

SKYWEST INC
Form 10-Q
August 04, 2017
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from _____ to _____

Commission file number 0-14719

SKYWEST, INC.

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

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St. George, Utah 84790

(435) 634-3000

(Address of principal executive offices and telephone number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth 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)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

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| Class | Outstanding at July 31, 2017 |
|----------------------------|------------------------------|
| Common stock, no par value | 51,840,847 |

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SKYWEST, INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

ASSETS

| | June 30, 2017 (unaudited) | December 31, 2016 |
|--|---------------------------------|----------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 143,448 | \$ 146,766 |
| Marketable securities | 482,809 | 409,898 |
| Restricted cash | 8,262 | 8,243 |
| Receivables, net | 38,017 | 46,916 |
| Inventories, net | 118,476 | 118,509 |
| Prepaid aircraft rents | 137,692 | 162,360 |
| Other current assets | 18,305 | 25,100 |
| Total current assets | 947,009 | 917,792 |
| PROPERTY AND EQUIPMENT: | | |
| Aircraft and rotable spares | 5,202,929 | 4,839,501 |
| Deposits on aircraft | 21,976 | 38,800 |
| Buildings and ground equipment | 271,450 | 261,704 |
| | 5,496,355 | 5,140,005 |
| Less-accumulated depreciation and amortization | (1,361,838) | (1,318,308) |
| Total property and equipment, net | 4,134,517 | 3,821,697 |
| OTHER ASSETS | | |
| Intangible assets, net | 7,124 | 8,249 |
| Long-term prepaid assets | 227,427 | 218,505 |
| Other assets | 44,536 | 41,723 |
| Total other assets | 279,087 | 268,477 |
| Total assets | \$ 5,360,613 | \$ 5,007,966 |

See accompanying notes to condensed consolidated financial statements.

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SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | June 30, 2017 (unaudited) | December 31, 2016 |
|--|---------------------------------|----------------------|
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt | \$ 306,849 | \$ 305,460 |
| Accounts payable | 265,028 | 241,215 |
| Accrued salaries, wages and benefits | 146,083 | 139,885 |
| Taxes other than income taxes | 17,105 | 15,618 |
| Other current liabilities | 44,025 | 45,087 |
| Total current liabilities | 779,090 | 747,265 |
| OTHER LONG TERM LIABILITIES | 47,559 | 50,844 |
| LONG TERM DEBT, net of current maturities | 2,452,663 | 2,240,051 |
| DEFERRED INCOME TAXES PAYABLE | 609,957 | 565,404 |
| DEFERRED AIRCRAFT CREDITS | 48,802 | 53,459 |
| COMMITMENTS AND CONTINGENCIES (Note 6) | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, 5,000,000 shares authorized; none issued | — | — |
| Common stock, no par value, 120,000,000 shares authorized; 80,176,705 and 79,781,305 shares issued, respectively | 664,917 | 657,353 |
| Retained earnings | 1,181,601 | 1,103,751 |
| Treasury stock, at cost, 28,410,609 and 28,015,386 shares, respectively | (423,961) | (410,090) |
| Accumulated other comprehensive loss | (15) | (71) |
| Total stockholders' equity | 1,422,542 | 1,350,943 |
| Total liabilities and stockholders' equity | \$ 5,360,613 | \$ 5,007,966 |

See accompanying notes to condensed consolidated financial statements.

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SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

(Unaudited)

| | Three months ended | | Six months ended | |
|--|--------------------|------------|------------------|--------------|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| OPERATING REVENUES: | | | | |
| Passenger | \$ 791,341 | \$ 784,813 | \$ 1,536,752 | \$ 1,529,203 |
| Ground handling and other | 18,418 | 16,525 | 38,422 | 34,211 |
| Total operating revenues | 809,759 | 801,338 | 1,575,174 | 1,563,414 |
| OPERATING EXPENSES: | | | | |
| Salaries, wages and benefits | 295,929 | 304,228 | 595,969 | 609,785 |
| Aircraft maintenance, materials and repairs | 152,356 | 142,289 | 284,681 | 281,149 |
| Depreciation and amortization | 71,206 | 69,887 | 141,320 | 137,688 |
| Aircraft rentals | 55,413 | 72,567 | 113,123 | 139,691 |
| Aircraft fuel | 37,183 | 32,306 | 71,493 | 57,638 |
| Ground handling services | 15,902 | 16,743 | 35,436 | 37,727 |
| Other operating expenses | 75,174 | 79,181 | 150,262 | 153,790 |
| Total operating expenses | 703,163 | 717,201 | 1,392,284 | 1,417,468 |
| OPERATING INCOME | 106,596 | 84,137 | 182,890 | 145,946 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest income | 1,330 | 485 | 1,990 | 915 |
| Interest expense | (27,063) | (18,287) | (51,612) | (36,012) |
| Total other expense, net | (25,733) | (17,802) | (49,622) | (35,097) |
| INCOME BEFORE INCOME TAXES | 80,863 | 66,335 | 133,268 | 110,849 |
| PROVISION FOR INCOME TAXES | 30,386 | 26,091 | 48,005 | 43,513 |
| NET INCOME | \$ 50,477 | \$ 40,244 | \$ 85,263 | \$ 67,336 |
| BASIC EARNINGS PER SHARE | | | | |
| | \$ 0.98 | \$ 0.78 | \$ 1.65 | \$ 1.31 |
| DILUTED EARNINGS PER SHARE | | | | |
| | \$ 0.95 | \$ 0.77 | \$ 1.61 | \$ 1.29 |
| Weighted average common shares: | | | | |
| Basic | 51,751 | 51,418 | 51,785 | 51,318 |
| Diluted | 52,977 | 52,194 | 53,090 | 52,104 |
| COMPREHENSIVE INCOME: | | | | |
| Net income | \$ 50,477 | \$ 40,244 | \$ 85,263 | \$ 67,336 |
| Net unrealized appreciation on marketable securities, net of taxes | 17 | 213 | 56 | 228 |
| TOTAL COMPREHENSIVE INCOME | \$ 50,494 | \$ 40,457 | \$ 85,319 | \$ 67,564 |

