atlanta International Airport. The CPTC lease agreement has a twenty-year term and is scheduled to expire on September 20, 2010.

ASA leases from the City of Atlanta Department of Aviation three priority use gates on Concourse C at Hartsfield-Jackson Atlanta International Airport. The priority use gate agreement is scheduled to expire on September 20, 2010.

ASA sub-leases from US Airways six gates on Concourse D at Hartsfield-Jackson Atlanta International Airport. The sub-lease agreement is scheduled to expire on September 20, 2010.

ASA leases ticket counter, check-in, boarding and support facilities in the passenger terminal areas in the majority of the airports it serves and staffs those facilities with ASA personnel. Other airlines, including Delta, provide ticket handling and/or ground support services for ASA in 88 of the 104 airports ASA serves.

Our management deems SkyWest Airlines' and ASA's current facilities as being suitable and necessary to support existing operations and believes these facilities will be adequate for the foreseeable future.

**ITEM 3. LEGAL PROCEEDINGS**

We are subject to certain legal actions which we consider routine to our business activities. As of December 31, 2009, our management believed, after consultation with legal counsel, that the ultimate outcome of such legal matters is not likely to have a material adverse effect on our financial position, liquidity or results of operations. However, the following is a significant outstanding legal matter.

*ASA and SkyWest Airlines v. Delta*

During the quarter ended December 31, 2007, Delta notified SkyWest, SkyWest Airlines and ASA of a dispute under the Delta Connection Agreements executed by Delta with SkyWest Airlines and ASA. The dispute relates to allocation of liability for IROP expenses that are paid by SkyWest Airlines and ASA to their passengers under certain situations. As a result, Delta withheld a combined total of approximately \$25 million (pretax) from one of the weekly scheduled wire payments to SkyWest Airlines and ASA during December 2007. Delta continues to withhold a portion of the funds we believe are payable as weekly scheduled wire payments to SkyWest Airlines and ASA. As of September 30, 2009, we had recognized a cumulative total of \$32.4 million of revenue associated with the funds withheld by Delta. On February 1, 2008, SkyWest Airlines and ASA filed a lawsuit in Georgia state court disputing Delta's treatment of the matter (the "Complaint"). Delta filed an Answer to the Complaint and a Counterclaim against SkyWest Airlines and ASA on March 24, 2008. Delta's Counterclaim alleges that ASA and SkyWest Airlines breached the Delta Connection Agreements by invoicing Delta for the IROP expenses that were paid pursuant to Delta's policies, and claims only a portion of those expenses may be invoiced to Delta. Delta seeks unspecified damages in its counterclaim.

On March 24, 2008, Delta filed a Motion to Dismiss the Complaint (the "Motion to Dismiss"). A hearing on the Motion to Dismiss was held September 5, 2008. In an order entered September 13,

Table of Contents

2008, the Court granted in part and denied in part the Motion to Dismiss. The Court denied the Motion to Dismiss with respect to the breach of contract claim contained in the Complaint. The Court denied in part the Motion to Dismiss with respect to the action for declaratory judgment contained in the Complaint, and granted in part the Motion to Dismiss to the extent the Complaint seeks to read alternative or supplemental obligations created by prior conduct into the Delta Connection Agreements. The Court granted the Motion to Dismiss with respect to claims for estoppel, unilateral mistake, and mutual mistake contained in the Complaint. The Court's ruling affects the current posture of the case, but does not preclude pursuit of the claim for breach of contract or the claim for declaratory relief, under which SkyWest Airlines and ASA continue to seek recovery of all amounts withheld by Delta.

On July 31, 2009, SkyWest Airlines and ASA filed an Amended Complaint in the lawsuit adding claims under Georgia law for voluntary payment and mutual departure from the strict terms of the Delta Connection Agreements. Under those theories, SkyWest Airlines and ASA seek recovery of all of the approximately \$25 million withheld by Delta during December 2007. SkyWest Airlines and ASA are also seeking recovery of additional amounts withheld by Delta subsequent to December 2007. Discovery on all of SkyWest's Airlines' and ASA's claims and defenses is in process. On September 4, 2009, Delta filed a motion to dismiss the Amended Complaint in part. Delta asserts that the claims added by SkyWest Airlines and ASA in the Amended Complaint should be dismissed based on legal arguments set forth in Delta's memorandum in support of its motion. On January 22, 2010, the Court granted Delta's motion in part, dismissing the claims under Georgia law for voluntary payment and mutual departure from the strict terms of the Connection Agreements. SkyWest Airlines and ASA have filed an application seeking an interlocutory appeal of the Court's order and continue to vigorously pursue their claims set forth in the Amended Complaint, to the extent permitted by the Court's ruling on the Motion to Dismiss, and their defenses to Delta's counterclaims.

For financial reporting purposes we accrue an estimated loss if the loss is probable and reasonably estimable. Because these conditions have not been satisfied, we have not recorded a loss related to the preceding dispute in the consolidated financial statements as of December 31, 2009.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2009.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Price for Our Common Stock**

Our common stock is traded on The Nasdaq Global Select Market under the symbol "SKYW." At February 11, 2010, there were approximately 997 stockholders of record. Securities held of record do not include shares held in securities position listings. The following table sets forth the range of high and low closing sales prices for our common stock, during the periods indicated.

Quarter	2009		2008	
	High	Low	High	Low
First	\$ 19.05	\$ 8.19	\$ 26.64	\$ 20.43
Second	15.47	9.66	21.77	12.65
Third	18.04	10.28	20.64	11.45
Fourth	18.02	13.97	18.60	11.52

The transfer agent for our common stock is Zions First National Bank, Salt Lake City, Utah.

**Dividends**

During 2009 and 2008, our Board of Directors declared regular quarterly dividends of \$0.04 and \$0.03 per share, respectively.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table contains information regarding our equity compensation plans as of December 31, 2009.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
<i>Equity compensation plans approved by security holders(1)</i>	4,740,695	\$ 20.37	4,300,327

(1)

Consists of our Executive Stock Incentive Plan, our All Share Stock Option Plan, our SkyWest Inc. Long Term Incentive Plan, and our Employee Stock Purchase Plan. See Note 9 to our Consolidated Financial Statements for the fiscal year ended December 31, 2009, included in Item 8 of this Report, for additional information regarding these plans.

**Stock Performance Graph**

*The following Performance Graph and related information shall not be deemed "soliciting material" or "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent we specifically incorporate it by reference into such filing.*

The following graph compares the cumulative total shareholder return on our common stock over the five-year period ended December 31, 2009, with the cumulative total return during such period of the Nasdaq Stock Market (U.S. Companies) and a peer group index composed of passenger airlines, the members of which are identified below (the "Peer Group") for the same period. The following

Table of Contents

graph assumes an initial investment of \$100.00 with dividends reinvested. The stock performance shown on the graph below represents historical stock performance and is not necessarily indicative of future stock price performance.

**Comparison of Cumulative Five Year Total Return****INDEXED RETURNS**

Years Ending

Company Name / Index	Base					
	Period					
	Dec04	Dec05	Dec06	Dec07	Dec08	Dec09
<b>SkyWest, Inc.</b>	<b>100</b>	134.64	128.46	135.85	94.84	87.31
<b>NASDAQ Composite</b>	<b>100</b>	102.20	112.68	124.56	74.70	108.56
<b>Peer Group</b>	<b>100</b>	113.16	168.72	147.82	91.88	84.74

The Peer Group consists of regional and major passenger airlines with U.S operations that have equity securities traded on the Nasdaq Stock Market. The members of the Peer Group are: Air France-KLM-ADR; Air T, Inc.; Air Transport Services Group; Allegiant Travel Co.; Baltia Air Lines, Inc.; British Airways PLC-ADR; Deutsche Lufthansa AG-ADR; Great Lakes Aviation Ltd.; Hawaiian Holdings, Inc.; Japan Airlines Corp-ADR; JetBlue Airways Corp.; Mesa Air Group, Inc.; Pinnacle Airlines Corp.; Republic Airways Holdings Inc.; Ryanair Holdings PLC-ADR; SkyWest, Inc.; and UAL Corp.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The following selected financial and operating data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and related notes included elsewhere in this Report.

**Selected Consolidated Financial Data (amounts in thousands, except per share data):**

	Year Ended December 31,				
	2009	2008	2007	2006	2005(2)
Operating revenues	\$ 2,613,614	\$ 3,496,249	\$ 3,374,332	\$ 3,114,656	\$ 1,964,048
Operating income	212,195	255,231	344,524	339,160	220,408
Net income	83,658	112,929	159,192	145,806	112,267
Net income per common share:					
Basic	\$ 1.50	\$ 1.95	\$ 2.54	\$ 2.33	\$ 1.94
Diluted	1.47	1.93	2.49	2.30	1.90
Weighted average shares:					
Basic	55,854	57,790	62,710	62,474	57,851
Diluted	56,814	58,633	64,044	63,382	58,933
Total assets	\$ 4,310,802	\$ 4,014,291	\$ 3,990,525	\$ 3,731,419	\$ 3,320,646
Current assets	1,254,099	1,220,668	1,210,139	1,095,454	693,632
Current liabilities	449,835	386,604	398,219	408,431	615,917
Long-term debt, net of current maturities	1,816,318	1,681,705	1,732,748	1,675,626	1,422,758
Stockholders' equity	1,352,219	1,275,521	1,246,007	1,178,293	913,198
Return on average equity(1)	6.4%	9.0%	13.1%	13.9%	13.2%
Cash dividends declared per common share	\$ 0.16	\$ 0.13	\$ 0.12	\$ 0.12	\$ 0.12

(1) Calculated by dividing net income by the average of beginning and ending stockholders' equity for the year.

(2) On September 7, 2005, we completed the acquisition of ASA from Delta for \$421.3 million in cash. We paid \$5.3 million of transaction fees and assumed approximately \$1.25 billion in long-term debt and related assets. Our 2005 consolidated operating revenues contain 114 days of additional revenue and expenses generated by the ASA acquisition.

**Selected Operating Data**

	Year Ended December 31,				
	2009	2008	2007	2006	2005

Edgar Filing: SKYWEST INC - Form 10-K

Block hours	1,363,257	1,376,815	1,438,818	1,298,769	866,975
Departures	870,761	872,288	904,795	857,631	623,307
Passengers carried	34,544,772	33,461,819	34,392,755	31,465,552	20,343,975
Revenue passenger miles (000)	17,448,958	17,101,910	17,892,282	15,819,191	9,538,906
Available seat miles (000)	22,142,650	22,020,250	22,968,768	20,209,888	12,718,973
Revenue per available seat mile	11.8¢	15.9¢	14.7¢	15.4¢	15.4¢
Cost per available seat mile	11.2¢	15.2¢	13.7¢	14.3¢	14.1¢
Average passenger trip length	505	511	520	503	469
Number of operating aircraft at end of year	449	442	436	410	380

Table of Contents

The following terms used in this section and elsewhere in this Report have the meanings indicated below:

"Revenue passenger miles" represents the number of miles flown by revenue passengers.

"Available seat miles" represents the number of seats available for passengers multiplied by the number of miles the seats are flown.

"Revenue per available seat mile" represents passenger revenue divided by available seat miles.

"Cost per available seat mile" represents operating expenses plus interest divided by available seat miles.

**ITEM 7. 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 our results of operations during the years ended December 31, 2009, 2008 and 2007. Also discussed is our financial position as of the end of December 31, 2009 and 2008. You should read this discussion in conjunction with our consolidated financial statements, including the notes thereto, appearing elsewhere in this Report or incorporated herein by reference. This discussion and analysis contains forward-looking statements. Please refer to the sections of this Report entitled "Cautionary Statement Concerning Forward-looking Statements" and "Item 1A. Risk Factors" for discussion of some of the uncertainties, risks and assumptions associated with these statements.*

**Overview**

Through SkyWest Airlines and ASA, we operate the largest regional airline in the United States. As of December 31, 2009, SkyWest Airlines and ASA offered scheduled passenger and air freight service with more than 2,300 total daily departures to 217 destinations in the United States, Canada, Mexico and the Caribbean. Additionally, as of December 31, 2009, we provided ground handling services for approximately 11 other airlines throughout our system. As of December 31, 2009, we operated a combined fleet of 449 aircraft consisting of 250 CRJ200 (81 assigned to United, 164 assigned to Delta, three assigned to Midwest and two assigned to AirTran, 117 CRJ700 (66 assigned to United and 51 assigned to Delta), 31 CRJ900s (all assigned to Delta) and 51 Brasilia turboprop (39 assigned to United and 12 assigned to Delta). We believe our success in attracting multiple contractual relationships with our major airline partners is attributable to our delivery of high-quality customer service with an all cabin-class fleet at a competitive cost structure. For the year ended December 31, 2009, approximately 55.8% of our aggregate capacity was operated under the Delta code, approximately 42.4% was operated under the United code, approximately 1.7% was operated under the Midwest code and approximately 0.1% under the AirTran code.

SkyWest Airlines has been a code-share partner with Delta in Salt Lake City and United in Los Angeles since 1987 and 1997, respectively. In 1998, SkyWest Airlines expanded its relationship with United to provide service in Portland, Seattle/Tacoma, San Francisco and additional Los Angeles markets. In 2004, SkyWest Airlines expanded its United Express operations to provide service in Chicago. On June 10, 2009, SkyWest Airlines and Midwest mutually agreed to terminate the service SkyWest Airlines provided to Midwest under the Midwest Services Agreement. As a result, SkyWest Airlines removed its remaining 12 CRJ200s from Midwest service based on the following schedule: one aircraft was removed in each of June 2009 and July 2009, three aircraft were removed in October 2009, two aircraft were removed in November 2009, two aircraft were removed in December 2009 and the last three aircraft were removed in January 2010. On November 4, 2009, SkyWest Airlines entered into a code-share agreement with AirTran. Under the terms of the code-share agreement, SkyWest Airlines has agreed to operate five CRJ200s for AirTran under a pro-rate arrangement. SkyWest Airlines

Table of Contents

commenced AirTran service with two aircraft in December 2009 and added three additional aircraft in January and February of 2010. The code-share agreement has a three-year term; however, after May 15, 2010, either party may terminate the agreement upon 120 days written notice.

As of December 31, 2009, SkyWest Airlines operated as a Delta Connection carrier in Salt Lake City, a United Express carrier in Los Angeles, San Francisco, Denver, Chicago and the Pacific Northwest, and a Midwest Connect carrier in Milwaukee and an AirTran carrier in Milwaukee, operating more than 1,500 total daily flights.

ASA has been a code-share partner with Delta in Atlanta since 1984. As of December 31, 2009, ASA operated as a Delta Connection carrier in Atlanta and Cincinnati. ASA operates approximately 780 daily flights, all in the Delta Connection system.

We provide a substantial majority of the regional airline service for Delta in Atlanta and Salt Lake City. In connection with our acquisition of ASA in September 2005, we established new, separate, but substantially similar, long-term fixed-fee Delta Connection Agreements with Delta for both SkyWest Airlines and ASA. We also obtained the right to use 29 gates in the Hartsfield-Jackson International Airport located in Atlanta, from which we currently provide service to Delta. Pursuant to the terms of the Delta Connection Agreement executed by ASA and Delta, Delta has also agreed that if Delta solicits requests for proposals to fly Delta Connection regional aircraft, ASA will be permitted to bid to maintain the same percentage of total Delta Connection regional jet flights that it operated during 2007, and, if ASA does not achieve the winning bid for the proposed flying, ASA will be permitted to match the terms of the winning bid to the extent necessary for ASA to maintain the same percentage of Delta Connection regional jet flights that it operated during 2007.

On February 10, 2010, ASA and United entered into the ASA United Express Agreement, pursuant to which ASA has agreed to operate 14 CRJ200 aircraft as a United Express carrier. On February 11, 2010, ASA began operating as a United Express carrier, and we anticipate that the 14 United Express regional jets to be flown by ASA will be in operation by May of 2010. The ASA United Express Agreement is a capacity purchase agreement with a five-year term, and other terms which are generally consistent with the SkyWest Airlines United Express Agreement.

Historically, multiple contractual relationships have enabled us to reduce reliance on any single major airline code and to enhance and stabilize operating results through a mix of contract flying and our controlled or "pro-rate" flying. For the year ended December 31, 2009, contract flying revenue and pro-rate revenue represented approximately 94% and 6%, 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 the completed block hours, flight departures and other operating measures. On pro-rate flights, we control scheduling, ticketing, pricing and seat inventories and receive a pro-rated portion of passenger fares. For the year ended December 31, 2009, essentially all of our Brasilia turboprops flown for Delta were flown under pro-rate arrangements, while approximately 53% of our Brasilia turboprops flown in the United system were flown under contractual arrangements, with the remaining 47% flown under pro-rate arrangements. For the year ended December 31, 2009, approximately 96% of our CRJ200s flown in the United system were flown under contractual arrangements, with the remaining 4% flown under pro-rate arrangements. On November 4, 2009, SkyWest Airlines entered into a code-share agreement with AirTran. Under the terms of the code-share agreement, SkyWest Airlines has agreed to operate five CRJ200s for AirTran under a pro-rate arrangement. SkyWest Airlines commenced AirTran service with two aircraft in December 2009 and added three additional aircraft in January and February of 2010.

Table of Contents

**Financial Highlights**

We had revenues of \$2.6 billion for the year ended December 31, 2009, a 25.2% decrease, compared to revenues of \$3.5 billion for the year ended December 31, 2008. We had net income of \$83.7 million, or \$1.47 per diluted share, for the year ended December 31, 2009, a decrease of 25.9%, compared to \$112.9 million of net income, or \$1.93 per diluted share, for the year ended December 31, 2008.