See accompanying notes to condensed consolidated financial statements

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SKYWEST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In Thousands)

| | Six months ended | |
|--|-------------------|-------------------|
| | June 30, | |
| | 2017 | 2016 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 331,783 | \$ 228,034 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of marketable securities | (738,101) | (1,061,392) |
| Sales of marketable securities | 665,246 | 1,071,668 |
| Proceeds from the sale of aircraft, property and equipment | 50,652 | — |
| Acquisition of property and equipment: | | |
| Aircraft and rotatable spare parts | (514,443) | (314,657) |
| Buildings and ground equipment | (2,420) | (7,303) |
| Aircraft deposits applied towards acquired aircraft, net | 16,824 | — |
| Increase in other assets | (6,098) | (1,499) |
| NET CASH USED IN INVESTING ACTIVITIES | (528,340) | (313,183) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of long-term debt | 384,825 | 248,966 |
| Principal payments on long-term debt | (169,550) | (136,328) |
| Net proceeds from issuance of common stock | 1,783 | 4,048 |
| Purchase of treasury stock | (13,871) | — |
| Increase in debt issuance cost | (3,221) | (2,495) |
| Payment of cash dividends | (6,727) | (4,095) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 193,239 | 110,096 |
| Increase (decrease) in cash and cash equivalents | (3,318) | 24,947 |
| Cash and cash equivalents at beginning of period | 146,766 | 203,035 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 143,448 | \$ 227,982 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Non-cash investing activities: | | |
| Acquisition of rotatable spare parts | \$ 2,038 | \$ — |
| Cash paid during the period for: | | |
| Interest, net of capitalized amounts | \$ 50,943 | \$ 35,887 |
| Income taxes | \$ 598 | \$ 741 |

See accompanying notes to condensed consolidated financial statements.

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SKYWEST, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 — Condensed Consolidated Financial Statements

Basis of Presentation

The condensed consolidated financial statements of SkyWest, Inc. (“SkyWest” or the “Company”) and its operating subsidiaries, SkyWest Airlines, Inc. (“SkyWest Airlines”) and ExpressJet Airlines, Inc. (“ExpressJet”) included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the following disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the results of operations for the interim periods presented. All adjustments are of a normal recurring nature, unless otherwise disclosed. The Company suggests that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

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

Recent Accounting Pronouncements

Standards Effective in Future Years

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers” (“ASU No. 2014-09”). Under ASU No. 2014-09, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that

specific good or service. In July 2015, the FASB deferred the effective date of ASU No. 2014-09 for annual reporting periods beginning after December 15, 2017. In 2016, the FASB issued several amendments to the standard, including principal versus agent considerations when another party is involved in providing goods or services to a customer and the application of identifying performance obligations. The Company continues to assess the potential impacts of ASU No. 2014-09 on its fixed-fee contracts, prorate flying agreements, ground handling agreements and other revenue transactions. The Company anticipates completing its review of the impact by the third quarter of 2017. Interpretations are on-going and could have a significant impact on the Company's implementation. The Company believes the principal versus agent considerations may change how the Company presents revenue for certain directly-reimbursed expenses under its fixed-fee contracts, such as fuel expenses. The Company currently does not anticipate the adoption of ASU No. 2014-09 will have a material impact on its net income. ASU No. 2014-09 is required to be applied either full retrospective to each prior reporting period presented or modified retrospective with the cumulative effect of initially applying it at the date of initial application. The Company anticipates using the full retrospective method of adoption.

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In February 2016, the FASB issued Accounting Standards Update 2016-02, “Leases (Topic 842)” (“ASU No. 2016-02”). ASU No. 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU No. 2016-02 will be effective beginning in the first quarter of 2019. Early adoption of ASU No. 2016-02 is permitted. ASU No. 2016-02 requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company’s management is currently evaluating the impact the adoption of ASU 2016-02 is anticipated to have on the Company’s consolidated financial statements.

In 2016, the FASB issued Accounting Standards Update 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” and Accounting Standard Update 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” related to the classification of certain cash receipts and cash payments and the presentation of restricted cash within an entity’s statement of cash flows, respectively. These standards are effective for interim and annual reporting periods beginning after December 15, 2017, but early adoption is permitted. The Company does not anticipate these standards to have a material impact on the Company’s Consolidated Statement of Cash Flows.

Recently Adopted Standards

Pursuant to the guidelines of the recently issued Accounting Standards Update 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”), all deferred tax assets and liabilities are to be classified as non-current. As permitted under ASU 2015-17, the Company adopted this guidance for the quarter ended March 31, 2017. The guidance indicates that ASU 2015-17 may be applied either prospectively or retrospectively. The Company elected to adopt ASU 2015-17 retrospectively. Upon adoption, approximately \$129.3 million of formerly recorded current deferred tax assets as of December 31, 2016 were reclassified to non-current and netted against non-current deferred income taxes payable as of December 31, 2016 in the accompanying financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, “Compensation—Stock Compensation (Topic 718)” (“ASU No. 2016-09”). ASU No. 2016-09 makes several amendments to Topic 718, which simplified the accounting for share-based payment transactions, including the income tax consequences, the calculation of diluted earnings per share, the treatment of forfeitures and the classification on the statement of cash flows. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements and forfeitures should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments requiring the recognition of excess tax benefits and tax deficiencies in the income statement should be applied prospectively. Prior to the adoption of ASU No. 2016-09, GAAP required tax effects of deductions for share-based payments in excess of compensation cost and tax deficiencies to be recorded in equity. Under ASU No. 2016-09, the tax effects of awards are treated as discrete income tax expense items in the reporting period in which they occur.

The Company adopted ASU No. 2016-09 as of January 1, 2017. As a result of employee stock awards that vested and stock options that were exercised during the three months ended March 31, 2017, the Company recorded a discrete income tax benefit of \$3.0 million for the same period. The adoption of ASU No. 2016-09 did not have a material effect on the Company’s financial results for the three months ended June 30, 2017. The adoption of ASU No. 2016-09 did not have a material impact on the statement of cash flows presentation, which the Company adopted prospectively.

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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. The Company changed the estimated useful lives and residual values for certain long-lived assets as of January 1, 2017 as follows:

| Assets | Current Depreciable Life | Prior Policy Depreciable Life | Current Residual Value | Prior Policy Residual Value |
|--|-----------------------------------|-------------------------------|------------------------|-----------------------------|
| New Aircraft | 20 - 22 years | 18 years | 17.5 - 20 % | 30 % |
| Used Aircraft, rotatable spares, and spare engines | up to 18 years | up to 18 years | 0 - 20 % | 0 - 30 % |
| Ground equipment | up to 10 years | No Change | 0 % | No Change |
| Office equipment | up to 7 years | No Change | 0 % | No Change |
| Leasehold improvements | Shorter of 15 years or lease term | No Change | 0 % | No Change |
| Buildings | 20 - 39.5 years | No Change | 0 % | No Change |

The Company estimates that the impact of the change in estimated useful lives and residual values for certain long-lived assets will increase depreciation expense by an additional \$1.8 million on an annualized basis for 2017.

Note 2 — Passenger and Ground Handling and Other Revenue

The Company recognizes passenger and ground handling revenues when the service is provided under its code-share agreements. Under the Company's fixed-fee arrangements (referred to as "fixed-fee arrangements," "fixed-fee contracts" or "capacity purchase agreements") with Delta Air Lines, Inc. ("Delta"), United Airlines, Inc. ("United"), American Airlines, Inc. ("American") and Alaska Airlines, Inc. ("Alaska") (each, a "major airline partner"), the major airline partner generally pays the Company a fixed-fee for each departure, flight hour (measured from takeoff to landing, excluding taxi time) or block hour (measured from takeoff to landing, including taxi time) incurred, and an amount per aircraft in service each month with additional incentives based on flight completion and on-time performance. The major airline partner also directly reimburses the Company for certain direct expenses incurred under the fixed-fee arrangement, such as fuel expenses and landing fee expenses. Under the fixed-fee arrangements, revenue is earned when each flight is completed and is reflected in passenger revenues. For the six months ended June 30, 2017, fixed-fee arrangements represented approximately 88.6% of the Company's total passenger revenue.

Under the Company's revenue-sharing arrangements (referred to as a "revenue-sharing" or "prorate" arrangement), the major airline partner and the Company negotiate a passenger fare proration formula, pursuant to which the Company receives a percentage of the ticket revenues for those passengers traveling for one portion of their trip on a Company airline and the other portion of their trip on the major airline partner. Revenue is recognized under the Company's

prorate flying agreements when each flight is completed based upon the portion of the prorate passenger fare the Company anticipates that it will receive for each completed flight. For the six months ended June 30, 2017, prorate flying arrangements represented approximately 11.4% of the Company's total passenger revenue.

Ground handling and other revenue primarily consists of customer service functions, such as gate and ramp agent services at applicable airports where the Company provides such services to other airlines. Ground handling and other revenue primarily consists of ground handling services the Company provides to third party airlines and government subsidies the Company receives for operating certain routes under its prorate agreements. Revenues associated with ground handling services the Company provides for its aircraft are recorded as passenger revenues.

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

In the event that the contractual rates under the Company's flying agreements have not been finalized at quarterly or annual financial statement dates, the Company records revenues based on the lower of the prior period's approved rates, as adjusted to reflect any contract negotiations, and the Company's estimate of rates that will be implemented in accordance with revenue recognition guidelines. In the event the Company has a reimbursement dispute

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with a major airline partner, the Company evaluates the dispute under its established revenue recognition criteria and, provided the revenue recognition criteria have been met, the Company recognizes revenue based on management's estimate of the resolution of the dispute.

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

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

Delta Connection Agreements

| Agreement | Aircraft type | Number of Aircraft | Term / Termination Dates |
|----------------------------|-------------------|--------------------|---|
| SkyWest Airlines | •CRJ 200 | 57 | •Individual aircraft have scheduled removal dates from 2017 to 2026 |
| Delta Connection Agreement | •CRJ 700 | 27 | |
| (fixed-fee arrangement) | •CRJ 900 | 36 | |
| ExpressJet | •E175 •CRJ 200 | 18 23 | •Individual aircraft have scheduled removal dates from 2017 to 2022 |
| Delta Connection Agreement | •CRJ 700 | 33 | |
| (fixed-fee arrangement) | •CRJ 900 | 28 | |
| SkyWest Airlines | •CRJ 200 | 25 | •Terminable with 30-day notice |

Delta Connection Prorate Agreement (revenue-sharing arrangement)

United Express Agreements

| Agreement | Aircraft type | Number of Aircraft | Term / Termination Dates |
|---------------------------|---------------|--------------------|--|
| SkyWest Airlines | •CRJ 200 | 47 | •Individual aircraft have scheduled removal dates from 2017 to 2029 |
| United Express Agreements | •CRJ 700 | 20 | |
| (fixed-fee arrangement) | •E175 | 65 | |
| ExpressJet | •ERJ 135 | 5 | •Individual aircraft have scheduled removal dates from 2017 to 2018, subject to an additional one-year extension |
| United ERJ Agreement | •ERJ 145 | 119 | |

(fixed-fee arrangement)

SkyWest Airlines •CRJ 200 22 •Terminable with 120-day notice

United Express Prorate Agreement

(revenue-sharing arrangement)

Alaska Capacity Purchase Agreement

| Agreement | Aircraft type | Number of Aircraft | Term / Termination Dates |
|------------------|---------------|--------------------|--|
| SkyWest Airlines | •E175 | 20 | •E175 aircraft have scheduled removal dates from 2027 to 2029. |

Alaska Agreement

(fixed-fee arrangement)

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American Agreements

| Agreement | Aircraft type | Number of Aircraft | Term / Termination Dates |
|-------------------------------|---------------|--------------------|--|
| SkyWest Airlines | •CRJ 200 | 22 | •CRJ200 aircraft are scheduled to expire in 2017 and the CRJ700 aircraft are scheduled to expire in 2019 |
| American Agreement | •CRJ 700 | 37 | |
| (fixed-fee arrangement) | | | |
| SkyWest Airlines | •CRJ 200 | 8 | •Terminable with 120-day notice |
| American Prorate Agreement | | | |
| (revenue-sharing arrangement) | | | |
| ExpressJet | •CRJ 200 | 2 | •CRJ200 aircraft are scheduled to expire in 2017 and the CRJ700 aircraft are scheduled to expire in 2019 |
| American Agreement | •CRJ 700 | 12 | |
| (fixed-fee arrangement) | | | |

In addition to the contractual arrangements described above, SkyWest Airlines has entered into an agreement with Delta to place one additional Embraer E175 dual-class regional jet aircraft (“E175”) into service. The delivery date for the one additional E175 aircraft is expected to take place by the end of 2017.

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

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

Note 3 — Share-Based Compensation and Stock Repurchases

During the six months ended June 30, 2017, the Company granted 22,617 fully-vested shares of common stock to the Company’s directors. Additionally, during the six months ended June 30, 2017, the Company granted 160,137 restricted stock units and 119,315 performance shares to certain employees of the Company and its subsidiaries under

the SkyWest, Inc. 2010 Long-Term Incentive Plan. Both the restricted stock units and performance shares have a three-year vesting period, during which the recipient must remain employed with the Company or one of the Company's subsidiaries. In addition to the three-year vesting period, certain performance metrics of the Company must be met before the recipient will receive any shares of stock attributable to the restricted stock units and performance shares. Upon vesting, each restricted stock unit and performance share will be replaced with one share of common stock. The fair value of the restricted stock units and performance shares on the date of grant was \$35.81 per share. During the six months ended June 30, 2017, the Company did not grant any options to purchase shares of common stock.

With the adoption of ASU No. 2016-09, the Company accounts for forfeitures of restricted stock unit and performance share grants in 2017 when forfeitures occur. The estimated fair value of the stock options, restricted stock units and performance shares is amortized over the applicable vesting periods. During the six months ended June 30, 2017 and 2016, the Company recorded pre-tax share-based compensation expense of \$5.8 million and \$3.9 million, respectively.