The significant items affecting our financial performance during 2009 are outlined below:

On June 10, 2009, SkyWest Airlines reached a mutual understanding with Midwest to terminate the service SkyWest Airlines provided under the Midwest Services Agreement. As a result, SkyWest Airlines removed its remaining 12 CRJ200s from Midwest service based on the following schedule: one aircraft was removed in each of June 2009 and July 2009, three aircraft were removed in October 2009, two aircraft were removed in November 2009, two aircraft were removed in December 2009 and the last three aircraft were removed in January 2010. Additionally, SkyWest Airlines agreed to cancel an unsecured note from Midwest in the amount of approximately \$9.3 million in exchange for a \$4.0 million payment from Midwest. The \$4.0 million payment was recorded as revenue by SkyWest Airlines during the three months ended December 31, 2009.

We review our investment securities on an ongoing basis for the presence of other-than-temporary-impairment ("OTTI") with formal reviews performed quarterly. OTTI losses on individual equity investment securities are recognized as a realized loss through earnings when fair value is significantly below cost, the decline in fair value has existed for an extended period of time, and recovery is not expected in the near term. OTTI losses on individual perpetual preferred securities are recognized as a realized loss through earnings when a decline in the cash flows has occurred or the rating of the security has been downgraded below investment grade. As a result of an ongoing valuation review of our investment securities portfolio, we recognized a pre-tax charge of approximately \$7.1 million during the year ended December 31, 2009 for certain investment securities deemed to have other-than-temporary impairment.

On October 23, 2009, Delta sent letters to SkyWest Airlines and ASA requiring them to either adjust the rates payable under their respective Delta Connection Agreements or accept termination of those agreements, and notifying SkyWest Airlines and ASA of Delta's estimate of the average rates to be applied under the agreements. On October 28, 2009, SkyWest Airlines and ASA notified Delta of their election to adjust the rates payable under the Delta Connection Agreements; however, they also notified Delta of their disagreement with Delta's estimated rates and their belief that the methodology Delta used to calculate its estimated rates is inconsistent with the terms of the Delta Connection Agreements. SkyWest Airlines and ASA continue to negotiate with Delta in an effort to determine an appropriate methodology for calculating the average rates of the carriers within the Delta Connection Program. Because SkyWest Airlines and ASA have not reached an agreement with Delta regarding the final contractual rates to be established under the Delta Connection Agreements, the Company has evaluated the dispute for calculating the average rate of the carriers within the Delta Connection Program under the revenue recognition accounting guidance and recorded revenue under those agreements based on management's understanding of the applicable terms in the Delta Connection Agreements and management's best estimate of the revenue that will ultimately be realized upon settlement of the contractual rates with Delta with respect to the year ended December 31, 2009.

ASA experienced significant weather related cancellations in its Atlanta hub during the three months ended March 31, 2009. Additionally, on March 31, 2009, as a result of an internal audit, ASA grounded 60 CRJ200 regional jet aircraft in order to perform engine safety inspections in accordance with the manufacturer's recommendations. ASA cancelled approximately 750 scheduled flights as a result of the severe weather and aircraft grounding during the quarter. As a result, ASA experienced a negative impact on revenues of approximately \$7.6 million.

Table of Contents

Our maintenance costs increased \$54.4 million, or 14.3%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. The increase was primarily related to the timing of engine overhaul events. During the year ended December 31, 2009, our CRJ200 engine expense under our United Express and Midwest Services Agreements increased \$29.7 million. The remainder of the increase in maintenance costs was principally due to scheduled maintenance and engine overhaul events on our aging CRJ200 and CRJ700 aircraft.

**Outlook**

On October 12, 2007, we announced SkyWest Airlines' plans to acquire 22 additional regional jet aircraft through 2010, 18 of which SkyWest Airlines intends to operate for United Express, as part of an aircraft transition plan. We believe this transition plan will allow United Express to remove 23 30-seat Brasilia turboprops from operation under the United Express Agreement and add 66-seat regional jet aircraft for United Express flying. Generally, the turboprop removals are intended to occur in conjunction with deliveries of new regional jet aircraft in an effort to facilitate a smooth transition in existing markets. Additionally, SkyWest Airlines exchanged four 50-seat CRJ200s for four 76-seat CRJ900s in its Delta Connection operations. On November 30, 2007, we announced that SkyWest Airlines placed a firm order for 22 aircraft with Bombardier. As of December 31, 2009, SkyWest Airlines had taken delivery of four CRJ900s and 14 CRJ700s under that order. SkyWest Airlines is scheduled to take delivery of the remaining four aircraft during the first quarter of 2010.

On October 16, 2009, SkyWest Airlines entered into a series of transactions with United that provided operational funding to United, extended SkyWest Airlines' existing rights to operate 40 regional jet aircraft under the United Express Agreement until the end of their current lease terms (on average 8.4 years) and created an opportunity for ASA to operate 14 regional jet aircraft as a United Express carrier. We anticipate that ASA will begin operating as a United Express carrier starting in the first quarter of 2010, and the 14 United Express regional jets to be flown by ASA will be in operation by May of 2010. We also anticipate that ASA will operate these aircraft under a capacity purchase agreement with a five-year term, and other terms which are generally consistent with the SkyWest Airlines United Express Agreement.

Also on October 16, 2009, SkyWest Airlines extended to United a secured term loan in the amount of \$80 million. The term loan bears interest at a rate of 11%, with a ten-year amortization period. The loan is secured by certain ground equipment and airport slot rights held by United. SkyWest Airlines also agreed to defer certain amounts otherwise payable to SkyWest Airlines under the SkyWest Airlines United Express Agreement. The maximum deferral amount is \$49 million and any amounts deferred accrue a deferral fee of 8%, payable weekly. United's right to defer such payments is scheduled to terminate in ten years.

On November 4, 2009, SkyWest Airlines entered into a code-share agreement with AirTran. Under the terms of the code-share agreement, SkyWest Airlines has agreed to operate five CRJ200s for AirTran under a pro-rate arrangement. SkyWest Airlines commenced AirTran service with two aircraft in December 2009 and added three additional aircraft in January and February of 2010. The code-share agreement has a three-year term; however, after May 15, 2010, either party may terminate the agreement upon 120 days written notice.

**Critical Accounting Policies**

Our significant accounting policies are summarized in Note 1 to our consolidated financial statements for the year ended December 31, 2009, included in Item 8 of this Report. 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

Table of Contents

policies relate to revenue recognition, aircraft maintenance, aircraft leases, impairment of long-lived assets and intangibles, stock-based compensation expense and fair value as discussed below. 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 differ, and could differ materially from such estimates.

*Revenue Recognition*

Passenger and ground handling revenues are recognized when service is provided. Under our contract and pro-rate flying agreements with our code-share partners, revenue is considered earned when the flight is completed. Our agreements with our code-share partners contain certain provisions pursuant to which the parties could terminate the respective agreement, subject to certain rights of the other party, if certain performance criteria are not maintained. Our revenues could be impacted by a number of factors, including changes to the code-share agreements, contract modifications resulting from contract renegotiations and our ability to earn incentive payments contemplated under applicable agreements. In the event contracted rates are not finalized at a quarterly or annual financial statement date, we record that period's revenues based on the lower of prior period's approved rates adjusted for the current contract negotiations and our estimate of rates that will be implemented in accordance with revenue recognition guidelines. Also, in the event we have a reimbursement dispute with a major partner at a quarterly or annual financial statement date, we evaluate the dispute under established revenue recognition criteria and, provided the revenue recognition criteria have been met, we recognize revenue for that period based on our estimate of the resolution of the dispute. Accordingly, we are required to exercise judgment and use assumptions in the application of our revenue recognition policy.

*Maintenance*

We use the direct-expense method of accounting for our regional jet aircraft engine overhaul costs. Under this method, the maintenance liability is not recorded until the maintenance services are performed. We use the "deferral method" of accounting for our Brasilia turboprop engine overhauls, which provides for engine overhaul costs to be capitalized and depreciated over the estimated useful life of the engine. For leased aircraft, we are subject to lease return provisions that require a minimum portion of the "life" of an overhaul be remaining on the engine at the lease return date. With respect to engine overhauls related to leased Brasilia turboprops to be returned, we adjust the estimated useful lives of the final engine overhauls based on the respective lease return dates. With respect to SkyWest Airlines, a third-party vendor provides our long-term engine services covering the scheduled and unscheduled repairs for engines on our CRJ700s operated under the SkyWest Airlines United Express Agreement. 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.

*Aircraft Leases*

The majority of SkyWest Airlines' aircraft are leased from third parties, while ASA's aircraft are primarily debt-financed on a long-term basis. In order to determine the proper classification of our leased aircraft as either operating leases or capital leases, we must make certain estimates at the inception of the lease relating to the economic useful life and the fair value of an asset as well as select an appropriate discount rate to be used in discounting future lease payments. These estimates are utilized by management in making computations as required by existing accounting standards that determine whether the lease is classified as an operating lease or a capital lease. All of our aircraft leases have been classified as operating leases, which results in rental payments being charged to expense over the terms of the related leases. Additionally, operating leases are not reflected in our

Table of Contents

consolidated balance sheet and accordingly, neither a lease asset nor an obligation for future lease payments is reflected in our consolidated balance sheets.

*Impairment of Long-Lived and Intangible Assets*

As of December 31, 2009, we had approximately \$2.9 billion of property and equipment and related assets. Additionally, as of December 31, 2009, we had approximately \$24.0 million in intangible assets. In accounting for these long-lived and intangible assets, we make estimates about the expected useful lives of the assets, the expected residual values of certain of these assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. We recorded an intangible of approximately \$33.7 million relating to the acquisition of ASA. The intangible is being amortized over fifteen years under the straight-line method. As of December 31, 2009, we had recorded \$9.7 million in accumulated amortization expense. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the long-lived assets, a significant change in the condition of the long-lived assets and operating cash flow losses associated with the use of the long-lived assets. On a periodic basis, we evaluate whether the book value of our aircraft is impaired. Based on the results of the evaluations, our management concluded no impairment was necessary as of December 31, 2009. However, there is inherent risk in estimating the future cash flows used in the impairment test. If cash flows do not materialize as estimated, there is a risk the impairment charges recognized to date may be inaccurate, or further impairment charges may be necessary in the future.

*Stock-Based Compensation Expense*

We estimate the fair value of stock options as of the grant date using the Black-Scholes option pricing model. We use 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 our common stock and other factors.

*Fair value*

We hold certain assets that are required to be measured at fair value in accordance with United States GAAP. We determined fair value of these assets based on the following three levels of inputs:

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

We utilize several valuation techniques in order to assess the fair value of our financial assets and liabilities. Our cash and cash equivalents primarily utilize quoted prices in active markets for identical assets or liabilities.

We have valued non-auction rate marketable securities using quoted prices in active markets for identical assets or liabilities. If a quoted price is not available, we utilize broker quotes in a non-active market for valuation of these securities. For auction-rate security instruments, quoted prices in active markets are no longer available. As a result, we have estimated the fair values of these securities utilizing a discounted cash flow.

Table of Contents**Results of Operations****2009 Compared to 2008**

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

	Year Ended December 31,		
	2009	2008	% Change
Revenue passenger miles (000)	17,448,958	17,101,910	2.0
Available seat miles ("ASMs") (000)	22,142,650	22,020,250	0.6
Block hours	1,363,257	1,376,815	(1.0)
Departures	870,761	872,288	(0.2)
Passengers carried	34,544,772	33,461,819	3.2
Passenger load factor	78.8%	77.7%	1.1pts
Revenue per available seat mile	11.8¢	15.9¢	(25.8)
Cost per available seat mile	11.2¢	15.2¢	(26.3)
Fuel cost per available seat mile	1.8¢	5.5¢	(67.3)
Average passenger trip length (miles)	505	511	(1.2)

*Revenues.* Operating revenues decreased \$882.6 million, or 25.2%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. We are reimbursed for our actual fuel costs by our major partners under our contract flying arrangements. For financial reporting purposes, we record these reimbursements as operating revenue. Under the SkyWest Airlines and ASA Delta Connection Agreements, we are reimbursed for our engine overhaul expenses. We also record those engine overhaul reimbursements as operating revenue. The following table summarizes the amount of fuel and engine overhaul reimbursements included in our passenger revenues for the periods indicated (dollar amounts in thousands).

	Year Ended December 31,			
	2009	2008	\$ Change	% Change
Passenger revenues	\$ 2,582,238	\$ 3,466,287	\$ (884,049)	(25.5)%
Less: Fuel reimbursement from major partners	360,309	1,185,201	(824,892)	(69.6)%
Less: Engine overhaul reimbursement from major partners	112,556	120,101	(7,545)	(6.3)%

Passenger revenue excluding fuel and engine overhaul reimbursements \$ 2,109,373 \$ 2,160,985 \$ (51,612) (2.4)%

*Passenger revenues.* Passenger revenues decreased \$884.0 million, or 25.5%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. The decrease in passenger revenues was primarily due to a decrease in fuel reimbursements from our major partners. The fuel reimbursement from our major partners decreased \$824.9 million or 69.6%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. Our passenger revenues, excluding fuel and engine overhaul reimbursements from major partners, decreased \$51.6 million, or 2.4%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. The percentage decrease in passenger revenues, excluding fuel and engine overhaul reimbursements, was more than the percentage increase in ASMs, primarily due to three factors. First, ASA experienced an abnormally high number of flight cancellations in part due to significant weather related cancellations in its Atlanta hub during the three months ended March 31, 2009. Additionally, on March 31, 2009, as a result of an internal audit, ASA grounded 60 CRJ200s in order to perform engine safety inspections in accordance with the manufacturer's recommendations. ASA cancelled approximately 750 scheduled flights as a result of the severe weather and aircraft grounding during the first quarter of 2009. As a

Table of Contents

result, ASA experienced a negative impact on passenger revenues of approximately \$7.6 million. Second, Delta transitioned ground handling services at 23 stations from SkyWest Airlines and ASA to other ground handlers during the second quarter of 2009. Revenue earned under ground handling contracts where we provide ground handling services for our own aircraft is presented in the "Passenger revenue" line in our consolidated statements of income. Third, on October 23, 2009, Delta sent letters to SkyWest Airlines and ASA requiring them to either adjust the rates payable under their respective Delta Connection Agreements or accept termination of those agreements. Delta's letter also notified SkyWest Airlines and ASA of Delta's estimate of the average rates to be applied under those agreements. On October 28, 2009, SkyWest Airlines and ASA notified Delta of their election to adjust the rates payable under the Delta Connection Agreements; however, they also notified Delta of their disagreement with Delta's estimated rates and their belief that the methodology Delta used to calculate its estimated rates is inconsistent with the terms of the Delta Connection Agreements. SkyWest Airlines and ASA and Delta have exchanged subsequent correspondence, and SkyWest Airlines and ASA continue to negotiate with Delta in an effort to determine an appropriate methodology for calculating the average rates of the carriers within the Delta Connection Program. Because SkyWest Airlines and ASA have not reached an agreement with Delta regarding the final contractual rates to be established under the Delta Connection Agreements, the Company has evaluated the method for calculating the average rate of the carriers within the Delta Connection Program under the revenue recognition accounting guidance and recorded revenue under those agreements based on management's understanding of the applicable terms in the Delta Connection Agreements and management's best estimate of the revenue that will ultimately be realized upon settlement of the contractual rates with Delta with respect to the year ended December 31, 2009.

*Ground handling and other.* Total ground handling and other revenues increased \$1.4 million, or 4.7%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. Revenue earned under other ground handling contracts where we provide ground handling services for other airlines is presented in the "Ground handling and other" line in our consolidated statements of income. The increase was primarily related to the higher volume of flights serviced under ground handling contracts with United and Delta, whereby we perform ground handling services for several other regional airlines.

Individual expense components for the periods indicated are expressed in the following table on the basis of cents per ASM. ASM is a common metric used in the airline industry to measure an airline's passenger capacity. ASMs reflect both the number of aircraft in an airline's fleet and the seat capacity for the aircraft in the fleet. As the size of our fleet is the underlying driver of our operating costs, the primary basis for our presentation in this Item 7 is on a cost per ASM basis to discuss

Edgar Filing: SKYWEST INC - Form 10-K

Table of Contents

significant changes in our costs not proportionate to the relative changes in our fleet size (dollar amounts in thousands).