The Company repurchased 281,000 shares of its common stock for \$10.0 million during the six months ended June 30, 2017. Additionally, during the six months ended June 30, 2017, the Company also repurchased 108,000 shares of its common stock through a net settlement of the income tax obligation on employee equity awards of \$3.8 million. The Company did not repurchase any shares of its common stock during the six months ended June 30, 2016.

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Note 4 — Net Income Per Common Share

Basic net income per common share (“Basic EPS”) excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share (“Diluted EPS”) reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net income per common share. During the three and six months ended June 30, 2017, options to acquire zero shares, were excluded from the computation of Diluted EPS. During the three and six months ended June 30, 2016, options to acquire zero shares and 6,000 shares, respectively, were excluded from the computation of Diluted EPS.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------|------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Numerator: | | | | |
| Net Income | \$ 50,477 | \$ 40,244 | \$ 85,263 | \$ 67,336 |
| Denominator: | | | | |
| Weighted average number of common shares outstanding | 51,751 | 51,418 | 51,785 | 51,318 |
| Effect of outstanding share-based awards | 1,226 | 776 | 1,305 | 786 |
| Weighted average number of shares for diluted net income per common share | 52,977 | 52,194 | 53,090 | 52,104 |
| Basic earnings per share | \$ 0.98 | \$ 0.78 | \$ 1.65 | \$ 1.31 |
| Diluted earnings per share | \$ 0.95 | \$ 0.77 | \$ 1.61 | \$ 1.29 |

Note 5 - Segment Reporting

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

The Company's chief operating decision maker analyzes the profitability of operating the E175 aircraft (including operating costs and associated revenue) separately from the profitability of the Company's ownership, financing costs and associated revenue of the Company's E175 aircraft (including depreciation expense, interest expense and associated revenue). The SkyWest Leasing segment includes revenue attributed to the Company's E175 aircraft ownership cost earned under the applicable fixed-fee contracts and the depreciation and interest expense of the Company's E175 aircraft. The SkyWest Leasing segment's total assets and capital expenditures include the acquired E175 aircraft. The SkyWest Leasing segment additionally includes the ownership and activity of four CRJ200 aircraft leased to a third party.

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The following represents the Company's segment data for the three-month periods ended June 30, 2017 and 2016 (in thousands):

| | Three months ended June 30, 2017 | | | |
|---|----------------------------------|------------|-----------|--------------|
| | SkyWest | | SkyWest | |
| | Airlines | ExpressJet | Leasing | Consolidated |
| Operating revenues | \$ 537,749 | \$ 212,025 | \$ 59,985 | \$ 809,759 |
| Operating expense | 460,641 | 215,070 | 27,452 | 703,163 |
| Depreciation and amortization expense | 32,530 | 11,710 | 26,966 | 71,206 |
| Interest expense | 5,735 | 1,088 | 20,240 | 27,063 |
| Segment profit (loss) (1) | 71,373 | (4,133) | 12,293 | 79,533 |
| Identifiable intangible assets, other than goodwill | — | 7,124 | — | 7,124 |
| Total assets (as of June 30, 2017) | 2,251,331 | 529,175 | 2,580,107 | 5,360,613 |
| Capital expenditures (including non-cash) | 25,346 | 4,501 | 265,955 | 295,802 |

| | Three months ended June 30, 2016 | | | |
|---|----------------------------------|------------|-----------|--------------|
| | SkyWest | | SkyWest | |
| | Airlines | ExpressJet | Leasing | Consolidated |
| Operating revenues | \$ 504,107 | \$ 266,241 | \$ 30,990 | \$ 801,338 |
| Operating expense | 428,142 | 274,856 | 14,203 | 717,201 |
| Depreciation and amortization expense | 34,585 | 21,460 | 13,842 | 69,887 |
| Interest expense | 6,754 | 1,617 | 9,916 | 18,287 |
| Segment profit (loss) (1) | 69,211 | (10,232) | 6,871 | 65,850 |
| Identifiable intangible assets, other than goodwill | — | 9,374 | — | 9,374 |
| Total assets (as of June 30, 2016) | 2,074,265 | 1,389,687 | 1,418,099 | 4,882,051 |
| Capital expenditures (including non-cash) | 7,927 | 2,002 | 212,745 | 222,674 |

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

The following represents the Company's segment data for the six-month periods ended June 30, 2017 and 2016 (in thousands):

| | Six months ended June 30, 2017 | | | |
|---------------------------------------|--------------------------------|------------|------------|--------------|
| | SkyWest | | SkyWest | |
| | Airlines | ExpressJet | Leasing | Consolidated |
| Operating revenues | \$ 1,020,703 | \$ 440,683 | \$ 113,788 | \$ 1,575,174 |
| Operating expense | 896,010 | 444,563 | 51,711 | 1,392,284 |
| Depreciation and amortization expense | 64,347 | 26,235 | 50,738 | 141,320 |
| Interest expense | 11,535 | 2,202 | 37,875 | 51,612 |
| Segment profit (loss) (1) | 113,158 | (6,082) | 24,202 | 131,278 |
| | — | 7,124 | — | 7,124 |

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| | | | | |
|---|-----------|---------|-----------|-----------|
| Identifiable intangible assets, other than goodwill | | | | |
| Total assets (as of June 30, 2017) | 2,251,331 | 529,175 | 2,580,107 | 5,360,613 |
| Capital expenditures (including non-cash) | 58,777 | 10,155 | 449,969 | 518,901 |

| | Six months ended June 30, 2016 | | | Consolidated |
|---|--------------------------------|------------|-----------------|--------------|
| | SkyWest Airlines | ExpressJet | SkyWest Leasing | |
| Operating revenues | \$ 970,403 | \$ 534,048 | \$ 58,963 | \$ 1,563,414 |
| Operating expense | 842,226 | 548,475 | 26,767 | 1,417,468 |
| Depreciation and amortization expense | 68,916 | 42,727 | 26,045 | 137,688 |
| Interest expense | 13,413 | 3,740 | 18,859 | 36,012 |
| Segment profit (loss) (1) | 114,764 | (18,167) | 13,337 | 109,934 |
| Identifiable intangible assets, other than goodwill | — | 9,374 | — | 9,374 |
| Total assets (as of June 30, 2016) | 2,074,265 | 1,389,687 | 1,418,099 | 4,882,051 |
| Capital expenditures (including non-cash) | 21,885 | 7,050 | 293,025 | 321,960 |

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

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Note 6 — Commitments and Contingencies

As of June 30, 2017, the Company leased aircraft, airport facilities, office space, and other property and equipment under non-cancelable operating leases which are generally on a long-term, triple net lease basis pursuant to which the Company pays taxes, maintenance, insurance and certain other operating expenses applicable to the leased property. The Company expects that, in the normal course of business, such operating leases that expire will be renewed or replaced by other leases, or the property may be purchased rather than leased. The following table summarizes future minimum rental payments required under operating leases that had initial or remaining non-cancelable lease terms as of June 30, 2017 (in thousands):

| | |
|----------------------------|------------|
| July through December 2017 | \$ 76,117 |
| 2018 | 157,512 |
| 2019 | 123,878 |
| 2020 | 135,746 |
| 2021 | 112,536 |
| Thereafter | 236,503 |
| | \$ 842,292 |

As of June 30, 2017, the Company had a firm purchase commitment for one E175 aircraft with a scheduled delivery date by the end of 2017.