	Year Ended December 31,					
	2009	2008	\$ Change	% Change	2009 Cents Per ASM	2008 Cents Per ASM
	Amount	Amount	Amount	Percent		
Aircraft fuel	\$ 390,739	\$ 1,220,618	\$ (829,879)	(68.0)%	1.8	5.5
Salaries, wages and benefits	698,326	724,094	(25,768)	(3.6)%	3.2	3.3
Aircraft maintenance, materials and repairs	436,039	381,653	54,386	14.3%	2.0	1.7
Aircraft rentals	300,773	295,784	4,989	1.7%	1.3	1.4
Depreciation and amortization	221,548	220,195	1,353	0.6%	1.0	1.0
Station rentals and landing fees	116,312	132,017	(15,705)	(11.9)%	0.5	0.6
Ground handling services	95,805	106,135	(10,330)	(9.7)%	0.4	0.5
Other airline expense	141,877	160,522	(18,645)	(11.6)%	0.6	0.7
<b>Total operating expenses</b>	<b>2,401,419</b>	<b>3,241,018</b>	<b>(839,599)</b>	<b>(25.9)%</b>	<b>10.8</b>	<b>14.7</b>
Interest	86,330	106,064	(19,734)	(18.6)%	0.4	0.5
<b>Total airline expenses</b>	<b>\$ 2,487,749</b>	<b>\$ 3,347,082</b>	<b>(859,333)</b>	<b>(25.7)%</b>	<b>11.2</b>	<b>15.2</b>

*Fuel.* Fuel costs decreased \$829.9 million, or 68.0%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. The average cost of fuel decreased to \$1.87 per gallon during the year ended December 31, 2009, from \$3.33 during the year ended December 31, 2008. In addition to the decrease in the average cost per gallon of fuel during the year ended December 31, 2009, United purchased fuel directly from a fuel vendor for our United Express aircraft under contract operated out of Chicago, San Francisco, Los Angeles and Denver; Midwest purchased all of the fuel for our Midwest aircraft directly from Midwest's fuel vendors and Delta purchased the majority of the fuel for our Delta aircraft under contract directly from its fuel vendors. These modifications reduced our total fuel costs, as well as our passenger revenues for the year ended December 31, 2009. During the year ended December 31, 2008, we purchased the fuel for all of our Delta Connection flights. The following table summarizes the gallons of fuel we purchased directly, and the percentage change in fuel price per gallon on our fuel expense, for the periods indicated:

(in thousands, except per gallon amounts)	Year Ended December 31,		
	2009	2008	% Change
Fuel gallons purchased	209,254	366,540	(42.9)%
Average price per gallon	\$ 1.87	\$ 3.33	(43.8)%
Fuel expense	\$ 390,739	\$ 1,220,618	(68.0)%

*Salaries wages and employee benefits.* Salaries, wages and employee benefits decreased \$25.8 million, or 3.6%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. The average number of full-time equivalent employees decreased 11.7% to 12,642 for the year ended December 31, 2009, from 14,315 for the year ended December 31, 2008. The decrease in number of employees was significantly due to a reduction in our customer service employees resulting from United transitioning 16 stations from SkyWest Airlines to other ground handlers during the second quarter of 2008 and Delta transitioning 23 stations from SkyWest Airlines and ASA to other ground handlers during the second quarter of 2009.

*Aircraft maintenance, materials and repairs.* Maintenance costs increased \$54.4 million, or 14.3%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. The

Table of Contents

following table summarizes the amount of engine overhauls and engine overhaul reimbursements included in our aircraft maintenance expense for the periods indicated (dollar amounts in thousands).

	Year Ended December 31,			
	2009	2008	\$ Change	% Change
Aircraft maintenance, materials and repairs	\$ 436,039	\$ 381,653	\$ 54,386	14.3%
Less: Engine overhaul reimbursed from major partners	112,556	120,101	(7,545)	(6.3)%
Less: CRJ 200 engine overhauls reimbursed at fixed hourly rate	34,176	4,462	29,714	665.9%

Aircraft maintenance excluding reimbursed engine overhauls and CRJ 200 engine overhauls reimbursed at fixed hourly rate \$ 289,307 \$ 257,090 \$ 32,217 12.5%

Aircraft maintenance expense excluding reimbursed engine overhauls and CRJ 200 engine overhauls reimbursed at fixed hourly rate, increased \$32.2 million, or 12.5%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. The increase in maintenance excluding engine overhaul costs was principally due to scheduled maintenance events on our aging CRJ200 and CRJ700 fleets.

Under the SkyWest Airlines United Express Agreement (and pursuant to the Midwest Services Agreement prior to its termination on January 1, 2010), we recognize revenue in our consolidated statement of income at a fixed hourly rate for mature engine maintenance on regional jet engines and we recognize engine maintenance expense on our CRJ200 regional jet engines in our consolidated statement of income on an as-incurred basis as maintenance expense. During the year ended December 31, 2009, our CRJ200 engine expense under our SkyWest Airlines United Express and Midwest Services Agreements increased \$29.7 million. Under our Delta Connection Agreements we were reimbursed for engine overhaul costs by Delta. Such reimbursements are reflected as passenger revenue in our consolidated statements of income.

*Aircraft rentals.* Aircraft rentals increased \$5.0 million, or 1.7%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. The increase in aircraft rents was primarily due to ASA taking delivery of ten CRJ900s during 2009. These aircraft were financed through long-term leases. This increase was partially offset by ASA returning 12 ATR-72 turboprops to the lessor and terminating the associated leases.

*Station rentals and landing fees.* Station rentals and landing fees expense decreased \$15.7 million, or 11.9%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. The decrease in station rentals and landing fees expense was primarily due to our major partners paying for certain station rents and landing fees directly to the airport.

*Ground handling service.* Ground handling service expense decreased \$10.3 million, or 9.7%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. The decrease in ground handling was primarily due to United transitioning 16 stations from SkyWest Airlines to other ground handlers during the second quarter of 2008 and Delta transitioning 23 stations from SkyWest Airlines and ASA to other ground handlers during the second quarter of 2009.

*Other airline expenses.* Other airline expenses, primarily consisting of property taxes, hull and liability insurance, crew simulator training and crew hotel costs, decreased \$18.6 million, or 11.6%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. The decrease in other airline expenses was primarily due to the decrease in crew simulator training and crew hotel costs.

## Edgar Filing: SKYWEST INC - Form 10-K

### Table of Contents

*Interest.* Interest expense decreased \$19.7 million, or 18.6%, during the year ended December 31, 2009 compared to the year ended December 31, 2008. The decrease in interest expense was substantially due to a decrease in interest rates. At December 31, 2009, we had variable rate notes representing 38.6% of our total long-term debt. The majority of our variable rate notes are based on the three-month and six-month LIBOR rates. At December 31, 2009, the three-month and six-month LIBOR rates were 0.25% and 0.43%, respectively. At December 31, 2008, the three-month and six-month LIBOR rates were 1.43% and 1.75%, respectively.

*Interest income.* Interest income decreased \$9.7 million, or 46.5% during the year ended December 31, 2009, compared to the year ended December 31, 2008. The decrease in interest income was substantially due to the decrease in interest rates discussed in the preceding paragraph.

*Total airline expenses.* Total airline expenses (consisting of total operating and interest expenses) decreased \$859.3 million, or 25.7%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. We are reimbursed for our actual fuel costs by our major partners under our contract flying arrangements. We record the amount of those reimbursements as revenue. Under the SkyWest, SkyWest Airlines and ASA Delta Connection Agreements, we are reimbursed for our engine overhaul expense, which we record as revenue. The following table summarizes the amount of fuel and engine overhaul expenses which are included in our total airline expenses for the periods indicated (dollar amounts in thousands).

	Year Ended December 31,			
	2009	2008	\$ Change	% Change
Total airline expense	\$ 2,487,749	\$ 3,347,082	\$ (859,333)	(25.7)%
Less: Fuel expense	390,739	1,220,618	(829,879)	(68.0)%
Less: Engine overhaul reimbursement from major partners	112,556	120,101	(7,545)	(6.3)%
Less: CRJ 200 engine overhauls reimbursed at fixed hourly rate	34,176	4,462	29,714	665.9%
Total airline expense excluding fuel and engine overhauls and CRJ 200 engine overhauls reimbursed at fixed hourly rate	\$ 1,950,278	\$ 2,001,901	\$ (51,623)	(2.6)%

Excluding fuel and engine overhaul costs and CRJ 200 engine overhauls reimbursed at fixed hourly rates, our total airline expenses decreased \$51.6 million, or 2.6%, during the year ended December 31, 2009, compared to the year ended December 31, 2008. The percentage decrease in total airline expenses excluding fuel and engine overhauls, was more than the percentage increase in ASMs, which was primarily due to the increased operating efficiencies obtained from increased stage lengths flown by our regional jets.

*Impairment of marketable securities.* As a result of an ongoing valuation review of our marketable securities portfolio, we recognized a pre-tax charge of approximately \$7.1 million during the year ended December 31, 2009 for certain marketable securities deemed to have other-than-temporary impairment.

*Other income.* During the year ended December 31, 2008, we negotiated the principal terms of a prospective capacity purchase agreement with Continental, which was intended to become effective if we had successfully completed our proposed acquisition of the outstanding shares of capital stock of ExpressJet. During the course of those negotiations, Continental agreed it would pay us a break-up fee under certain circumstances in the event our efforts to acquire ExpressJet were not successful. In June 2008, ExpressJet reached terms directly with Continental on a new capacity purchase agreement, and accordingly, we were precluded from completing the acquisition of ExpressJet. As a result, we received

## Edgar Filing: SKYWEST INC - Form 10-K

### Table of Contents

the break-up fee from Continental in June 2008. The break-up fee, net of our direct transaction costs, was \$6.3 million (pre-tax) and was recorded as other income during the year ended December 31, 2008.

*Income taxes.* The provision for income taxes, as a percentage of income before taxes, increased to 36.5% in 2009 from 35.9% in 2008. The lower 2008 rate includes the impact of a decrease to the effective state income tax rate as the result of state tax law changes in Utah and other states. The state effective tax rate also decreased slightly from 2008 to 2009 minimizing the increase of the effective tax rate from 2008 to 2009.

*Net Income.* Primarily due to factors described above, net income decreased to \$83.7 million, or \$1.47 per diluted share, for the year ended December 31, 2009, compared to \$112.9 million, or \$1.93 per diluted share, for the year ended December 31, 2008.

### **2008 Compared to 2007**

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

	Year ended December 31,		
	2008	2007	% Change
Revenue passenger miles (000)	17,101,910	17,892,282	(4.4)
Available seat miles ("ASMs") (000)	22,020,250	22,968,768	(4.1)
Block hours	1,376,815	1,438,818	(4.3)
Departures	872,288	904,795	(3.6)
Passengers carried	33,461,819	34,392,755	(2.7)
Passenger load factor	77.7%	77.9%	(0.2)pts
Revenue per available seat mile	15.9¢	14.7¢	8.2
Cost per available seat mile	15.2¢	13.7¢	10.9
Fuel cost per available seat mile	5.5¢	4.6¢	19.6
Average passenger trip length (miles)	511	520	(1.7)

*Revenues.* Operating revenues increased \$121.9 million, or 3.6%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. We are reimbursed for our actual fuel costs by our major partners under our contract flying arrangements. For financial reporting purposes, we record these reimbursements as operating revenue. Under the SkyWest Airlines and ASA Delta Connection Agreements, we are reimbursed for our engine overhaul expenses. We also record those engine overhaul reimbursements as operating revenue. The following table summarizes the amount of fuel and engine overhaul reimbursements included in our passenger revenues for the periods indicated (dollar amounts in thousands).

	Year end December 31,			
	2008	2007	\$ Change	% Change
Passenger revenues	\$ 3,466,287	\$ 3,342,131	\$ 124,156	3.7%
Less: Fuel reimbursement from major partners	1,185,201	1,034,630	150,571	14.6%
Less: Engine overhaul reimbursement from major partners	120,101	67,961	52,140	76.7%

Passenger revenue excluding fuel and engine overhauls reimbursements \$ 2,160,985 \$ 2,239,540 \$ (78,555) (3.5)%

*Passenger revenues.* Passenger revenues increased \$124.2 million, or 3.7%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. The increase in passenger revenues was primarily due to an increase in fuel and engine overhaul reimbursements from our major

Table of Contents

partners. The fuel reimbursement from our major partners increased \$150.6 million, or 14.6%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. Our passenger revenues, excluding fuel and engine overhaul reimbursements from major partners, decreased \$78.6 million, or 3.5%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. In June 2008, SkyWest Airlines was notified that Midwest was in the process of organizing a financial restructuring. SkyWest Airlines subsequently reached agreement with Midwest to reduce the number of aircraft operating under the Midwest Services Agreement from 21 aircraft to 12 aircraft. As part of the modified agreement, SkyWest Airlines agreed to defer a portion of Midwest's weekly payment obligations from July 1, 2008 through November 30, 2008. The amount SkyWest Airlines agreed to defer, plus certain amounts Midwest owed SkyWest Airlines at June 30, 2008, were initially scheduled for repayment starting on August 31, 2009; however, in June 2009, SkyWest Airlines and Midwest reached a mutual understanding to terminate the Midwest Services Agreement, remove the remaining SkyWest Airlines aircraft from Midwest service and further restructure Midwest's payment obligation to SkyWest Airlines. SkyWest Airlines agreed to cancel an unsecured note from Midwest in the amount of approximately \$9.3 million in exchange for a \$4.0 million payment from Midwest that is guaranteed by Republic Airways Holdings, Inc. The unsecured note related to certain deferred payments Midwest owed SkyWest Airlines from services provided under the Midwest Services Agreement.

*Ground handling and other.* Total ground handling and other revenues decreased \$2.2 million, or 7.0%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. Revenue earned under other ground handling contracts where we provide ground handling services for other airlines is presented in the "Ground handling and other" line in our consolidated statements of income. The decrease was primarily related to the lower volume of flights serviced under ground handling contracts with United and Delta, whereby we perform ground handling services for several other regional airlines.

Individual expense components are expressed in the following table on the basis of cents per ASM for the periods indicated. ASM is a common metric used in the airline industry to measure an airline's passenger capacity. The size of our fleet is the underlying driver of our operating costs, the primary basis for our presentation in this Item 7 is on a cost per ASM basis to discuss significant changes in our costs not proportionate to the relative changes in our fleet size (dollar amounts in thousands).

	Year ended December 31,				2008 Cents Per ASM	2007 Cents Per ASM
	2008	2007	\$ Change	% Change		
	Amount	Amount	Amount	Percent		
Aircraft fuel	\$ 1,220,618	\$ 1,062,079	\$ 158,539	14.9%	5.5	4.6
Salaries, wages and benefits	724,094	726,947	(2,853)	(0.4)%	3.3	3.2
Aircraft maintenance, materials and repairs	381,653	297,960	83,693	28.1%	1.7	1.3
Aircraft rentals	295,784	294,443	1,341	0.5%	1.4	1.3
Depreciation and amortization	220,195	208,944	11,251	5.4%	1.0	0.9
Station rentals and landing fees	132,017	135,757	(3,740)	(2.8)%	0.6	0.6
Ground handling services	106,135	140,374	(34,239)	(24.4)%	0.5	0.6
Other	160,522	163,304	(2,782)	(1.7)%	0.7	0.7
<b>Total operating expenses</b>	<b>3,241,018</b>	<b>3,029,808</b>	<b>211,210</b>	<b>7.0%</b>	<b>14.7</b>	<b>13.2</b>
Interest	106,064	126,320	(20,256)	(16.0)%	0.5	0.5
<b>Total airline expenses</b>	<b>\$ 3,347,082</b>	<b>\$ 3,156,128</b>	<b>190,954</b>	<b>6.1%</b>	<b>15.2</b>	<b>13.7</b>

Table of Contents

*Fuel.* Fuel costs increased \$158.5 million, or 14.9% during the year ended December 31, 2008, compared to the year ended December 31, 2007. The average cost per gallon of fuel increased to \$3.33 per gallon during the year ended December 31, 2008, from \$2.41 during the year ended December 31, 2007. The increase in the average cost per gallon during the year ended December 31, 2008 was mitigated by United purchasing fuel directly from a fuel vendor for our United Express aircraft operated out of Chicago, San Francisco, Los Angeles and Denver. Midwest also purchased all of its fuel directly from fuel vendors, which reduced our total fuel costs and related passenger revenue. The following table summarizes the gallons of fuel we purchased directly, and the change in fuel price per gallon on our fuel expense, for the periods indicated:

(in thousands, except per gallon amounts)	For the year ended December 31,		
	2008	2007	% Change
Fuel gallons purchased	366,540	440,044	(16.7)%
Average price per gallon	\$ 3.33	\$ 2.41	38.2%
Fuel expense	\$ 1,220,618	\$ 1,062,079	14.9%

We are at risk for increased fuel prices on our pro-rate flying operations, whereby we receive a pro-rated portion of the passenger fare as revenue. As of December 31, 2008, we operated a total of 32 Brasilia turboprops under separate pro-rate agreements with Delta and United. During the year ended December 31, 2008, the cost of fuel associated with the pro-rate operations increased approximately \$6.5 million (pre-tax) compared to the year ended December 31, 2007.

*Salaries Wages and Employee Benefits.* Salaries, wages and employee benefits decreased \$2.9 million, or 0.4%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. The average number of full-time equivalent employees decreased 2.6% to 14,315 for the year ended December 31, 2008, from 14,694 for the year ended December 31, 2007. The decrease in number of employees was significantly due to Delta assuming responsibility from ASA in June 2007 for the performance of customer service functions in Atlanta and United transitioning 16 stations from SkyWest Airlines to other ground handlers during the second quarter of 2008.

*Aircraft maintenance, materials and repairs.* Maintenance costs increased \$83.7 million, or 28.1%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. The increase was primarily related to the timing of engine overhaul events. Our engine overhaul expense increased approximately \$54.8 million during the year ended December 31, 2008 compared to the year ended December 31, 2007. The majority of the engine overhauls related to aircraft operated under our Delta Connection Agreements and we were reimbursed for such engine overhaul costs by Delta. Such reimbursements are reflected as passenger revenue in our consolidated statements of income. The increase in maintenance excluding engine overhaul costs was principally due to other scheduled maintenance events on our aging CRJ200 and CRJ 700 aircraft and repairs incurred on aircraft damaged during the normal course of business. Additionally, since December 31, 2007, we added four used CRJ200s and two used CRJ700s to our fleet. Compared to new aircraft, used aircraft typically experience higher maintenance costs during the first year of service.

Under the SkyWest Airlines United Express and Midwest Services Agreements, we recognized revenue in our consolidated statement of income at a fixed hourly rate for mature engine maintenance on regional jet engines and we recognize engine maintenance expense on our CRJ200 regional jet engines in our consolidated statement of income on an as-incurred basis as maintenance expense. During the year ended December 31, 2008, our CRJ200 engine expense under our SkyWest Airlines United Express and Midwest Services Agreements increased \$1.8 million. Under our Delta Connection Agreements we were reimbursed for engine overhaul costs by Delta. Such reimbursements are reflected as passenger revenue in our consolidated statements of income.

Table of Contents

*Aircraft rentals.* Aircraft rentals increased \$1.3 million or 0.5% during the year ended December 31, 2008, compared to the year ended December 31, 2007. The increase in aircraft rentals was primarily due to the addition of two used CRJ700s that were financed through long-term leases.

*Depreciation and amortization.* Depreciation and amortization expense increased \$11.3 million, or 5.4%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. The increase in depreciation and amortization was primarily due to the addition of four CRJ200 and three CRJ900s that were financed using long-term debt.

*Station rentals and landing fees.* Station rentals and landing fees expense decreased \$3.7 million, or 2.8%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. Our station rentals and landing fee costs can be impacted based upon the volume of passengers carried and the number of departures. The decrease in station rentals and landing fees expense was primarily due to a 2.7% decrease in passengers carried and a 3.6% decrease in departures during the year ended December 31, 2008.

*Ground handling service.* Ground handling service expense decreased \$34.2 million, or 24.4%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. The decrease in ground handling was due primarily to Delta assuming responsibility from ASA in June 2007 for the performance of customer service functions in Atlanta and United transitioning 16 stations from SkyWest Airlines to other ground handlers during the second quarter of 2008.

*Other expenses.* Other expense, primarily consisting of property taxes, hull and liability insurance, crew simulator training and crew hotel costs, decreased \$2.8 million, or 1.7%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. The decrease in other expenses was primarily due to the decrease in crew simulator training and crew hotel costs. These decreases were due primarily to fewer training events in 2008, primarily caused by lower production such as a decrease of 3.6% in departures during the year ended December 31, 2008.

*Interest.* Interest expense decreased \$20.3 million, or 16.0% during the year ended December 31, 2008 compared to the year ended December 31, 2007. The decrease in interest expense was substantially due to a decrease in interest rates. At December 31, 2008, we had variable rate notes representing 46.6% of our total long-term debt. The majority of our variable rate notes are based on the three-month and six-month LIBOR rates. At December 31, 2008, the three-month and six-month LIBOR rates were 1.43% and 1.75%, respectively. At December 31, 2007, the three-month and six-month LIBOR rates were 4.70% and 4.60%, respectively.

*Total Airline Expenses.* Total airline expenses (consisting of total operating and interest expenses) increased \$191.0 million, or 6.1%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. We are reimbursed for our actual fuel costs by our major partners under our contract flying arrangements. We record the amount of those reimbursements as revenue. Under the SkyWest, SkyWest Airlines and ASA Delta Connection Agreements, we are reimbursed for our engine overhaul expense, which we record as revenue. The following table summarizes the amount of

Table of Contents

fuel and engine overhaul expenses which are included in our total airline expenses for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2008	2007	\$ Change	% Change
Total airline expense	\$ 3,347,082	\$ 3,156,128	\$ 190,954	6.1%
Less: Fuel expense	1,220,618	1,062,079	158,539	14.9%
Less: Engine overhaul reimbursement from major partners	120,101	67,961	52,140	76.7%
Total airline expense excluding fuel and engine overhauls	\$ 2,006,363	\$ 2,026,088	\$ (19,725)	(1.0)%

Excluding fuel and engine overhaul costs, our total airline expense decreased \$19.7 million, or 1.0%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. The percentage decrease in total airline expenses excluding fuel and engine overhauls, was less than the percentage decrease in ASMs, which is primarily due to increases in non-engine overhaul maintenance expenses attributable to the increased age of our fleet.

*Income taxes.* The provision for income taxes, as a percentage of income before taxes, decreased to 35.9% in 2008 from 36.4% in 2007. The lower 2008 rate includes the impact of a decrease to the effective state income tax rate as the result of state tax law changes in Utah and other states. The impact of the decreased effective tax rate was partially offset by the decrease in tax exempt interest income in 2008 from 2007.

*Net Income.* Primarily due to the factors described above, net income decreased to \$112.9 million, or \$1.93 per diluted share, for the year ended December 31, 2008, compared to \$159.2 million, or \$2.49 per diluted share, for the year ended December 31, 2007.

### Liquidity and Capital Resources

We had working capital of \$804.3 million and a current ratio of 2.8:1 at December 31, 2009, compared to working capital of \$834.1 million and a current ratio of 3.2:1 at December 31, 2008. The decrease was principally attributable to \$80.0 million we loaned to United in October 2009. We also agreed to defer \$49.0 million otherwise payable to SkyWest Airlines under the SkyWest Airlines United Express Agreement, offset by cash generated from operating activities. The principal sources of cash during the year ended December 31, 2009 were \$389.5 million provided by operating activities, \$300.7 million of proceeds from the issuance of long-term debt, \$18.7 million from the sale of property and equipment, \$16.1 million from returns on aircraft deposits, \$8.8 million from the sale of common stock in connection with the exercise of stock options under our stock option and employee stock purchase plans and \$0.7 million from repayment of the United note receivable. We invested \$82.1 million in marketable securities, invested \$419.0 million in flight equipment, made principal payments on long-term debt of \$147.3 million, repurchased \$18.4 million of outstanding shares of our common stock, invested \$2.6 million in buildings and ground equipment, paid \$9.1 million in cash dividends, invested \$25.5 million in other assets and issued a note receivable of \$80.0 million to United. These factors resulted in a \$49.5 million decrease in cash and cash equivalents during the year ended December 31, 2009.

Our position in marketable securities, consisting primarily of bonds, bond funds and commercial paper, increased to \$645.3 million at December 31, 2009, compared to \$568.6 million at December 31, 2008. The increase in marketable securities was due primarily to cash generated from operations in 2009 that was invested in marketable securities.

Table of Contents

At December 31, 2009, our total capital mix was 42.7% equity and 57.3% debt, compared to 43.1% equity and 56.9% debt at December 31, 2008.

As of December 31, 2009, SkyWest Airlines had a \$25 million line of credit. As of December 31, 2009 and 2008, SkyWest Airlines had no amount outstanding under the facility. The facility expires on March 31, 2010 and has a fixed interest rate of 4.96%.

As of December 31, 2009, we had \$49.7 million in letters of credit and surety bonds outstanding with various banks and surety institutions.

As of December 31, 2009 and 2008, we classified \$10.7 million as restricted cash, related to our workers compensation policies.

**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):

	<b>Total</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Thereafter</b>
Firm aircraft commitments	\$ 98,011	\$ 98,011	\$	\$	\$	\$	\$
Operating lease payments for aircraft and facility obligations	2,893,033	329,512	320,526	320,998	313,418	302,013	1,306,566
Interest commitments	633,001	83,969	78,418	72,399	65,611	59,595	273,009
Principal maturities on long-term debt	1,964,889	148,571	152,747	199,446	153,117	158,750	1,152,258
<b>Total commitments and obligations</b>	<b>\$ 5,588,934</b>	<b>\$ 660,063</b>	<b>\$ 551,691</b>	<b>\$ 592,843</b>	<b>\$ 532,146</b>	<b>\$ 520,358</b>	<b>\$ 2,731,833</b>

*Purchase Commitments and Options*

On October 12, 2007, we announced SkyWest Airlines' plans to acquire 22 additional regional jet aircraft through 2010, 18 of which SkyWest Airlines has placed into operation under the SkyWest Airlines United Express Agreement as part of an aircraft transition plan, allowing United to remove 23 30-seat Brasilia turboprops from the contract reimbursement model contemplated by the United Express Agreement and add 66-seat regional jet aircraft for United Express flying. Additionally, SkyWest Airlines exchanged four CRJ200s for four CRJ900s in its Delta Connection operations. These four 50-seat CRJ200s were placed into service under other capacity purchase agreements. In November 2007, SkyWest Airlines placed a firm order with Bombardier for the 22 new aircraft. As of December 31, 2009, SkyWest Airlines had taken delivery of four CRJ900s and 14 CRJ700s pursuant to that order. SkyWest Airlines is scheduled to take delivery of the remaining four aircraft during the first quarter of 2010.

Total expenditures for these aircraft and related flight equipment, including amounts for contractual price escalations, are estimated to be approximately \$98.0 million through the first quarter of 2010. Additionally, SkyWest Airlines' agreement with Bombardier includes options for another 22 aircraft that can be delivered in either 70 or 90-seat configurations. Delivery dates for these aircraft remain subject to final determination as SkyWest Airlines agrees upon with its major partners.

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

Table of Contents

alternatives available to us, and select one or more of these methods to fund the acquisition. In the event that alternative financing cannot be arranged at the time of delivery, Bombardier has typically financed our aircraft acquisitions until more permanent arrangements can be made. Subsequent to this initial acquisition of an aircraft, we may also refinance the aircraft or convert one form of financing to another (e.g., replacing debt financing with leveraged lease financing).

At present, we intend to satisfy our 2009 firm aircraft purchase commitment, as well as our acquisition of any additional aircraft, through a combination of operating leases and debt financing, consistent with our historical practices. 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. Nonetheless, recent disruptions in the credit markets have resulted in greater volatility, decreased liquidity and limited availability of capital, and there is no assurance that we will be able to obtain necessary funding or that, if we are able to obtain necessary capital, the corresponding terms will be favorable or acceptable to us.

*Aircraft Lease and Facility Obligations*

We also have significant long-term lease obligations primarily relating to our aircraft fleet. At December 31, 2009, we had 284 aircraft under lease with remaining terms ranging from one to 17 years. Future minimum lease payments due under all long-term operating leases were approximately \$2.9 billion at December 31, 2009. Assuming a 5.8% 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 \$2.1 billion at December 31, 2009.

*Long-term Debt Obligations*

As of December 31, 2009, we had \$1,964.9 million of long term debt obligations related to the acquisition of Brasilia turboprop, CRJ200, CRJ700 and CRJ900 aircraft. The average effective interest rate on the debt related to the Brasilia turboprop and CRJ aircraft was approximately 4.3% at December 31, 2009.

*Guarantees*

We have guaranteed the obligations of SkyWest Airlines under the SkyWest Airlines Delta Connection Agreement and the obligations of ASA under the ASA Delta Connection Agreement.

**New Accounting Standards**

In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") ASC 810 (originally issued as Statement of Financial Accounting Standards ("SFAS") No. 167, *Amendments to FASB Interpretation No. 46(R)*). Among other items, ASC 810 responds to concerns about the application of certain key provisions of FIN 46(R), including those regarding the transparency of the involvement with variable interest entities. ASC 810 is effective for calendar year companies beginning on January 1, 2010. We do not believe the adoption of ASC 810 will have a significant impact on our financial position, results of operations or cash flows.

On September 23, 2009, the FASB ratified Emerging Issues Task Force Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables* ("EITF 08-1"). EITF 08-1 updates the current guidance pertaining to multiple-element revenue arrangements included in ASC Subtopic 605-25, which originated primarily from EITF 00-21, also titled *Revenue Arrangements with Multiple Deliverables*. EITF 08-1 will be effective for annual reporting periods beginning January 1, 2011 for calendar-year entities. We are currently evaluating the impact of EITF 08-1 on our financial position, results of operations and cash flows.

Table of Contents**ITEM 7A. 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 has agreed to bear the economic risk of fuel price fluctuations on our contracted United Express flights. On our Delta Connection regional jet flights, Delta has agreed to bear the economic risk of fuel price fluctuations. We bear the economic risk of fuel price fluctuations on our pro-rate operations. For the year ended December 31, 2009, essentially all of our Brasilia turboprops flown for Delta were flown under pro-rate arrangements while, approximately 47% of our Brasilia turboprops flown in the United system were flown under pro-rate arrangements and approximately 4% of our CRJ200s flown in the United system were flown under pro-rate arrangements. As of December 31, 2009, we operated 14 CRJ 200s under a pro-rate agreement with United and two CRJ200s with AirTran. The average price per gallon of aircraft fuel decreased 43.8% to \$1.87 for the year ended December 31, 2009, from \$3.33 for the year ended December 31, 2008. 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 \$7.5 million in fuel expense for the year ended December 31, 2009.

**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 December 31, 2009, we had variable rate notes representing 38.6% of our total long-term debt compared to 46.6% of our long-term debt at December 31, 2008. 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 \$8.0 million in interest expense and received \$7.4 million in additional interest income for the year ended December 31, 2009 and we would have incurred an additional \$8.8 million in interest expense and received \$6.7 million in additional interest income for the year ended December 31, 2008. However, under our contractual arrangement with our major partners, the majority of the increase in interest expense would be passed through and recorded as passenger revenue in our consolidated statements of income. Also for illustrative purposes only, we have likewise 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 \$8.0 million less in interest expense and received \$7.4 less in interest income for the year ended December 31, 2009, and we would have recognized \$8.8 million less in interest expense and received \$6.7 less in interest income for the year ended December 31, 2008. If interest rates were to decline, our major partners would receive the principal benefit of the decline, since interest expense is generally passed through to our major partners, resulting in a reduction to passenger revenue in our consolidated statement of income.

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 our actual costs of acquiring these aircraft.

Table of Contents

**Auction Rate Securities**

We have investments in auction rate securities, which are classified as available for sale securities and reflected at fair value. Due primarily to instability in credit markets over the past two years, we sold a portion of these investments. As of December 31, 2009, we had investments valued at a total of \$4.3 million which were classified as Other assets on our consolidated balance sheet. For a more detailed discussion on auction rate securities, including our methodology for estimating their fair value, see Note 6 to our consolidated financial statements appearing in Item 8 of this Report.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information set forth below should be read together with the "Management's Discussion and Analysis of Financial Condition and Results of Operations," appearing elsewhere herein.

Table of Contents

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
SkyWest, Inc.

We have audited the accompanying consolidated balance sheets of SkyWest, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SkyWest, Inc. and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), SkyWest, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah  
February 22, 2010

Table of Contents

## SKYWEST, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

## ASSETS

	December 31, 2009	December 31, 2008
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 76,414	\$ 125,892
Marketable securities	645,301	568,567
Restricted cash	10,730	10,728
Income tax receivable	12,608	14,868
Receivables, net	111,902	55,458
Inventories, net	89,876	104,383
Prepaid aircraft rents	237,350	226,474
Deferred tax assets	45,197	76,093
Other current assets	24,721	38,205
<b>Total current assets</b>	<b>1,254,099</b>	<b>1,220,668</b>
<b>PROPERTY AND EQUIPMENT:</b>		
Aircraft and rotatable spares	3,612,658	3,273,705
Deposits on aircraft	4,247	20,390
Buildings and ground equipment	240,438	239,573
	3,857,343	3,533,668
Less-accumulated depreciation and amortization	(977,637)	(824,293)
<b>Total property and equipment, net</b>	<b>2,879,706</b>	<b>2,709,375</b>
<b>OTHER ASSETS</b>		
Intangible assets, net	23,997	26,247
Other assets	153,000	58,001
<b>Total other assets</b>	<b>176,997</b>	<b>84,248</b>
<b>Total assets</b>	<b>\$ 4,310,802</b>	<b>\$ 4,014,291</b>

See accompanying notes to consolidated financial statements.

Table of Contents

## SKYWEST, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (Continued)

(Dollars in thousands)

## LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2009	December 31, 2008
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 148,571	\$ 129,783
Accounts payable	165,825	110,902
Accrued salaries, wages and benefits	67,377	66,553
Accrued aircraft rents	17,661	25,676
Taxes other than income taxes	17,476	16,651
Other current liabilities	32,925	37,039
 Total current liabilities	 449,835	 386,604
 <b>OTHER LONG TERM LIABILITIES</b>	 38,540	 41,525
 LONG TERM DEBT, net of current maturities	 1,816,318	 1,681,705
 <b>DEFERRED INCOME TAXES PAYABLE</b>	 536,540	 507,113
 DEFERRED AIRCRAFT CREDITS	 117,350	 121,823
 <b>COMMITMENTS AND CONTINGENCIES</b> (Note 5)		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, 5,000,000 shares authorized; none issued		
Common stock, no par value, 120,000,000 shares authorized; 74,626,660 and 73,520,292 shares issued, respectively	578,153	562,395
Retained earnings	1,052,375	977,736
Treasury stock, at cost, 19,017,645 and 17,150,580 shares, respectively	(279,619)	(261,174)
Accumulated other comprehensive income (loss) (Note 1)	1,310	(3,436)
 Total stockholders' equity	 1,352,219	 1,275,521
 Total liabilities and stockholders' equity	 \$ 4,310,802	 \$ 4,014,291

See accompanying notes to consolidated financial statements.

Table of Contents

## SKYWEST, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Year Ended December 31,		
	2009	2008	2007
<b>OPERATING REVENUES:</b>			
Passenger	\$ 2,582,238	\$ 3,466,287	\$ 3,342,131
Ground handling and other	31,376	29,962	32,201
Total operating revenues	2,613,614	3,496,249	3,374,332
<b>OPERATING EXPENSES:</b>			
Aircraft fuel	390,739	1,220,618	1,062,079
Salaries, wages and benefits	698,326	724,094	726,947
Aircraft maintenance, materials and repairs	436,039	381,653	297,960
Aircraft rentals	300,773	295,784	294,443
Depreciation and amortization	221,548	220,195	208,944
Station rentals and landing fees	116,312	132,017	135,757
Ground handling services	95,805	106,135	140,374
Other, net	141,877	160,522	163,304
Total operating expenses	2,401,419	3,241,018	3,029,808
OPERATING INCOME	212,195	255,231	344,524
<b>OTHER INCOME (EXPENSE):</b>			
Interest income	11,121	20,776	31,650
Interest expense	(86,330)	(106,064)	(126,320)
Impairment on marketable securities	(7,115)		
Other	1,862	6,240	467
Total other expense, net	(80,462)	(79,048)	(94,203)
INCOME BEFORE INCOME TAXES	131,733	176,183	250,321
PROVISION FOR INCOME TAXES	48,075	63,254	91,129
NET INCOME	\$ 83,658	\$ 112,929	\$ 159,192
BASIC EARNINGS PER SHARE	\$ 1.50	\$ 1.95	\$ 2.54
DILUTED EARNINGS PER SHARE	\$ 1.47	\$ 1.93	\$ 2.49
<b>Weighted average common shares:</b>			
Basic	55,854	57,790	62,710
Diluted	56,814	58,633	64,044

See accompanying notes to consolidated financial statements.