Note 7 — Fair Value Measurements

The Company holds certain assets that are required to be measured at fair value in accordance with GAAP. The Company determined the 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.

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As of June 30, 2017 and December 31, 2016, the Company held certain assets that are required to be measured at fair value on a recurring basis. Assets measured at fair value on a recurring basis are summarized below (in thousands):

| | Fair Value Measurements as of June 30, 2017 | | | |
|--|---|------------|------------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Marketable Securities | | | | |
| Bonds and bond funds | \$ 417,274 | \$ — | \$ 417,274 | \$ — |
| Commercial paper | 65,535 | — | 65,535 | — |
| | \$ 482,809 | \$ — | \$ 482,809 | \$ — |
| Cash, Cash Equivalents and Restricted Cash | 151,710 | 151,710 | — | — |
| Total Assets Measured at Fair Value | \$ 634,519 | \$ 151,710 | \$ 482,809 | \$ — |

| | Fair Value Measurements as of December 31, 2016 | | | |
|--|---|------------|------------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Marketable Securities | | | | |
| Bonds and bond funds | \$ 409,885 | \$ — | \$ 409,885 | \$ — |
| Commercial paper | 13 | — | 13 | — |
| | \$ 409,898 | \$ — | \$ 409,898 | \$ — |
| Cash, Cash Equivalents and Restricted Cash | 155,009 | 155,009 | — | — |
| Total Assets Measured at Fair Value | \$ 564,907 | \$ 155,009 | \$ 409,898 | \$ — |

The Company's "Marketable Securities" classified as Level 2 securities primarily utilize broker quotes in a non-active market for valuation of these securities.

The Company did not make any significant transfers of securities between Level 1, Level 2 and Level 3 during the six months ended June 30, 2017. The Company's policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

As of June 30, 2017 and December 31, 2016, the Company classified \$482.8 million and \$409.9 million of marketable securities, respectively, as short-term since it had the intent to maintain a liquid portfolio and the ability to redeem the securities within one year. As of June 30, 2017 and December 31, 2016, the cost of the Company's total cash and cash equivalents and available for sale securities (excluding restricted cash) was \$626.3 million and \$556.8 million, respectively. As of June 30, 2017 and December 31, 2016, the fair value of the Company's total cash and cash equivalents and available for sale securities (excluding restricted cash) was \$626.3 million and \$556.7 million, respectively.

The fair value of the Company's long-term debt classified as Level 2 debt was estimated using discounted cash flow analyses, based on the Company's current estimated incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's long-term debt is estimated based on current rates offered to the Company for similar debt and was estimated to be \$2.80 billion as of June 30, 2017 and \$2.57 billion as of December 31, 2016, as compared to the carrying amount of \$2.79 billion as of June 30, 2017 and \$2.57 billion as of December 31, 2016.

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Note 8 — Long-Term Debt

Long-term debt consisted of the following as of June 30, 2017 and December 31, 2016 (in thousands):

| | June 30, 2017 | December 31, 2016 |
|--|---------------|-------------------|
| Current portion of long-term debt | \$ 310,469 | \$ 308,945 |
| Current portion of unamortized debt issue cost, net | (3,620) | (3,485) |
| Current portion of long-term debt, net of debt issue costs | \$ 306,849 | \$ 305,460 |
| Long-term debt, net of current maturities | \$ 2,475,789 | \$ 2,261,959 |
| Long-term portion of unamortized debt issue cost, net | (23,126) | (21,908) |
| Long-term debt, net of current maturities and debt issue costs | \$ 2,452,663 | \$ 2,240,051 |
| Total long-term debt (including current portion) | \$ 2,786,258 | \$ 2,570,904 |
| Total unamortized debt issue cost, net | (26,746) | (25,393) |
| Total long-term debt, net of debt issue costs | \$ 2,759,512 | \$ 2,545,511 |

During the six months ended June 30, 2017, the Company took delivery of 17 E175 aircraft, which the Company financed through \$384.8 million of long-term debt. The debt associated with the E175 aircraft delivered during the six months ended June 30, 2017 has a twelve-year term, is due in quarterly installments with a fixed annual interest rate ranging from 4.3% to 4.7% and is secured by the E175 aircraft.

As of June 30, 2017 and December 31, 2016, the Company had \$84.6 million in letters of credit and surety bonds outstanding with various banks and surety institutions.

Note 9 — Income Taxes

The Company's effective tax rate for the three and six months ended June 30, 2017 was 37.6% and 36.0%, respectively. The Company's effective tax rate for the three and six months ended June 30, 2017 varied from the federal statutory rate of 35% primarily due to provision for state income taxes and the impact of non-deductible crew per diem meal expenses, which were partially offset by a discrete tax benefit from excess tax deductions generated from employee equity transactions that occurred during such periods.

Note 10 — Legal Matters

The Company is subject to certain legal actions which it considers routine to its business activities. As of June 30, 2017, the Company's management believed, after consultation with legal counsel, that the ultimate outcome of such legal matters was not likely to have a material adverse effect on the Company's financial position, liquidity or results of operations.

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

The following discussion and analysis presents factors that had a material effect on the results of operations of SkyWest, Inc. ("SkyWest" "we" or "us") during the three and six-month periods ended June 30, 2017 and 2016. Also discussed is our financial condition as of June 30, 2017 and December 31, 2016. You should read this discussion in conjunction with our condensed consolidated financial statements for the three and six months ended June 30, 2017, including the notes thereto, appearing elsewhere in this Report. This discussion and analysis contains forward-looking statements. Please refer to the section of this Report entitled "Cautionary Statement Concerning Forward-Looking Statements" for discussion of uncertainties, risks and assumptions associated with these statements.