Table of Contents

**SKYWEST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND**  
**COMPREHENSIVE INCOME**

(In thousands)

	Common Stock		Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income	Total
	Shares	Amount		Shares	Amount	(Loss)	
Balance at December 31, 2006	70,753	\$ 491,405	\$ 720,784	(6,794)	\$ (32,551)	\$ (1,345)	\$ 1,178,293
Comprehensive income:							
Net income			159,192				159,192
Net unrealized appreciation on marketable securities net of tax of \$304						475	475
Total comprehensive income							159,667
Exercise of common stock options	1,066	19,572					19,572
Sale of common stock under employee stock purchase plan	454	9,378					9,378
Stock based compensation expense related to the issuance of stock options and the employee stock purchase plan		13,121					13,121
Tax benefit from exercise of common stock options		69					69
Treasury stock purchases				(5,000)	(125,991)		(125,991)
Cash dividends declared (\$0.12 per share)			(8,102)				(8,102)
Balance at December 31, 2007	72,273	\$ 533,545	\$ 871,874	(11,794)	\$ (158,542)	\$ (870)	\$ 1,246,007
Comprehensive income:							
Net income			112,929				112,929
Net unrealized depreciation on marketable securities net of tax of \$1,573						(2,566)	(2,566)
Total comprehensive income							110,363
Exercise of common stock options	439	6,135					6,135
Sale of common stock under employee stock purchase plan	808	11,227					11,227
Stock based compensation expense related to the issuance of stock options and the employee stock purchase plan		11,489					11,489
Tax deficiency from exercise of common stock options			(1)				(1)

Edgar Filing: SKYWEST INC - Form 10-K

Treasury stock purchases				(5,357)	(102,632)		(102,632)
Cash dividends declared (\$0.13 per share)				(7,067)			(7,067)
Balance at December 31, 2008	73,520	\$ 562,395	\$ 977,736	(17,151)	\$ (261,174)	\$ (3,436)	\$ 1,275,521
Comprehensive income:							
Net income				83,658			83,658
Proportionate share of other companies foreign currency translation adjustment, net of tax \$596						972	972
Net unrealized appreciation on marketable securities net of tax of \$2,158						3,774	3,774
Total comprehensive income							88,404
Exercise of common stock options and issuance of restricted stock	271	215					215
Sale of common stock under employee stock purchase plan	836	8,572					8,572
Stock based compensation expense related to the issuance of stock options		7,944					7,944
Tax deficiency from exercise of common stock options		(973)					(973)
Treasury stock purchases				(1,867)	(18,445)		(18,445)
Cash dividends declared (\$0.16 per share)				(9,019)			(9,019)
Balance at December 31, 2009	74,627	\$ 578,153	\$ 1,052,375	(19,018)	\$ (279,619)	\$ 1,310	\$ 1,352,219

See accompanying notes to consolidated financial statements.

Table of Contents

## SKYWEST, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 83,658	\$ 112,929	\$ 159,192
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	221,548	220,195	208,944
Stock based compensation expense	7,944	11,489	13,121
Loss (gain) on sale of property and equipment	(77)	68	(467)
Undistributed earnings of other companies	(1,785)		
Impairment on marketable securities	7,115		
Net increase in deferred income taxes	59,350	55,541	106,112
Changes in operating assets and liabilities:			
Decrease (increase) in restricted cash	(2)	3,977	1,704
Decrease (increase) in receivables	(56,444)	25,758	(51,785)
Decrease (increase) in income tax receivable	2,260	8,246	(21,295)
Decrease (increase) in inventories	14,507	1,355	(20,578)
Decrease (increase) in other current assets and prepaid aircraft rents	10,608	4,437	(145)
Increase (decrease) in deferred aircraft credits	(3,658)	(5,140)	21,163
Increase (decrease) in accounts payable and accrued aircraft rents	46,908	(23,666)	(20,660)
Increase (decrease) in other current liabilities	(2,432)	354	710
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>389,500</b>	<b>415,543</b>	<b>396,016</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of marketable securities	(854,715)	(1,305,015)	(1,370,189)
Sales of marketable securities	772,616	1,254,574	1,067,815
Issuance of United Air Lines note receivable	(80,000)		
Payments received on note receivable from United Air Lines	667		
Proceeds from the sale of property and equipment	18,662	4,580	11,290
Acquisition of property and equipment:			
Aircraft and rotatable spare parts	(419,028)	(194,189)	(298,519)
Deposits on aircraft			(32,326)
Buildings and ground equipment	(2,556)	(37,627)	(37,547)
Increase in other assets	(25,458)	(6,559)	(2,783)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(589,812)</b>	<b>(284,236)</b>	<b>(662,259)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of long-term debt	300,716	80,361	177,792
Principal payments on long-term debt	(147,315)	(119,823)	(110,973)
Return of deposits on aircraft and rotatable spare parts	16,143	3,458	11,697
Tax benefit from exercise of common stock options		9	177
Net proceeds from issuance of common stock	8,787	17,361	28,950
Purchase of treasury stock	(18,445)	(102,632)	(125,991)
Payment of cash dividends	(9,052)	(6,951)	(8,061)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>150,834</b>	<b>(128,217)</b>	<b>(26,409)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(49,478)</b>	<b>3,090</b>	<b>(292,652)</b>

Edgar Filing: SKYWEST INC - Form 10-K

Cash and cash equivalents at beginning of year	125,892	122,802	415,454
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 76,414</b>	<b>\$ 125,892</b>	<b>\$ 122,802</b>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest, net of capitalized amounts	\$ 90,572	\$ 111,717	\$ 112,547
Income taxes	\$ 2,896	\$ 23,876	\$ 1,420

See accompanying notes to consolidated financial statements.

Table of Contents

**SKYWEST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**(1) Nature of Operations and Summary of Significant Accounting Policies**

SkyWest, Inc. (the "Company"), through its wholly-owned subsidiaries, SkyWest Airlines, Inc. ("SkyWest Airlines") and Atlantic Southeast Airlines, Inc. ("ASA"), operates the largest regional airline in the United States. As of December 31, 2009, SkyWest and ASA offered scheduled passenger and air freight service with approximately 2,300 total daily departures to 217 different destinations in the United States, Canada, Mexico and the Caribbean. Additionally, the Company provides ground handling services for approximately eight other airlines throughout its system. As of December 31, 2009, the Company operated a fleet of 449 aircraft consisting of 250 50-seat Bombardier CRJ200 Regional Jet aircraft ("CRJ200s") (81 assigned to United Air Lines, Inc. ("United"), 164 assigned to Delta Air Lines, Inc. ("Delta"), three assigned to Midwest Airlines, Inc. ("Midwest") and two assigned to AirTran, 117 70-seat Bombardier CRJ 700 Regional Jet aircraft ("CRJ700s") (66 assigned to United and 51 assigned to Delta), 31 70-90-seat Bombardier CRJ900 Regional Jet aircraft ("CRJ900") (all assigned to Delta) and 51 Embraer Brasilia EMB-120 turboprops ("Brasilia Turboprops") (39 assigned to United and 12 assigned to Delta) For the year ended December 31, 2009, approximately 55.8% of the Company's capacity was operated under the Delta code, approximately 42.4% was operated under the United code, approximately 1.7% was operated under the Midwest code and approximately 0.1% was operated under the AirTran code.

SkyWest Airlines has been a partner with Delta in Salt Lake City and United in Los Angeles since 1987 and 1997, respectively. In 1998, SkyWest Airlines expanded its relationship with United to provide service in Portland, Seattle/Tacoma, San Francisco and additional Los Angeles markets. In 2004, SkyWest Airlines expanded its United Express operations to provide service in Chicago. In December 2007, SkyWest Airlines and Midwest entered into the Midwest Services Agreement. Effective January 1, 2010, SkyWest Airlines terminated its agreement with Midwest. In December 2009, SkyWest Airlines entered into a flying agreement with AirTran. SkyWest Airlines currently serves markets from AirTran's hub in Milwaukee. As of December 31, 2009, SkyWest Airlines operated as a Delta Connection carrier in Salt Lake City, a United Express carrier in Los Angeles, San Francisco, Denver, Chicago and the Pacific Northwest, a Midwest Connect carrier and an AirTran carrier in Milwaukee operating more than 1,500 total daily flights.

ASA has been a code-share partner with Delta in Atlanta since 1984. ASA expanded its operations as a Delta Connection carrier to also include Cincinnati and Salt Lake City in September 2002 and April 2003, respectively. As of December 31, 2009, ASA operated approximately 780 daily flights, all in the Delta Connection system.

***Basis of Presentation***

The Company's consolidated financial statements include the accounts of SkyWest, Inc. and its wholly-owned subsidiaries, SkyWest Airlines and ASA, with all inter-company transactions and balances having been eliminated.

In preparing the accompanying consolidated financial statements, the Company has reviewed, as determined necessary by the Company's management, events that have occurred after December 31, 2009, up until the issuance of the consolidated financial statements, which occurred on February 22, 2010.

Table of Contents

## SKYWEST, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2009

## (1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 could differ from those estimates.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company classified \$10.7 million of cash as restricted cash as required by the Company's workers' compensation policy and classified it accordingly in the consolidated balance sheets as of December 31, 2009 and 2008.

*Marketable Securities*

The Company's investments in marketable debt and equity securities are deemed by management to be available for sale and are reported at fair market value with the net unrealized appreciation or depreciation reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. At the time of sale, any realized appreciation or depreciation, calculated by the specific identification method, is recognized in other income and expense. The Company's position in marketable securities as of December 31, 2009 and 2008 was as follows (in thousands):

Investment Types	2009		2008	
	Cost	Market Value	Cost	Market Value
Commercial paper	\$	\$	\$ 24,855	\$ 22,790
Bond and bond funds	647,965	648,498	546,003	542,733
Asset backed securities	1,051	1,062	5,330	5,277
	649,016	649,560	576,188	570,800
Unrealized gain (loss)	544		(5,388)	
Total	\$ 649,560	\$ 649,560	\$ 570,800	\$ 570,800

Marketable securities had the following maturities as of December 31, 2009 (in thousands):

Maturities	Amount
Year 2010	\$ 303,072
Years 2011 through 2014	76,685
Years 2015 through 2019	15,458
Thereafter	254,345

The Company has classified \$645.3 million of marketable securities as short-term since it has the intent to maintain a liquid portfolio and the ability to redeem the securities within one year. The Company has classified approximately \$4.3 million of investments as non-current and has identified

Table of Contents**SKYWEST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2009****(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

them as "Other assets" in the Company's consolidated balance sheet as of December 31, 2009 (see Note 6).

***Inventories***

Inventories include expendable parts, fuel and supplies and are valued at cost (FIFO basis) less an allowance for obsolescence based on historical results and management's expectations of future operations. Expendable inventory parts are charged to expense as used. An obsolescence allowance for flight equipment expendable parts is accrued based on estimated lives of the corresponding fleet types and salvage values. The inventory allowance as of December 31, 2009 and 2008 was \$6.6 million and \$5.5 million, respectively. These allowances are based on management estimates, which are subject to change.

***Property and Equipment***

Property and equipment are stated at cost and depreciated over their useful lives to their estimated residual values using the straight-line method as follows:

<b>Assets</b>	<b>Depreciable Life</b>	<b>Residual Value</b>
Aircraft and rotatable spares	10 - 18 years	0 - 30%
Ground equipment	5 - 10 years	0%
Office equipment	5 - 7 years	0%
Leasehold improvements	15 years or life of the lease	0%
Buildings	20 - 39.5 years	0%

***Change in Accounting Estimates***

During the first quarter of 2009, the Company changed its estimate of depreciable lives on ground equipment from five to seven years to five to ten years and maintained the residual value of zero percent. The impact of this change increased the Company's pre-tax income for the year ended December, 31 2009 by \$4.0 million (\$.07 per share Basic EPS and Diluted EPS), respectively. The impact of this change, net of tax, increased the Company's net income for the year ended December 31, 2009 by \$2.5 million (\$.05 per share Basic EPS and \$.04 per share Diluted EPS), respectively.

***Impairment of Long Lived and Intangible Assets***

As of December 31, 2009, the Company had approximately \$2.9 billion of property and equipment and related assets. Additionally, as of December 31, 2009, the Company had approximately \$24.0 million in intangible assets. In accounting for these long-lived and intangible assets, the Company makes estimates about the expected useful lives of the assets, the expected residual values of certain of these assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. On September 7, 2005, the Company completed the acquisition of all of the issued and

Table of Contents

**SKYWEST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2009**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

outstanding capital stock of ASA. The Company recorded an intangible asset of approximately \$33.7 million relating to the acquisition of ASA. The intangible asset is being amortized over fifteen years under the straight-line method. As of December 31, 2009 and 2008, the Company had \$9.7 million and \$7.5 million in accumulated amortization expense, respectively. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the long-lived assets, a significant change in the condition of the long-lived assets and operating cash flow losses associated with the use of the long-lived assets. On a periodic basis, the Company evaluates whether the book value of its aircraft is impaired. Based on the results of the evaluations, the Company's management concluded no impairment was necessary as of December 31, 2009.

***Capitalized Interest***

Interest is capitalized on aircraft purchase deposits as a portion of the cost of the asset and is depreciated over the estimated useful life of the asset. During the years ended December 31, 2009, 2008 and 2007, the Company capitalized interest costs of approximately \$843,000, \$1.4 million, and \$0, respectively.

***Maintenance***

The Company operates under an FAA-approved continuous inspection and maintenance program. The Company uses the direct expense method of accounting for its regional jet engine overhauls wherein the expense is recorded when the overhaul event occurs. The Company has an engine services agreement with a third party vendor to provide long-term engine services covering the scheduled and unscheduled repairs for certain of its CRJ700 regional jet aircraft. Under the terms of the agreement, the Company pays a set dollar amount per engine hour flown on a monthly basis and the third party vendor will assume the responsibility to repair the engines at no additional cost to the Company, subject to certain specified exclusions. Maintenance costs under these contracts are recognized when the engine hour is flown pursuant to the terms of the contract. The Company uses the "deferral method" of accounting for its Brasilia Turboprop engine overhauls wherein the overhaul costs are capitalized and depreciated over the estimated useful life of the engine. The costs of maintenance for airframe and avionics components, landing gear and normal recurring maintenance are expensed as incurred. For leased aircraft, the Company is subject to lease return provisions that require a minimum portion of the "life" of an overhaul be remaining on the engine at the lease return date. For Brasilia Turboprop engine overhauls related to leased aircraft to be returned, the Company adjusts the estimated useful lives of the final engine overhauls based on the respective lease return dates.

***Passenger and Ground Handling Revenues***

The Company recognizes passenger and ground handling revenues when the service is provided. Under the Company's contract and pro-rate flying agreements with Delta, United and AirTran, revenue is considered earned when the flight is completed. Revenue is recognized under the Company's pro-rate flying agreements based upon the portion of the pro-rate passenger fare the Company anticipates that it will receive.

The Delta Connection Agreements executed by SkyWest Airlines and ASA provide for fifteen-year terms, subject to early termination by Delta, SkyWest Airlines or ASA, as applicable, upon the

Table of Contents

**SKYWEST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2009**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

occurrence of certain events. Delta's termination rights include (i) cross-termination rights between the two Delta Connection Agreements, (ii) the right to terminate each of the Delta Connection Agreements upon the occurrence of certain force majeure events, including certain labor-related events, that prevent SkyWest Airlines or ASA from performance for certain periods, and (iii) the right to terminate each of the Delta Connection Agreements if SkyWest Airlines or ASA fails to maintain competitive base rate costs, subject to certain adjustment rights. The SkyWest Airlines and ASA Delta Connection Agreements contain multi-year rate reset provisions beginning in 2010 and each 5<sup>th</sup> year thereafter. In the Delta Connection Agreements, the fixed-fee rates are specifically defined through 2009. The parties agreed that on or after a specified date in 2010 the parties would reset such rates to reflect SkyWest Airlines' actual costs in 2010 (with a similar process on each 5th year thereafter). In addition to the termination rights, Delta has the right to extend the term of the Delta Connection Agreements upon the occurrence of certain events or at the expiration of the initial term. SkyWest Airlines and ASA have the right to terminate their respective Delta Connection Agreement upon the occurrence of certain breaches by Delta, including the failure to cure payment defaults. SkyWest Airlines and ASA also have cross-termination rights between the two Delta Connection Agreements.

Under the terms of the SkyWest Airlines Delta Connection Agreement, Delta has agreed to compensate SkyWest Airlines for the direct costs associated with operating the Delta Connection flights, plus a payment based on block hours flown. Under the terms of the ASA Delta Connection Agreement, Delta has agreed to compensate ASA for its direct costs associated with operating the Delta Connection flights, plus, if ASA completes a certain minimum percentage of its Delta Connection flights, an additional percentage of such costs. Additionally, ASA's Delta Connection Agreement provides for the payment of incentive compensation upon satisfaction of certain performance goals. The incentives are defined in the ASA Delta Connection Agreement as being measured and determined on a monthly and quarterly basis. At the end of each quarter, the Company calculates the incentives achieved during the quarter and recognizes revenue accordingly. The parties to the Delta Connection Agreements make customary representations, warranties and covenants, including with respect to various operational, marketing and administrative matters.