Cautionary Statement Concerning Forward-Looking Statements

Certain of the statements contained in this Report should be considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by words such as "may," "will," "expect," "intend," "anticipate," "believe," "estimate," "plan," "project," "could," "should," "continue" and similar terms used in connection with statements regarding our outlook, anticipated operations, the revenue environment, our contractual relationships and our expected financial performance. These statements include, but are not limited to, statements about our future growth and development plans, including our future financial and operating results, our plans for SkyWest Airlines, Inc. ("SkyWest Airlines") and ExpressJet Airlines, Inc. ("ExpressJet"), our objectives, expectations, estimates, intentions and other statements that are not historical facts. All forward-looking statements are based on our existing beliefs about present and future events outside of our control and on assumptions that may prove to be incorrect. If one or more risks identified in this Report materializes, or any other underlying assumption proves incorrect, our actual results will likely vary, and may vary materially, from those anticipated, estimated, projected, or intended for a number of reasons, including but not limited to: the challenges of competing successfully in a highly competitive and rapidly changing industry; developments associated with fluctuations in the economy and the demand for air travel; the financial stability of United Airlines, Inc. ("United"), Delta Air Lines, Inc. ("Delta"), American Airlines, Inc. ("American") and Alaska Airlines, Inc. ("Alaska") (each, a "major airline partner") and any potential impact of their financial condition on the operations of SkyWest, SkyWest Airlines or ExpressJet; fluctuations in flight schedules, which are determined by the major airline partners for whom SkyWest's operating airlines conduct flight operations; variations in market and economic conditions; significant aircraft lease and debt commitments; realization of manufacturer residual value guarantees on applicable SkyWest aircraft; residual aircraft values and related impairment charges; the impact of global instability; labor relations and costs; potential fluctuations in fuel costs, and potential fuel shortages; the impact of weather-related or other natural disasters on air travel and airline costs; new aircraft deliveries; the ability to attract and retain qualified pilots; the other factors identified under the heading "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016, under the heading "Risk Factors" in Part II, Item 1A of this Report, elsewhere in this Report, in our other filings with the Securities and Exchange Commission (the "SEC") and other unanticipated factors.

There may be other factors not identified above of which we are not currently aware that may affect matters discussed in the forward-looking statements, and may also cause actual results to differ materially from those discussed. We

assume no obligation to publicly update any forward-looking statement to reflect actual results, changes in assumptions or changes in other factors affecting these statements other than as required by law.

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Overview

Through SkyWest Airlines and ExpressJet, we have the largest regional airline operations in the United States. As of June 30, 2017, SkyWest Airlines and ExpressJet offered scheduled passenger service with approximately 3,000 total daily departures to destinations in the United States, Canada, Mexico and the Caribbean. As of June 30, 2017, SkyWest Airlines and ExpressJet had a total fleet of 649 aircraft, of which 626 were in scheduled service, summarized as follows:

| | CRJ200 | CRJ700 | CRJ900 | ERJ135 | ERJ145 | E175 | Total |
|--------------------------------------|--------|--------|--------|--------|--------|------|-------|
| United | 69 | 20 | — | 5 | 119 | 65 | 278 |
| Delta | 105 | 60 | 64 | — | — | 18 | 247 |
| American | 32 | 49 | — | — | — | — | 81 |
| Alaska | — | — | — | — | — | 20 | 20 |
| Aircraft in scheduled service | 206 | 129 | 64 | 5 | 119 | 103 | 626 |
| Subleased to an un-affiliated entity | 4 | — | — | — | — | — | 4 |
| Other* | 1 | 9 | — | — | 9 | — | 19 |
| Total | 211 | 138 | 64 | 5 | 128 | 103 | 649 |

*As of June 30, 2017, these aircraft have been removed from service and are in the process of being returned under the applicable leasing arrangement or are aircraft transitioning between flying code-share agreements with our major airline partners. During the three months ended June 30, 2017, we sold eleven owned Embraer Brasilia EMB120 (“EMB120”) 30-seat turboprop aircraft at net book value.

As of June 30, 2017, approximately 44.4% of our aircraft in scheduled service operated for United, approximately 39.5% was operated for Delta, approximately 12.9% was operated for American and approximately 3.2% was operated for Alaska.

Historically, multiple contractual relationships with major airlines have enabled us to reduce our reliance on any single major airline code and to enhance and stabilize operating results through a mix of fixed-fee arrangements (referred to as “fixed-fee arrangements,” “fixed-fee contracts” or “contract flying arrangements”) and revenue-sharing arrangements (referred to as “prorate” arrangements). For the six months ended June 30, 2017, contract flying revenue and prorate revenue represented approximately 88.6% and 11.4%, respectively, of our total passenger revenues. On contract routes, the major airline partner controls scheduling, ticketing, pricing and seat inventories and we are compensated by the major airline partner at contracted rates based on completed block hours (measured from takeoff to landing, including taxi time), flight departures and other operating measures. On prorate routes, our revenue may fluctuate based on ticket prices and passenger loads and we are responsible for all costs to operate the flight, including fuel.

Second Quarter Summary

Our total operating revenues of \$809.8 million for the three months ended June 30, 2017 increased 1.1% compared to total operating revenues of \$801.3 million for the three months ended June 30, 2016. We had net income of \$50.5 million, or \$0.95 per diluted share, for the three months ended June 30, 2017, compared to net income of \$40.2 million, or \$0.77 per diluted share, for the three months ended June 30, 2016.

Significant items affecting our financial performance during the three months ended June 30, 2017 are outlined below:

Revenue

The number of aircraft we have under contract and the number of actual block hours we incur on completed flights are significant revenue drivers under our fixed-fee arrangements. We are currently in the process of a fleet transition that involves increasing the number of large dual-class regional jets we operate, including the Embraer E175 dual-class regional jet aircraft (“E175s”), while reducing the number of less profitable 50-seat regional jets we operate,

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including a portion of our Embraer ERJ145 regional jet aircraft (“ERJ145s”), Embraer ERJ135 regional jet aircraft (“ERJ135s”) and Canadair CRJ200 regional jet aircraft (“CRJ200s”). Our objective in the fleet transition is to improve our profitability through the addition of new dual class aircraft, while removing aircraft from service that have been operating under unprofitable or less profitable fixed-fee contracts.

Although the number of our aircraft operating in scheduled service decreased by 4.4% since June 30, 2016, and we had a 5.3% reduction in our block hour production since June 30, 2016, our total revenues increased \$8.4 million for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. This was primarily driven by the increase in revenue from 47 new E175 aircraft added to flying arrangements since June 30, 2016, significantly offset by the removal of 76 CRJ200s, ERJ145s and Canadair CRJ700 regional jet aircrafts (“CRJ700s”) from unprofitable or less-profitable flying agreements since June 30, 2016.

Operating Expenses

Our total operating expenses decreased \$14.0 million for the three months ended June 30, 2017, compared to the three months ended June 30, 2016. This decrease was primarily due to lower direct operating costs from operating 4.4% fewer aircraft since June 30, 2016. Additional details regarding the reduction to our operating expenses are described in the section of this Report entitled “Results of Operations.”