SkyWest Airlines and ASA have each entered into a Delta Connection Agreement with Delta, pursuant to which SkyWest Airlines and ASA provide contract flight services for Delta. In the event that the contractual rates under those agreements have not been finalized at quarterly or annual financial statement dates, the Company records revenues based on the lower of prior period's approved rates, as adjusted to reflect any contract negotiations and our estimate of rates that will be implemented in accordance with revenue recognition guidelines. Among other provisions, those Delta Connection Agreements provide that, beginning with the third anniversary of the execution of the agreements (September 8, 2008), Delta has the right to require that certain contractual rates under those agreements shall not exceed the average rate of all carriers within the Delta Connection Program. On October 23, 2009, Delta sent letters to SkyWest Airlines and ASA requiring them to either adjust the rates payable under their respective Delta Connection Agreements or accept termination of those agreements. Delta's letter also notified SkyWest Airlines and ASA of Delta's estimate of the average rates to be applied under those agreements. On October 28, 2009, SkyWest Airlines and ASA notified Delta of their election to adjust the rates payable under the Delta Connection Agreements; however, they also notified Delta of their disagreement with Delta's estimated rates and their belief that the methodology Delta used to calculate its estimated rates is inconsistent with the terms of the Delta

Table of Contents

**SKYWEST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2009**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

Connection Agreements. SkyWest Airlines and ASA and Delta have exchanged subsequent correspondence, and SkyWest Airlines and ASA continue to negotiate with Delta in an effort to determine an appropriate methodology for calculating the average rates of the carriers within the Delta Connection Program. Because SkyWest Airlines and ASA have not reached an agreement with Delta regarding the final contractual rates to be established under the Delta Connection Agreements, the Company has evaluated the method for calculating the average rate of the carriers within the Delta Connection Program under the revenue recognition accounting guidance and recorded revenue under those agreements based on management's understanding of the applicable terms in the Delta Connection Agreements and management's best estimate of the revenue that will ultimately be realized upon settlement of the contractual rates with Delta with respect to the year ended December 31, 2009.

The SkyWest Airlines and the ASA Delta Connection Agreements provides that, beginning with the fifth anniversary of the execution of the agreements (September 8, 2010), Delta has the right to require that certain contractual rates under those agreements shall not exceed the 2<sup>nd</sup> lowest of all carriers within the Delta Connection Program.

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. During the quarter ended December 31, 2007, Delta notified the Company, SkyWest Airlines and ASA of a dispute under the Delta Connection Agreements executed by Delta with SkyWest Airlines and ASA. The dispute relates to allocation of liability for certain irregular operations ("IROP") expenses that are paid by SkyWest Airlines and ASA to their passengers under certain situations. As a result, Delta withheld a combined total of approximately \$25 million (pretax) from one of the weekly scheduled wire payments to SkyWest Airlines and ASA during December 2007. Delta continues to withhold a portion of the funds the Company believes are payable as weekly scheduled wire payments to SkyWest Airlines and ASA (See Note 5 for additional details).

SkyWest Airlines and United have entered into a United Express Agreement, which sets forth the principal terms and conditions governing SkyWest Airlines' United Express operations. Under the terms of the United Express Agreement, SkyWest Airlines is compensated primarily on a fee-per-completed-block hour and departure basis and is reimbursed for fuel and other costs. Additionally, SkyWest Airlines is eligible for incentive compensation upon the achievement of certain performance criteria. The incentives are defined in the United Express Agreement as being measured and determined on a monthly basis. At the end of each month, the Company calculates the incentives achieved during the month and recognizes revenue accordingly.

On June 10, 2009, SkyWest Airlines and Midwest reached a mutual understanding to terminate the service SkyWest Airlines provided under the Midwest Services Agreement. As a result, SkyWest Airlines removed its remaining 12 CRJ200 regional jet aircraft from Midwest in stages through January 2010. Additionally, SkyWest Airlines agreed to cancel an unsecured note from Midwest in the amount of approximately \$9.3 million in exchange for a \$4.0 million payment from Midwest that was collected and recorded as revenue by SkyWest Airlines.

On November 4, 2009, SkyWest Airlines entered into a code-share agreement with AirTran. Under the terms of the code-share agreement, SkyWest Airlines has agreed to operate five CRJ200s for

Table of Contents

**SKYWEST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2009**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

AirTran under a pro-rate arrangement. SkyWest Airlines commenced AirTran service with two aircraft in December 2009 and added three additional aircraft in January and February of 2010. The code-share agreement has a three-year term; however, after May 15, 2010, either party may terminate the agreement upon 120 days written notice.

Under the Company's code-share agreements with Delta, United and Midwest, the Company earns revenue for an amount per aircraft designed to reimburse the Company for certain aircraft ownership costs. The Company has concluded that a component of its revenue under these agreements is rental income, inasmuch as the agreements identify the "right of use" of a specific type and number of aircraft over a stated period of time. The amounts deemed to be rental income under the agreements for the years ended December 31, 2009, 2008 and 2007 were \$490.1 million, \$496.5 million and \$516.9 million, respectively. These amounts were recorded as passenger revenue on the Company's consolidated statements of income. Under the SkyWest Inc. Delta Connection Agreement and the SkyWest Airlines United Express Agreement, the Company receives a reimbursement for direct costs associated with placing each additional aircraft into service. The reimbursement is applicable to incremental costs specific to placing each additional aircraft into service. The Company recognizes the revenue associated with these reimbursement payments once the aircraft is placed into service.

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 Delta, United or AirTran, contract modifications resulting from contract re-negotiations, the Company's ability to earn incentive payments contemplated under the Company's code-share agreements, settlement of reimbursement disputes with the Company's major partners and settlement of the Delta rates.

***Deferred Aircraft Credits***

The Company accounts for incentives provided by aircraft manufacturers as deferred credits. The deferred credits related to leased aircraft are amortized on a straight-line basis as a reduction to rent expense over the lease term. Credits related to owned aircraft reduce the purchase price of the aircraft, which has the effect of amortizing the credits on a straight-line basis as a reduction in depreciation expense over the life of the related aircraft. The incentives are credits that may be used to purchase spare parts and pay for training and other expenses.

***Income Taxes***

The Company recognizes a liability or asset for the deferred tax consequences of all temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years when the reported amounts of the assets and liabilities are recovered or settled.

Table of Contents

## SKYWEST, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2009

## (1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

*Net Income Per Common Share*

Basic net income per common share ("Basic EPS") excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share ("Diluted EPS") reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net income per common share. During the years ended December 31, 2009, 2008 and 2007, 4,356,000, 3,665,000 and 529,000 shares reserved for issuance upon the exercise of outstanding options were excluded from the computation of Diluted EPS respectively, as their inclusion would be anti-dilutive.

The calculation of the weighted average number of common shares outstanding for Basic EPS and Diluted EPS are as follows for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	Year Ended December 31,		
	2009	2008	2007
<b>Numerator:</b>			
Numerator for earnings per share	\$ 83,658	\$ 112,929	\$ 159,192
<b>Denominator:</b>			
Denominator for basic earnings per-share weighted average shares	55,854	57,790	62,710
Dilution due to stock options and restricted stock	960	843	1,334
Denominator for diluted earnings per-share weighted average shares	56,814	58,633	64,044
Basic earnings per-share	\$ 1.50	\$ 1.95	\$ 2.54
Diluted earnings per-share	\$ 1.47	\$ 1.93	\$ 2.49

*Comprehensive Income*

Comprehensive income includes charges and credits to stockholders' equity that are not the result of transactions with shareholders. Also, comprehensive income consisted of net income plus changes in unrealized appreciation on marketable securities and unrealized loss on foreign currency translation adjustment related to the Company's equity investment in Trip Linhas Aereas (see note 8), net of tax, for the periods indicated (in thousands):

	Year Ended December 31,		
	2009	2008	2007
<b>Net Income</b>	\$ 83,658	\$ 112,929	\$ 159,192
Proportionate share of other companies foreign currency translation adjustment, net of tax	972		
Unrealized appreciation (depreciation) on marketable securities, net of tax	3,774	(2,566)	475
<b>Comprehensive income</b>	\$ 88,404	\$ 110,363	\$ 159,667

Table of Contents

**SKYWEST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2009**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

***Fair Value of Financial Instruments***

The carrying amounts reported in the consolidated balance sheets for receivables and accounts payable approximate fair values because of the immediate or short-term maturity of these financial instruments. Marketable securities are reported at fair value based on market quoted prices in the consolidated balance sheets. However, due to recent events in credit markets, the auction events for some of these instruments held by the Company failed during the year ended December 31, 2009. Therefore, quoted prices in active markets are no longer available and the Company has estimated the fair values of these securities utilizing a discounted cash flow analysis as of December 31, 2009. These analyses consider, among other items, the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the expectation of the next time the security is expected to have a successful auction. The fair value of the Company's long-term debt is estimated based on current rates offered to the Company for similar debt and approximates \$2,095.6 million as of December 31, 2009, as compared to the carrying amount of \$1,964.9 million as of December 31, 2009. The Company's fair value of long-term debt as of December 31, 2008 was \$1,913.5 million as compared to the carrying amount of \$1,811.5 million as of December 31, 2008.

***Segment Reporting***

The accounting guidance requires disclosures related to components of a company for which separate financial information is available that is evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance. Management believes that the Company has only one reportable segment in accordance with accounting guidance because the Company's business consists of scheduled regional airline service.

***New Accounting Standards***

In June 2009, the Financial Accounting Standards Board ("FASB") issued ASC 810 (originally issued as SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*). Among other items, ASC 810 responds to concerns about the application of certain key provisions of FIN 46(R), including those regarding the transparency of the involvement with variable interest entities. ASC 810 is effective for calendar year companies beginning on January 1, 2010. The Company does not believe the adoption of ASC 810 will have a significant impact on its financial position, results of operations, cash flows, or disclosures.

On September 23, 2009, the FASB ratified Emerging Issues Task Force Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables* ("EITF 08-1"). EITF 08-1 updates the current guidance pertaining to multiple-element revenue arrangements included in ASC Subtopic 605-25, which originated primarily from EITF 00-21, also titled *Revenue Arrangements with Multiple Deliverables*. EITF 08-1 will be effective for annual reporting periods beginning January 1, 2011 for calendar-year entities. The Company is currently evaluating the impact of EITF 08-1 on its financial position, results of operations, cash flows, and disclosures.

The Company retrospectively adopted the provisions of ASC 260 *Earnings per Share* (formerly FASB Staff Position EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment*

Table of Contents

## SKYWEST, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2009

## (1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

*Transactions Are Participating Securities*) on April 1, 2009. ASC 260 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described. This provision of ASC 260 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. The adoption of this provision of ASC 260 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

## (2) Long-term Debt

Long-term debt consisted of the following as of December 31, 2009 and 2008 (in thousands):

	December 31, 2009	December 31, 2008
Notes payable to banks, due in semi-annual installments, variable interest based on LIBOR, or with interest rates ranging from 0.46% to 3.51% through 2012 to 2020, secured by aircraft	\$ 469,663	\$ 529,625
Notes payable to a financing company, due in semi-annual installments, variable interest based on LIBOR, or with interest rates ranging from 0.73% to 7.52% through 2010 to 2021, secured by aircraft	557,293	594,999
Notes payable to banks, due in semi-annual installments plus interest at 6.06% to 7.18% through 2021, secured by aircraft	231,002	248,731
Notes payable to a financing company, due in semi-annual installments plus interest at 5.78% to 6.23% through 2019, secured by aircraft	67,963	74,455
Notes payable to banks, due in monthly installments plus interest of 3.15% to 8.18% through 2025, secured by aircraft	611,829	325,834
Notes payable to banks, due in semi-annual installments, plus interest at 6.05% through 2020, secured by aircraft	23,939	25,857
Notes payable to banks, due in semi-annual installments, plus interest at 3.72% to 3.86%, net of the benefits of interest rate subsidies through the Brazilian Export financing program, through 2011, secured by aircraft	3,200	5,936
Notes payable to a bank, due in monthly installments interest based on LIBOR, interest rate at 7.9% secured by building		6,051
<b>Long-term debt</b>	<b>\$ 1,964,889</b>	<b>\$ 1,811,488</b>
Less current maturities	(148,571)	(129,783)
<b>Long-term debt, net of current maturities</b>	<b>\$ 1,816,318</b>	<b>\$ 1,681,705</b>

At December 31, 2009, the three-month and six-month LIBOR rates were 0.25% and 0.43%, respectively.

Table of Contents**SKYWEST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2009****(2) Long-term Debt (Continued)**

The aggregate amounts of principal maturities of long-term debt as of December 31, 2009 were as follows (in thousands):

2010	\$	148,571
2011		152,747
2012		199,446
2013		153,117
2014		158,750
Thereafter		1,152,258
	\$	1,964,889

As of December 31, 2009 and 2008, SkyWest Airlines had a \$25 million line of credit. As of December 31, 2009 and 2008, SkyWest Airlines had no amount outstanding under the facility. The facility expires on March 31, 2010 and has a fixed interest rate of 4.96%.

As of December 31, 2009, the Company had \$49.7 million in letters of credit and surety bonds outstanding with various banks and surety institutions.

During 2009, the Company issued \$300.7 million of long-term debt related to the purchase of 14 new CRJ 700s and one CRJ900.

Certain of the Company's long-term debt arrangements contain limitations on, among other things, the sale or lease of assets and ratio of long-term debt to tangible net worth. As of December 31, 2009, the Company was in compliance with all debt covenants. Management believes that in the absence of unusual circumstances, the working capital available to the Company will be sufficient to meet the present financial requirements, including expansion, capital expenditures, lease payments and debt service obligations for at least the next 12 months.

**(3) Note Receivable**

On October 16, 2009, SkyWest Airlines extended to United a secured term loan in the amount of \$80 million. The term loan bears interest at a rate of 11%, with a ten-year amortization period. The loan is secured by certain ground equipment and certain airport slot rights held by United. As of December 31, 2009, the Company has classified \$71.3 million as non-current and has identified the note receivable as "Other assets" in its Consolidated Balance Sheet. The Company has also classified \$8.0 million as current and has identified the note receivable as "Receivables, net" in its Consolidated Balance Sheet.

SkyWest Airlines also agreed to defer certain amounts otherwise payable to SkyWest Airlines under the existing United Express Agreement for a maximum period of 30 days. The maximum deferral amount is \$49 million and any amounts deferred accrue a deferral fee of 8%, payable weekly. As of December 31, 2009, \$49 million was deferred for 30 days. United's right to defer such payments continues through October 16, 2019 subject to certain conditions. As of December 31, 2009, the Company has classified \$49.0 million as current and has identified the deferred amount as "Receivables, net" in its Consolidated Balance Sheet.

Table of Contents

## SKYWEST, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2009

**(4) Income Taxes**

The provision for income taxes includes the following components (in thousands):

	Year ended December 31,		
	2009	2008	2007
Current tax provision (benefit):			
Federal	\$ (11,309)	\$ 5,360	\$ (14,355)
State	110	(85)	(736)
	(11,199)	5,275	(15,091)
Deferred tax provision:			
Federal	54,942	53,748	99,026
State	4,332	4,231	7,194
	59,274	57,979	106,220
Provision for income taxes	\$ 48,075	\$ 63,254	\$ 91,129

The following is a reconciliation between the statutory Federal income tax rate of 35% and the effective rate which is derived by dividing the provision for income taxes by income before provision for income taxes (in thousands):

	Year ended December 31,		
	2009	2008	2007
Computed "expected" provision for income taxes at the statutory rates	\$ 45,884	\$ 60,324	\$ 87,612
Increase (decrease) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	3,741	5,032	6,268
Other, net	(1,550)	(2,102)	(2,751)
Provision for income taxes	\$ 48,075	\$ 63,254	\$ 91,129

Table of Contents**SKYWEST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2009****(4) Income Taxes (Continued)**

The significant components of the net deferred tax assets and liabilities are as follows (in thousands):

	As of December 31,	
	2009	2008
Deferred tax assets:		
Accrued benefits	\$ 22,729	\$ 22,423
Net operating loss carryforward	39,368	23,300
AMT credit carryforward	23,379	30,180
Deferred aircraft credits	38,283	46,831
Accrued reserves and other	14,881	14,463
<b>Total deferred tax assets</b>	<b>138,640</b>	<b>137,197</b>
Deferred tax liabilities:		
Accelerated depreciation	(629,586)	(568,217)
Maintenance and other	(397)	
<b>Total deferred tax liabilities</b>	<b>(629,983)</b>	<b>(568,217)</b>
<b>Net deferred tax liability</b>	<b>\$ (491,343)</b>	<b>\$ (431,020)</b>

The Company's deferred tax liabilities were primarily generated through accelerated bonus depreciation on newly purchased aircraft and support equipment in accordance with the Job Creation and Worker Assistance Act of 2002.

At December 31, 2009, the Company had federal net operating losses of approximately \$82.1 million and state net operating losses of approximately \$408.1 million which will start to expire in 2026 and 2010 respectively. As of December 31, 2009, the Company also had an alternative minimum tax credit of approximately \$23.4 million which does not expire.

**(5) Commitments and Contingencies*****Lease Obligations***

The Company leases 284 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. Management expects that, in the normal course of business, leases that expire will be renewed or replaced by other leases. The following table summarizes future

Table of Contents**SKYWEST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2009****(5) Commitments and Contingencies (Continued)**

minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2009 (in thousands):

<b>Year ending December 31,</b>	
2010	\$ 329,512
2011	320,526
2012	320,998
2013	313,418
2014	302,013
Thereafter	1,306,566
	\$ 2,893,033

The majority of the Company's leased aircraft are owned and leased through trusts whose sole purpose is to purchase, finance and lease these aircraft to the Company; therefore, they meet the criteria of a variable interest entity. However, since these are single owner trusts in which the Company does not participate, the Company is not considered at risk for losses and is not considered the primary beneficiary. As a result, based on the current rules, the Company is not required to consolidate any of these trusts or any other entities in applying the accounting guidance. Management believes that the Company's maximum exposure under these leases is the remaining lease payments.

Total rental expense for non-cancelable aircraft operating leases was approximately \$300.8 million, \$295.8 million and \$294.4 million for the years ended December 31, 2009, 2008 and 2007, respectively. The minimum rental expense for airport station rents was approximately \$47.7 million, \$59.4 million and \$61.7 million for the years ended December 31, 2009, 2008 and 2007, respectively.

The Company's leveraged lease agreements, typically obligate the Company to indemnify the equity/owner participant against liabilities that may arise due to changes in benefits from tax ownership of the respective leased aircraft. The terms of these contracts range up to 17 years. The Company did not accrue any liability relating to the indemnification to the equity/owner participant because of management's assessment that the probability of this occurring is remote.

***Self-insurance***

The Company self-insures a portion of its potential losses from claims related to workers' compensation, environmental issues, property damage, medical insurance for employees and general liability. Losses are accrued based on an estimate of the ultimate aggregate liability for claims incurred, using standard industry practices and the Company's actual experience. Actual results could differ from these estimates.

***Purchase Commitments and Options***

On October 12, 2007, the Company announced SkyWest Airlines' plans to acquire 22 additional regional jet aircraft through 2010, 18 of which SkyWest Airlines has begun operating under its United Express Agreement as part of an aircraft transition plan, allowing United to remove 23 30-seat Brasilia turboprops from the contract reimbursement model contemplated by the United Express Agreement

Table of Contents

**SKYWEST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2009**

**(5) Commitments and Contingencies (Continued)**

and add 66-seat regional jet aircraft for United Express flying. Additionally, SkyWest Airlines exchanged four CRJ200s for four CRJ900s in its Delta Connection operations. These four 50-seat CRJ200s were placed into service under other capacity purchase agreements. In November 2007, SkyWest Airlines placed a firm order with Bombardier for the 22 new aircraft. As of December 31, 2009, SkyWest Airlines had taken delivery of four CRJ900s and 14 CRJ700s pursuant to that order. SkyWest Airlines is scheduled to take delivery of the remaining four aircraft during the first quarter of 2010.

Total expenditures for these aircraft and related flight equipment, including amounts for contractual price escalations, are estimated to be approximately \$98.0 million through the first quarter of 2010. Additionally, SkyWest Airlines' agreement with Bombardier includes options for another 22 aircraft that can be delivered in either 70 or 90-seat configurations. Delivery dates for these aircraft remain subject to final determination as the Company agrees upon with the Company's major partners.

***Legal Matters***

The Company is subject to certain legal actions which it considers routine to its business activities. As of December 31, 2009, management believes, after consultation with legal counsel, that the ultimate outcome of such legal matters is not likely to have a material adverse effect on the Company's financial position, liquidity or results of operations. However, the following is a significant outstanding legal matter.

***ASA and SkyWest Airlines v. Delta***

During the quarter ended December 31, 2007, Delta notified the Company, SkyWest Airlines and ASA of a dispute under the Delta Connection Agreements executed by Delta with SkyWest Airlines and ASA. The dispute relates to allocation of liability for IROP expenses that are paid by SkyWest Airlines and ASA to their passengers under certain situations. As a result, Delta withheld a combined total of approximately \$25 million (pretax) from one of the weekly scheduled wire payments to SkyWest Airlines and ASA during December 2007. Delta continues to withhold a portion of the funds the Company believes are payable as weekly scheduled wire payments to SkyWest Airlines and ASA. As of December 31, 2009, the Company had recognized a cumulative total of \$32.4 million of revenue associated with the funds withheld by Delta. On February 1, 2008, SkyWest Airlines and ASA filed a lawsuit in Georgia state court disputing Delta's treatment of the matter (the "Complaint"). Delta filed an Answer to the Complaint and a Counterclaim against SkyWest Airlines and ASA on March 24, 2008. Delta's Counterclaim alleges that ASA and SkyWest Airlines breached the Delta Connection Agreements by invoicing Delta for the IROP expenses that were paid pursuant to Delta's policies, and claims only a portion of those expenses may be invoiced to Delta. Delta seeks unspecified damages in its counterclaim.

On March 24, 2008, Delta filed a Motion to Dismiss the Complaint (the "Motion to Dismiss"). A hearing on the Motion to Dismiss was held September 5, 2008. In an order entered September 13, 2008, the Court granted in part and denied in part the Motion to Dismiss. The Court denied the Motion to Dismiss with respect to the breach of contract claim contained in the Complaint. The Court denied in part the Motion to Dismiss with respect to the action for declaratory judgment contained in the Complaint, and granted in part the Motion to Dismiss to the extent the Complaint seeks to read

Table of Contents

**SKYWEST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2009**

**(5) Commitments and Contingencies (Continued)**

alternative or supplemental obligations created by prior conduct into the Delta Connection Agreements. The Court granted the Motion to Dismiss with respect to claims for estoppel, unilateral mistake, and mutual mistake contained in the Complaint. The Court's ruling affects the current posture of the case, but does not preclude pursuit of the claim for breach of contract or the claim for declaratory relief, under which SkyWest Airlines and ASA continue to seek recovery of all amounts withheld by Delta.

On July 31, 2009, SkyWest Airlines and ASA filed an Amended Complaint in the lawsuit adding claims under Georgia law for voluntary payment and mutual departure from the strict terms of the Delta Connection Agreements. Under those claims, SkyWest Airlines and ASA seek recovery of all of the approximately \$25 million withheld by Delta during December 2007. SkyWest Airlines and ASA are also seeking recovery of additional amounts withheld by Delta subsequent to December 2007. Discovery on all of SkyWest's Airlines' and ASA's claims and defenses is in process. On September 4, 2009, Delta filed a motion to dismiss the Amended Complaint in part. Delta asserts that the claims added by SkyWest Airlines and ASA in the Amended Complaint should be dismissed based on legal arguments set forth in Delta's memorandum in support of its motion. SkyWest Airlines and ASA filed an opposition to the motion on October 9, 2009. On January 22, 2010, the Court granted Delta's motion in part, dismissing the claims under Georgia law for voluntary payment and mutual departure from the strict terms of the Connection Agreements. SkyWest Airlines and ASA have filed an application seeking interlocutory appeal of the Court's order and continue to vigorously pursue their claims set forth in the Amended Complaint, to the extent permitted by the Court's ruling on the Motion to Dismiss, and their defenses to Delta's counterclaims.

For financial reporting purposes the Company accrues an estimated loss if the loss is probable and reasonably estimable. Because these conditions have not been satisfied, the Company had not recorded a loss related to the preceding dispute as of December 31, 2009.

***Concentration Risk and Significant Customers***

The Company requires no collateral from its major partners or customers but monitors the financial condition of its major partners. The Company maintains an allowance for doubtful accounts receivable based upon expected collectability of all accounts receivable. The Company's allowance for doubtful accounts totaled \$47,000 as of December 31, 2009 and 2008. For the years ended December 31, 2009, 2008 and 2007, the Company's contractual relationships with Delta and United combined accounted for approximately 97.3%, 94.1% and 93.3%, respectively of the Company's total revenues.

***Employees***

As of December 31, 2009 the Company and SkyWest Airlines collectively employed 8,654 full-time equivalent employees consisting of 4,232 pilots and flight attendants, 2,833 customer service personnel, 1,106 mechanics and other maintenance personnel, and 483 administration and support personnel. None of these employees are currently represented by a union. The Company is aware, however, that collective bargaining group organization efforts among SkyWest Airlines' employees occur from time to time and the Company anticipates that such efforts will continue in the future.

Table of Contents

**SKYWEST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2009**

**(5) Commitments and Contingencies (Continued)**

As of December 31, 2009, ASA employed approximately 3,604 full-time equivalent employees consisting of 2,227 pilots and flight attendants, 240 customer service personnel, 901 mechanics and other maintenance personnel, and 236 administration and support personnel. Three of ASA's employee groups are represented by unions. ASA's pilots are represented by the Air Line Pilots Association International ("ALPA"), ASA's flight attendants are represented by the Association of Flight Attendants CWA, and ASA's flight controllers are represented by the Professional Airline Flight Control Association. ASA's collective bargaining agreement with its pilots will become amendable on November 20, 2010. ASA's collective bargaining agreement with its flight attendants will become amendable in July 20, 2011. The collective bargaining agreements between ASA and its flight controllers became amendable in April 2006 and ASA is currently engaged in negotiations with its flight controllers.

**(6) Fair Value Measurements**

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

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

As of December 31, 2009, the Company held certain assets that are required to be measured at fair value on a recurring basis. The Company has invested in auction rate security instruments, which are classified as available for sale securities and reflected at fair value. However, due primarily to credit market events beginning during the first quarter of 2008, the auction events for most of these instruments failed. Therefore, quoted prices in active markets are no longer available and the Company has estimated the fair values of these securities utilizing a discounted cash flow analysis as of December 31, 2009. These analyses consider, among other items, the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the expectation of the next time the security is expected to have a successful auction.

As of December 31, 2009, the Company owned \$4.3 million of auction rate security instruments. The auction rate security instruments held by the Company at December 31, 2009 were tax-exempt municipal bond investments, for which the market has experienced some successful auctions. The Company has classified the investments as non-current and has identified them as "Other assets" in its Consolidated Balance Sheet as of December 31, 2009. The Company has classified these securities as non current due to the Company's belief that the market for these securities may take in excess of twelve months to fully recover. As of December 31, 2009, the Company continued to record interest on

Table of Contents**SKYWEST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2009****(6) Fair Value Measurements (Continued)**

all of its auction rate security instruments. Any future fluctuations in fair value related to these instruments that the Company deems to be temporary, including any recoveries of previous write downs, would be recorded to accumulated other comprehensive income. If the Company determines that any future valuation adjustment was other than temporary, a charge would be recorded to earnings as appropriate.

As of December 31, 2009, 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):

	<b>Fair Value Measurements as of December 31, 2009</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash, Cash Equivalents and Restricted Cash	\$ 87,144	\$ 87,144	\$	\$
Marketable Securities	645,301		645,301	
Other Assets	4,259			4,259
<b>Total Assets Measured at Fair Value</b>	<b>\$ 736,704</b>	<b>\$ 87,144</b>	<b>\$ 645,301</b>	<b>\$ 4,259</b>

Based on market conditions, the Company uses a discounted cash flow valuation methodology for auction rate securities. Accordingly, for purposes of the foregoing consolidated financial statements, these securities were categorized as Level 3 securities.

The following table presents the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2009 (in thousands):

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

	<b>Auction Rate Securities</b>
Balance at January 1, 2009	\$ 4,686
Total realized and unrealized gains or (losses)	
Included in earnings	
Included in other comprehensive income	(427)
Transferred out Settlements	
<b>Balance at December 31, 2009</b>	<b>\$ 4,259</b>

**(7) Investment Securities**

The Company reviews investment securities on an ongoing basis for the presence of other-than-temporary-impairment ("OTTI") with formal reviews performed quarterly. OTTI losses on individual equity investment securities are recognized as a realized loss through earnings when fair value is significantly below cost, the decline in fair value has existed for an extended period of time,

Table of Contents

**SKYWEST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2009**

**(7) Investment Securities (Continued)**

and recovery is not expected in the near term. OTTI losses on individual perpetual preferred securities are recognized as a realized loss through earnings when a decline in the cash flows has occurred or the rating of the security has been downgraded below investment grade.

This accounting guidance requires the Company to take into consideration current market conditions, fair value in relationship to cost, extent and nature of change in fair value, issuer rating changes and trends, volatility of earnings, current analysts' evaluations, all available information relevant to the securities, the Company's ability and intent to hold investments until a recovery of fair value, which may be maturity, and other factors when evaluating for the existence of OTTI in the Company's securities portfolio.

As a result of an ongoing valuation review of the Company's marketable securities portfolio, the Company recognized a pre-tax charge of approximately \$7.1 million during the year ended December 31, 2009 for certain marketable securities deemed to have other-than-temporary impairment.

**(8) Investment in Other Companies**

On September 4, 2008, the Company announced its intention to acquire a 20% interest in a Brazilian regional airline, Trip Linhas Aereas ("Trip"), for \$30 million. As of December 31, 2009, the Company's investment balance was \$23.4 million for a 16.4% interest in Trip, which is recorded as an "Other asset" on the Company's consolidated balance sheet. If Trip meets or exceeds certain financial targets, the Company is scheduled to make another \$10 million investment on March 1, 2010. The Company accounts for its interest in Trip using the equity method of accounting. The Company records its equity in Trip's earnings on a one-quarter lag. The Company's allocated portion of Trip's earnings during the year ended December 31, 2009 was \$1.8 million.

**(9) Capital Transactions**

*Preferred Stock*

The Company is authorized to issue 5,000,000 shares of preferred stock in one or more series without shareholder approval. No shares of preferred stock are presently outstanding. The Company's Board of Directors is authorized, without any further action by the shareholders of the Company, to (i) divide the preferred stock into series; (ii) designate each such series; (iii) fix and determine dividend rights; (iv) determine the price, terms and conditions on which shares of preferred stock may be redeemed; (v) determine the amount payable to holders of preferred stock in the event of voluntary or involuntary liquidation; (vi) determine any sinking fund provisions; and (vii) establish any conversion privileges.

*Stock Compensation*

Effective January 1, 2001, the Company adopted two stock option plans: the Executive Stock Incentive Plan (the "Executive Plan") and the 2001 Allshare Stock Option Plan (the "Allshare Plan"). These plans replaced the Company's Combined Incentive and Non-Statutory Stock Option Plans (the "Prior Plans"). There are no additional shares of common stock available for issuance under these plans. However, as of December 31, 2009, options to purchase approximately 360,000 shares of the

Table of Contents

## SKYWEST, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2009

**(9) Capital Transactions (Continued)**

Company's common stock remained outstanding under the Prior Plans and 3,025,949 shares of the Company's common stock remained outstanding under the Executive Plan and the Allshare Plan.

On May 2, 2006, the Company's shareholders approved the adoption of the SkyWest Inc. Long-Term Incentive Plan, which provides for the issuance of up to 6,000,000 shares of common stock to the Company's directors, employees, consultants and advisors (the "2006 Incentive Plan"). The 2006 Incentive Plan provides for awards in the form of options to acquire shares of common stock, stock appreciation rights, restricted stock grants and performance awards. The 2006 Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") who is authorized to designate option grants as either incentive or non-statutory. Incentive stock options are granted at not less than 100% of the market value of the underlying common stock on the date of grant. Non-statutory stock options are granted at a price as determined by the Compensation Committee.

The fair value of stock options 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 year ended December 31, 2009, the Company granted 457,397 stock options to employees under the 2006 Incentive Plan. The following table shows the assumptions used and weighted average fair value for grants in the years ended December 31, 2009, 2008 and 2007.

	2009	2008	2007
Expected annual dividend rate	1.05%	0.47%	0.45%
Risk-free interest rate	1.67%	2.39%	4.77%
Average expected life (years)	4.6	4.3	4.5
Expected volatility of common stock	0.351	0.264	0.272
Forfeiture rate	1.0%	4.4%	4.7%
Weighted average fair value of option grants	\$ 4.42	\$ 6.32	\$ 8.06

The Company recorded share-based compensation expense only for those options that are expected to vest. The estimated fair value of the stock options is amortized over the vesting period of the respective stock option grants.

During the year ended December 31, 2009, the Company granted 201,204 shares of restricted stock to the Company's employees under the 2006 Incentive Plan. The restricted stock has a three-year vesting period, during which the recipient must remain employed with the Company or its subsidiaries. The weighted average fair value of the restricted stock on the date of grants made during the year ended December 31, 2009 was \$15.24 per share. Additionally, the Company granted 26,247 fully-vested shares of common stock to the Company's directors with a weighted average grant-date fair value of

Table of Contents

## SKYWEST, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## DECEMBER 31, 2009

## (9) Capital Transactions (Continued)

\$15.24. The following table summarizes the restricted stock activity as of December 31, 2009, 2008 and 2007:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Non-vested shares outstanding at December 31, 2006	312,751	\$ 23.80
Granted	311,211	26.84
Vested	(1,579)	24.07
Cancelled	(87,948)	25.30
Non-vested shares outstanding at December 31, 2007	534,435	\$ 25.35
Granted	296,245	25.77
Vested	(5,848)	24.79
Cancelled	(69,705)	25.60
Non-vested shares outstanding at December 31, 2008	755,127	\$ 25.50
Granted	227,451	15.24
Vested	(260,575)	22.94
Cancelled	(35,417)	24.10
Non-vested shares outstanding at December 31, 2009	686,586	\$ 23.13

During the year ended December 31, 2009, 2008 and 2007, the Company recorded equity-based compensation expense of \$7.9 million, \$11.5 million and \$13.1 million, respectively.

As of December 31, 2009, the Company had \$6.6 million of total unrecognized compensation cost related to non-vested stock options and non-vested restricted stock grants. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. The Company expects to recognize this cost over a weighted average period of 1.6 years.

Options are exercisable for a period as defined by the Compensation Committee on the date granted; however, no stock option will be exercisable before six months have elapsed from the date it is granted and no incentive stock option shall be exercisable after ten years from the date of grant. The

Table of Contents

## SKYWEST, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2009

## (9) Capital Transactions (Continued)

following table summarizes the stock option activity for all of the Company's plans for the years ended December 31, 2009, 2008 and 2007:

	2009			2008		2007		
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	4,470,734	\$ 20.90	4.4 years	\$	4,681,915	\$ 20.01	5,504,572	\$ 19.36
Granted	457,397	15.24			357,716	25.70	382,467	26.87
Exercised	(13,011)	14.64			(420,670)	14.27	(1,048,072)	18.67
Cancelled	(174,425)	19.66			(148,227)	23.38	(157,052)	22.51
Outstanding at end of year	4,740,695	20.37	3.8 years		4,470,734	20.90	4,681,915	20.01
Exercisable at December 31, 2009	3,652,528	20.00	3.3 years		3,550,283	19.71		
Exercisable at December 31, 2008	3,550,283	19.71	4.2 years		2,518,685	20.35		

The total intrinsic value of options to acquire shares of the Company's common stock that were exercised during the years ended December 31, 2009, 2008 and 2007 was \$38,000, \$2.4 million and \$8.7 million, respectively.