Fleet activity

The following table summarizes our fleet scheduled for service as of June 30, 2017 and 2016:

| Aircraft in Service | June 30, 2017 | June 30, 2016 |
|---------------------|---------------|---------------|
| CRJ200s | 206 | 224 |
| CRJ700s | 129 | 136 |
| CRJ900s | 64 | 64 |
| ERJ145/135s | 124 | 175 |
| E175s | 103 | 56 |
| Total | 626 | 655 |

Changes in our fleet activity from June 30, 2016 to June 30, 2017 are summarized as follows:

| | |
|--|------|
| Aircraft available for scheduled service at June 30, 2016: | 655 |
| Additions: | |
| New E175 aircraft added with United: | 18 |
| New E175 aircraft added with Alaska: | 11 |
| New E175 aircraft added with Delta: | 18 |
| Total Additions: | 47 |
| Removals: | |
| ERJ145 aircraft removed from service: | (51) |
| CRJ200 aircraft removed from service: | (18) |
| CRJ700 aircraft removed from service: | (7) |
| Total Removals: | (76) |
| Aircraft available for scheduled service at June 30, 2017: | 626 |

Critical Accounting Policies

Our significant accounting policies are summarized in Note 1 to our consolidated financial statements for the year ended December 31, 2016, which are presented in our Annual Report on Form 10-K for the year ended December 31, 2016. Critical accounting policies are those policies that are most important to the preparation of our consolidated financial statements and require management's subjective and complex judgments due to the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies relate to revenue recognition, maintenance, aircraft leases, impairment of long-lived assets and stock-based compensation expense. The

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application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results will likely differ, and may differ materially, from such estimates.

Other Accounting Items

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

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

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

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

| | | |
|--|--|---------------------------------------|
| Fixed-fee contract SkyWest Delta Connection (CRJs) | Compensation of Engine Expense Fixed-Rate Engine Contracts and Directly-Reimbursed Engine Contracts Fixed-Rate Engine Contracts | Expense Recognition Direct Expense |
|--|--|---------------------------------------|

| | | |
|---|--------------------------------------|----------------------------|
| SkyWest Delta Connection (E175) | | Power-by-the-Hour Contract |
| ExpressJet Delta Connection | Directly-Reimbursed Engine Contracts | Direct Expense |
| SkyWest United Express (CRJ200, CRJ700, E175) | Fixed-Rate Engine Contracts | Power-by-the-Hour Contract |
| ExpressJet United (ERJ145) | Directly-Reimbursed Engine Contracts | Power-by-the-Hour Contract |
| Alaska Agreement (CRJ700) | Fixed-Rate Engine Contracts | Power-by-the-Hour Contract |
| Alaska Agreement (E175) | Fixed-Rate Engine Contracts | Power-by-the-Hour Contract |
| SkyWest American Agreements (CRJ200, CRJ700) | Fixed-Rate Engine Contracts | Power-by-the-Hour Contract |
| ExpressJet American Agreement (CRJ200) | Fixed-Rate Engine Contracts | Direct Expense |
| ExpressJet American Agreement (CRJ700) | Fixed-Rate Engine Contracts | Power-by-the-Hour Contract |

Recent Accounting Pronouncements

See Note 1 to the Condensed Consolidated Financial Statements for a description of recent accounting pronouncements.

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Results of Operations

Three Months Ended June 30, 2017 and 2016

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

| | For the three months ended June 30, | | | |
|---------------------------------------|-------------------------------------|------------|----------|-----|
| | 2017 | 2016 | % Change | |
| Block hours | 467,100 | 493,336 | (5.3) | % |
| Departures | 280,326 | 296,454 | (5.4) | % |
| Passengers carried | 13,364,974 | 13,915,405 | (4.0) | % |
| Passenger load factor | 81.8 | % 83.2 | % (1.4) | pts |
| Average passenger trip length (miles) | 511 | 521 | (1.9) | % |

Revenues. Total operating revenues increased \$8.4 million, or 1.1%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. Our total operating revenue includes passenger revenues, which primarily consist of revenue earned on flights we operate under our fixed-fee and prorate arrangements, and airport customer service revenue, including airport counter, gate, and ramp services, on flights we operate under our flying arrangements. Our total operating revenue also includes ground handling and other revenues, which primarily consist of revenue earned from providing airport counter, gate and ramp services to other airlines on flights operated by other airlines, and government subsidy revenue we receive for providing flight service to certain locations under our prorate arrangements. Changes in our passenger revenue and ground handling and other revenue are summarized below.

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

| | For the three months ended June 30, | | | |
|--|-------------------------------------|------------|-----------|----------|
| | 2017 | 2016 | \$ Change | % Change |
| Passenger revenues | \$ 791,341 | \$ 784,813 | \$ 6,528 | 0.8 % |
| Less: directly-reimbursed fuel from airline partners | 17,112 | 13,425 | 3,687 | 27.5 % |
| Less: directly-reimbursed landing fee and station rent from airline partners | 4,036 | 4,025 | 11 | 0.3 % |
| | 18,753 | 15,425 | 3,328 | 21.6 % |

Less: directly-reimbursed engine maintenance from
airline partners

| | | | | | |
|---|------------|------------|----------|-------|---|
| Passenger revenue excluding directly-reimbursed fuel, landing fee, station rent and engine maintenance | \$ 751,440 | \$ 751,938 | \$ (498) | (0.1) | % |
|---|------------|------------|----------|-------|---|

Passenger revenues (excluding directly-reimbursed fuel, landing fees, station rents and engine overhaul expenses from our major airline partners) decreased \$0.5 million, or 0.1%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The decrease in passenger revenues (excluding fuel, landing fees, station rents and engine overhaul reimbursements) was primarily driven by the removal of 76 CRJ200, ERJ145 and CRJ700 aircraft from flying arrangements since June 30, 2016, significantly offset by 47 new E175 aircraft added to flying arrangements since June 30, 2016. Additionally, our revenue for the three months ended June 30, 2016 included an \$11.5 million favorable resolution of a flying agreement matter with one of our major airline partners, and we did not have a comparable matter for the three months ended June 30, 2017.

Our passenger revenue attributed to our directly-reimbursed fuel, landing fees, station rents and engine overhaul expenses increased by \$7.0 million, or 21.4%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. This increase in directly-reimbursed expenses was primarily due to an increase in directly-reimbursed engine events and an increase in our average fuel cost per gallon from \$1.69 for the three months ended June 30, 2016, to \$1.89 for the three months ended June 30, 2017.

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Ground handling and other. Total ground handling and other revenues increased \$1.9 million, or 11.5%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The increase was primarily related to an increase in ground handling operations provided to third party airlines on a short-term contract basis.