The following table summarizes the status of the Company's non-vested stock options as of December 31, 2009:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Non-vested shares at beginning of year	920,451	\$ 7.02
Granted	457,397	4.42
Vested	(274,906)	6.80
Cancelled	(14,775)	7.08
Non-vested shares at end of year	1,088,167	\$ 5.98

The following table summarizes information about the Company's stock options outstanding at December 31, 2009:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$10 to \$15	754,995	4.9 years	\$ 13.43	296,294	\$ 10.64
\$16 to \$21	2,139,786	4.0 years	18.10	2,134,810	18.09
\$22 to \$28	1,845,914	2.9 years	25.83	1,221,424	25.60

Edgar Filing: SKYWEST INC - Form 10-K

\$10 to \$28

4,740,695

3.8 years  
84

20.37

3,652,528

20.00

---

Table of Contents

**SKYWEST, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2009**

**(9) Capital Transactions (Continued)**

*Taxes*

A portion of the Company's granted options qualify as incentive stock options (ISO) for income tax purposes. As such, a tax benefit is not recorded at the time the compensation cost related to the options is recorded for book purposes due to the fact that an ISO does not ordinarily result in a tax benefit unless there is a disqualifying disposition. Stock option grants of non-qualified options result in the creation of a deferred tax asset, which is a temporary difference, until the time that the option is exercised. Due to the treatment of incentive stock options for tax purposes, the Company's effective tax rate from year to year is subject to variability.

**(10) Retirement Plans and Employee Stock Purchase Plans**

*SkyWest Retirement Plan*

The Company sponsors the SkyWest, Inc. Employees' Retirement Plan (the "SkyWest Plan"). Employees who have completed 90 days of service and are at least 18 years of age are eligible for participation in the SkyWest Plan. Employees may elect to make contributions to the SkyWest Plan. The Company matches 100% of such contributions up to 2%, 4% or 6% of the individual participant's compensation, based upon length of service. Additionally, a discretionary contribution may be made by the Company. The Company's combined contributions to the SkyWest Plan were \$11.8 million, \$9.3 million and \$9.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

*ASA Retirement Plan*

ASA sponsors the Atlantic Southeast Airlines, Inc. Investment Savings Plan (the "ASA Plan"). Employees who have completed 90 days of service and are 18 years of age are eligible for participation in the ASA Plan. Employees may elect to make contributions to the ASA Plan however, ASA limits the amount of company match at 6% of each participant's total compensation, except for those with 10 or more years of service whose company match is limited to 8% of total compensation. Additionally, ASA matches the individual participant's contributions from 20% to 75%, depending on the length of the participant's service. ASA's contribution to the ASA Plan was \$4.7 million, \$4.6 million and \$4.0 million for the years ended December 31, 2009, 2008 and 2007, respectively. Additionally, participants are 100% vested in their elective deferrals and rollover amounts and from 10% to 100% vested in company matching contributions based on length of service.

*Employee Stock Purchase Plans*

In May 2009, the Company's Board of Directors approved the SkyWest, Inc. 2009 Employee Stock Purchase Plan (the "2009 Stock Purchase Plan"). All employees who have completed 90 days of employment with the Company or one of its subsidiaries are eligible to participate, except employees who own five percent or more of the Company's common stock. The 2009 Stock Purchase Plan enables employees to purchase shares of the Company's common stock at a 5% discount, through payroll deductions. Employees can contribute up to 15% of their base pay, not to exceed \$21,250 each calendar year, for the purchase of shares. Shares are purchased semi-annually at a 5% discount based on the end of the period price. Employees can terminate their participation in the 2009 Stock Purchase Plan at anytime upon written notice.

Table of Contents

## SKYWEST, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2009

**(10) Retirement Plans and Employee Stock Purchase Plans (Continued)**

In February 1996, the Company's Board of Directors approved the SkyWest, Inc. 1995 Employee Stock Purchase Plan (the "1995 Stock Purchase Plan"). The 1995 Stock Purchase Plan enabled employees to purchase shares of the Company's common stock at a 15% discount, through payroll deductions. There are no additional shares of common stock available for issuance under this plan.

The following table summarizes purchases made under the 2009 and 1995 Employee Stock Purchase Plans:

	Year Ended December 31,		
	2009	2008	2007
Number of share purchased	835,469	807,797	454,162
Average price of shares purchased	\$ 10.26	\$ 13.90	\$ 20.65

The 2009 Stock Purchase Plan is a non-compensatory plan under the accounting guidance. Therefore, no compensation expense was recorded for the year ended December 31, 2009. The 1995 Stock Purchase Plan was a compensatory plan under the accounting guidance because the shares were purchased semi-annually at a 15% discount based on the lower of the beginning or the end of the period price. During the years ended December 31, 2008 and 2007, the Company recorded compensation expense of \$3.0 million and \$2.8 million related to 1995 Stock Purchase Plan, respectively. The fair value of the shares purchased under the Stock Purchase Plan was determined using the Black-Scholes option pricing model with the following assumptions:

	2008	2007
Expected annual dividend rate	0.80%	0.47%
Risk-free interest rate	2.51%	5.07%
Average expected life (months)	6	6
Expected volatility of common stock	0.264	0.272

**(11) Stock Repurchase**

The Company's Board of Directors authorized the repurchase of up to 15,000,000 shares of the Company's common stock in the public market. During the years ended December 31, 2009 and 2008, the Company repurchased 1.9 and 5.4 million shares of common stock for approximately \$18.4 million and \$102.6 million at a weighted average price per share of \$9.88 and \$19.16, respectively.

**(12) Related-Party Transactions**

The Company's President, Chairman of the Board and Chief Executive Officer, serves on the Board of Directors of Zions Bancorporation ("Zions"). The Company maintains a line of credit (see Note 2) and certain bank accounts with Zions. Zions is an equity participant in leveraged leases on three CRJ200, two CRJ700 and five Brasilia turboprop aircraft operated by the Company. Zions also serves as the Company's transfer agent. The Company's cash balance in the accounts held at Zions as of December 31, 2009 and 2008 was \$22.1 million and \$11.7 million, respectively.

Table of Contents**SKYWEST, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2009****(13) Quarterly Financial Data (Unaudited)**

Unaudited summarized financial data by quarter for 2009 and 2008 is as follows (in thousands, except per share data):

	Year Ended December 31, 2009				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues (000)	\$ 672,642	\$ 698,823	\$ 637,748	\$ 604,401	\$ 2,613,614
Operating income (000)	40,824	59,769	63,253	48,349	212,195
Net income (000)	9,372	26,219	28,566	19,501	83,658
Net income per common share:					
Basic	\$ 0.17	\$ 0.47	\$ 0.51	\$ 0.35	\$ 1.50
Diluted	0.16	0.46	0.50	0.34	1.47
Weighted average common shares:					
Basic:	56,546	55,657	55,605	55,606	55,854
Diluted:	57,427	56,558	56,652	56,621	56,814

	Year Ended December 31, 2008				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues (000)	\$ 868,023	\$ 950,820	\$ 934,112	\$ 743,294	\$ 3,496,249
Operating income (000)	68,222	72,951	60,259	53,799	255,231
Net income (000)	29,140	36,434	26,156	21,199	112,929
Net income per common share:					
Basic	\$ 0.49	\$ 0.63	\$ 0.46	\$ 0.37	\$ 1.95
Diluted	0.47	0.63	0.45	0.37	1.93
Weighted average common shares:					
Basic:	60,013	57,377	57,027	56,744	57,790
Diluted:	61,351	58,009	57,682	57,488	58,633

Table of Contents

**ITEM 9. CHANGES IN AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), within 90 days of the filing date of this Report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in alerting them on a timely basis to material information required to be included in our reports filed or submitted under the Exchange Act. There have been no other significant changes (including corrective actions with regard to material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced above.

**Report of Management on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those written policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;

provide reasonable assurance that our receipts and expenditures are being made only in accordance with authorization of our management; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness our internal control over financial reporting as of December 31, 2009. Our management's assessment was based on criteria for effective internal control over financial reporting described in "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the

Table of Contents

operational effectiveness of our internal control over financial reporting. Our management reviewed the results of its assessment with the Audit Committee of our Board of Directors. Based on this assessment, our management determined that, as of December 31, 2009, we maintained effective internal control over financial reporting. Ernst & Young LLP, the independent registered public accounting firm who audited our consolidated financial statements included in this Report, has issued a report on our internal control over financial reporting, which is included herein.

Table of Contents

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
SkyWest, Inc.

We have audited SkyWest, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). SkyWest, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, SkyWest, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of SkyWest, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2009 of SkyWest, Inc. and subsidiaries and our report dated February 22, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah  
February 22, 2010

Table of Contents

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

Items 10, 11, 12, 13 and 14 in Part III of this Report are incorporated herein by reference to our definitive proxy statement for our 2010 Annual Meeting of Shareholders scheduled for May 4, 2010. We intend to file our definitive proxy statement with the SEC not later than 120 days after December 31, 2009, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

	<b>Headings in Proxy Statement</b>
<b>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</b>	"Election of Directors", "Corporate Governance" and "Executive Compensation"
<b>ITEM 11. EXECUTIVE COMPENSATION</b>	"Executive Compensation" and "Compensation Committee Report"
<b>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</b>	"Election of Directors" and "Security Ownership"
<b>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</b>	"Executive Compensation"
<b>ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES</b>	"Audit Committee Disclosure"

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)

Documents Filed:

1. Financial Statements: Reports of Independent Auditors, Consolidated Balance Sheets as of December 31, 2009 and 2008, Consolidated Statements of Income for the years ended December 31, 2009, 2008 and 2007, Consolidated Statements of Cash Flows for the year ended December 31, 2009, 2008 and 2007, Consolidated Statements of Stockholders' Equity and Comprehensive Income for the years ended December 31, 2009, 2008 and 2007 and Notes to Consolidated Financial Statements.
2. Financial Statement Schedule. The following consolidated financial statement schedule of our company is included in this Item 15.

Report of independent auditors on financial statement schedule

Schedule II Valuation and qualifying accounts

All other schedules for which provision is made in the applicable accounting regulations of the Commission are not required under the related instructions or are not applicable, and therefore have been omitted.

## Edgar Filing: SKYWEST INC - Form 10-K

### Table of Contents

(b) Exhibits

Number	Exhibit	Incorporated by Reference
3.1	Restated Articles of Incorporation	(1)
3.2	Amended and Restated Bylaws	(2)
4.1	Specimen of Common Stock Certificate	(3)
10.1	Amended and Restated Delta Connection Agreement, dated as of September 8, 2005, between SkyWest Airlines, Inc. and Delta Air Lines, Inc.	(4)
10.2	Second Amended and Restated Delta Connection Agreement, dated as of September 8, 2005, between Atlantic Southeast Airlines, Inc. and Delta Air Lines, Inc.	(4)
10.3	United Express Agreement dated September 9, 2003, between United Air Lines, Inc., and SkyWest Airlines, Inc.	(5)
10.4	Stock Option Agreement dated January 28, 1987 between Delta Air Lines, Inc. and SkyWest, Inc.	(6)
10.5	Lease Agreement dated December 1, 1989 between Salt Lake City Corporation and SkyWest Airlines, Inc.	(7)
10.6(a)	Master Purchase Agreement between Bombardier and SkyWest Airlines, Inc.	(8)
10.6(b)	Supplement to Master Purchase Agreement between Bombardier, and SkyWest Airlines, Inc.	(5)
10.7	SkyWest, Inc. Amended and Combined Incentive and Non-Statutory Stock Option Plan	(9)
10.8	SkyWest Inc. 2007 Employee Stock Purchase Plan	(10)
10.8(a)	First Amendment to SkyWest, Inc. 2007 Employee Stock Purchase Plan	(13)
10.9	SkyWest Inc. Executive Stock Incentive Plan	(11)
10.10	SkyWest Inc. Allshare Stock Option Plan	(11)
10.11	Airline Services Agreement dated December 20, 2007 by and between SkyWest Airlines, Inc. and Midwest Airlines, Inc.	(12)
10.12	SkyWest, Inc. 2002 Deferred Compensation Plan, as amended and restated effective January 1, 2009	(13)
10.12(a)	First Amendment to the Restated SkyWest, Inc. 2002 Deferred Compensation Plan	(13)
10.13	SkyWest, Inc. 2007 Long-Term Incentive Plan	(13)
10.13(a)	First Amendment to the SkyWest, Inc. 2007 Long-Term Incentive Plan	(13)
10.13(b)	Second Amendment to the SkyWest, Inc. 2007 Long-Term Incentive Plan	(13)
10.14	SkyWest, Inc. 2009 Employee Stock Purchase Plan	(13)
21.1	Subsidiaries of the Registrant	(1)
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification of Chief Executive Officer	Filed herewith
31.2	Certification of Chief Financial Officer	Filed herewith
32.1	Certification of Chief Executive Officer	Filed herewith
32.2	Certification of Chief Financial Officer	Filed herewith

(1) Incorporated by reference to the exhibits to a Registration Statement on Form S-3, File No. 333-129832

(2) Incorporated by reference to a Registration Statement on Form S-3, File No. 33-74290

(3) Incorporated by reference to a Registration Statement on Form S-3, File No. 333-42508

## Edgar Filing: SKYWEST INC - Form 10-K

### Table of Contents

- (4) Incorporated by reference to Registrant's Form 8-K/A filed on February 12, 2007
- (5) Incorporated by reference to exhibits to Registrant's Form 10-Q filed on September 30, 2003
- (6) Incorporated by reference to the exhibits to Registrant's Forms 8-K filed on January 21, 1998 and February 11, 1998
- (7) Incorporated by reference to the exhibits to Registrant's Form 10-Q filed for the quarter ended December 31, 1986
- (8) Incorporated by reference to the exhibits to Registrant's Form 10-Q filed on February 13, 2003
- (9) Incorporated by reference to the exhibits to a Registration Statement on Form S-8, Filed No. 33-41285
- (10) Incorporated by reference to the exhibits to a Registration Statement on Form S-8, File No, 333-130848
- (11) Incorporated by reference to the exhibits to Registrant's Form 10-Q filed on July 28, 2000
- (12) Incorporated by reference to the exhibits to the Registrant's Form 10-K filed February 28, 2008.
- (13) Incorporated by reference to the exhibits to the Registrant's Form 10-K filed February 23, 2009.

Table of Contents

**Report of Independent Registered Public Accounting Firm**

We have audited the consolidated financial statements of SkyWest, Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009, and have issued our report thereon dated February 22, 2010 (included elsewhere in this Form 10-K). Our audits also included the financial statement schedule listed in Item 15(a) of this Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Salt Lake City, Utah  
February 22, 2010

Table of Contents

## SKYWEST, INC. AND SUBSIDIARIES

## SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 2009, 2008 and 2007

(Dollars in thousands)

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions	Balance at End of Year
Year Ended December 31, 2009:				
Allowance for inventory obsolescence	\$ 5,533	\$ 1,082		\$ 6,615
Allowance for doubtful accounts receivable	47			47
	\$ 5,580	\$ 1,082		\$ 6,662
Year Ended December 31, 2008:				
Allowance for inventory obsolescence	\$ 4,681	\$ 852		\$ 5,533
Allowance for doubtful accounts receivable	47			47
	\$ 4,728	\$ 852		\$ 5,580
Year Ended December 31, 2007:				
Allowance for inventory obsolescence	\$ 3,605	\$ 1,076		\$ 4,681
Allowance for doubtful accounts receivable	47			47
	\$ 3,652	\$ 1,076		\$ 4,728

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Act of 1934, as amended, the Registrant has duly caused this Annual Report on Form 10-K for the year ended December 31, 2009, to be signed on its behalf by the undersigned, thereunto duly authorized, on February 22, 2010.

SKYWEST, INC.

By:           /s/ BRADFORD R. RICH          

Bradford R. Rich  
*Executive Vice President and  
Chief Financial Officer*

**ADDITIONAL SIGNATURES**

Pursuant to the requirement of the Securities Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons in the capacities and on the dates indicated.

Name	Capacities	Date
<u>          /s/ JERRY C. ATKIN          </u> Jerry C. Atkin	Chairman of the Board and Chief Executive Officer	February 22, 2010
<u>          /s/ BRADFORD R. RICH          </u> Bradford R. Rich	Executive Vice President and Chief Financial Officer	February 22, 2010
<u>          /s/ STEVEN F. UDVAR-HAZY          </u> Steven F. Udvar-Hazy	Lead Director	February 22, 2010
<u>          /s/ J. RALPH ATKIN          </u> J. Ralph Atkin	Director	February 22, 2010
<u>          /s/ IAN M. CUMMING          </u> Ian M. Cumming	Director	February 22, 2010
<u>          /s/ ROBERT G. SARVER          </u> Robert G. Sarver	Director	February 22, 2010
<u>          /s/ MARGARET S. BILLSON          </u> Margaret S. Billson	Director	February 22, 2010
<u>          /s/ HENRY J. EYRING          </u> Henry J. Eyring	Director	February 22, 2010

Edgar Filing: SKYWEST INC - Form 10-K

/s/ JAMES L. WELCH

\_\_\_\_\_  
James L. Welch

Director

February 22, 2010

/s/ MICHAEL K. YOUNG

\_\_\_\_\_  
Michael K. Young

Director

February 22, 2010