Individual expense components attributable to our operations are expressed in the following table (dollar amounts in thousands):

| | For the three months ended June 30, | | | | | |
|---|-------------------------------------|------------|-------------|----------|---|--|
| | 2017 | 2016 | \$ Change | % Change | | |
| | Amount | Amount | Amount | Percent | | |
| Salaries, wages and benefits | \$ 295,929 | \$ 304,228 | \$ (8,299) | (2.7) | % | |
| Aircraft maintenance, materials and repairs | 152,356 | 142,289 | 10,067 | 7.1 | % | |
| Depreciation and amortization | 71,206 | 69,887 | 1,319 | 1.9 | % | |
| Aircraft rentals | 55,413 | 72,567 | (17,154) | (23.6) | % | |
| Aircraft fuel | 37,183 | 32,306 | 4,877 | 15.1 | % | |
| Ground handling services | 15,902 | 16,743 | (841) | (5.0) | % | |
| Other operating expenses | 75,174 | 79,181 | (4,007) | (5.1) | % | |
| Total operating expenses | \$ 703,163 | \$ 717,201 | \$ (14,038) | (2.0) | % | |
| Interest expense | 27,063 | 18,287 | 8,776 | 48.0 | % | |
| Total airline expenses | \$ 730,226 | \$ 735,488 | \$ (5,262) | (0.7) | % | |

Salaries, wages and employee benefits. Salaries, wages and employee benefits decreased \$8.3 million, or 2.7%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The decrease in salaries, wages and employee benefits was primarily due to a decrease in direct labor costs resulting from a net reduction in our fleet size and related level of departures and block hours, which was partially offset by costs incurred to hire and train pilots prior to the E175 aircraft deliveries.

Aircraft maintenance, materials and repairs. Aircraft maintenance expense increased \$10.1 million, or 7.1%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The following table summarizes our aircraft maintenance, materials and repairs less the directly-reimbursed engine overhaul costs under our fixed-fee arrangements for the periods indicated (dollar amounts in thousands). Additionally, our aircraft maintenance, materials and repairs expense for the three months ended June 30, 2016 included \$3.0 million of maintenance costs associated with an early lease termination on three CRJ700 aircraft, and we did not have a comparable expense for the three months ended June 30, 2017.

| | For the three months ended June 30, | | | | | |
|---|-------------------------------------|------------|-----------|----------|---|--|
| | 2017 | 2016 | \$ Change | % Change | | |
| Aircraft maintenance, materials and repairs | \$ 152,356 | \$ 142,289 | \$ 10,067 | 7.1 | % | |

| | | | | | |
|--|------------|------------|----------|------|---|
| Less: directly-reimbursed engine maintenance from airline partners | 18,753 | 15,425 | 3,328 | 21.6 | % |
| Aircraft maintenance, materials and repairs excluding directly-reimbursed engine maintenance from airline partners | \$ 133,603 | \$ 126,864 | \$ 6,739 | 5.3 | % |

Other aircraft maintenance, materials and repairs, excluding our directly-reimbursed engine overhaul costs, increased \$6.7 million, or 5.3%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The increase in aircraft maintenance expense (excluding directly-reimbursed engine overhaul costs) was primarily due to an increase in non-directly-reimbursed engine overhaul costs primarily associated with the additional E175 aircraft added to our fleet since June 30, 2016, which was partially offset by a decrease in direct maintenance costs that corresponds with our net decrease in fleet size and block hour reduction of 5.3%.

Depreciation and amortization. Depreciation and amortization expense increased \$1.3 million, or 1.9%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The increase in depreciation and amortization expense was primarily due to the purchase of 47 E175 aircraft and spare engines subsequent to June 30, 2016, which was partially offset by a reduction of 50-seat owned aircraft and related depreciation since June 30, 2016.

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Aircraft rentals. Aircraft rentals decreased \$17.2 million, or 23.6%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The decrease in aircraft rentals was primarily due to a reduction of our fleet size that was financed through leases subsequent to June 30, 2016. Additionally, our aircraft rental expense for the three months ended June 30, 2016 included \$6.8 million of costs associated with an early lease termination on three CRJ700 aircraft, and we did not have a comparable expense for the three months ended June 30, 2017.

Aircraft Fuel. Fuel costs increased \$4.9 million, or 15.1%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The following table summarizes our aircraft fuel expenses less directly-reimbursed fuel expense under our fixed-fee arrangements for the periods indicated (dollar amounts in thousands):

| | For the three months ended June 30, | | | | |
|---|-------------------------------------|-----------|-----------|----------|---|
| | 2017 | 2016 | \$ Change | % Change | |
| Aircraft fuel expenses | \$ 37,183 | \$ 32,306 | \$ 4,877 | 15.1 | % |
| Less: directly-reimbursed fuel from airline partners | 17,112 | 13,425 | 3,687 | 27.5 | % |
| Aircraft fuel less directly-reimbursed fuel from airline partners | \$ 20,071 | \$ 18,881 | \$ 1,190 | 6.3 | % |

The increase in fuel cost (less directly-reimbursed fuel from major airline partners) was primarily due to an increase in our average fuel cost per gallon from \$1.69 for the three months ended June 30, 2016 to \$1.89 for the three months ended June 30, 2017. Aircraft fuel cost not directly-reimbursed from major airline partners consists of fuel cost incurred under our prorate arrangements. In the event one of our major airline partners purchases fuel directly from vendors on flights we operate pursuant to a fixed-fee arrangement, we do not incur the fuel expense. The following table summarizes the gallons of fuel we purchased directly from fuel vendors and our fuel expense, for the periods indicated:

| (in thousands) | For the three months ended June 30, | | | |
|------------------------|-------------------------------------|-----------|----------|---|
| | 2017 | 2016 | % Change | |
| Fuel gallons purchased | 19,709 | 19,075 | 3.3 | % |
| Fuel expense | \$ 37,183 | \$ 32,306 | 15.1 | % |

Ground handling service. Ground handling service expense decreased \$0.8 million, or 5.0%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. Ground handling service expense includes airport-related customer service costs (our employee customer service labor costs are reflected in salaries, wages and benefits), such as outsourced airport gate and ramp agent services, airport security fees and passenger interruption costs. The decrease in ground handling service expense was primarily due to a reduction in passenger interruption related costs during the three months ended June 30, 2017.

Other operating expenses. Other operating expenses, primarily consisting of property taxes, hull and liability insurance, landing fees, station rents, simulator costs, crew per diem, and crew hotel costs, decreased \$4.0 million, or 5.1%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. Under our fixed-fee arrangements, landing fee and station rental expense are directly-reimbursed expenses. The following table summarizes our other operating expenses (less directly-reimbursed landing fees and station rents under our fixed-fee arrangements) for the periods indicated (dollar amounts in thousands):

| | For the three months ended June 30, | | | | |
|---|-------------------------------------|-----------|------------|----------|---|
| | 2017 | 2016 | \$ Change | % Change | |
| Other operating expenses | \$ 75,174 | \$ 79,181 | \$ (4,007) | (5.1) | % |
| Less: directly-reimbursed landing fee and station rent from airline partners | 4,036 | 4,025 | 11 | 0.3 | % |
| Other operating expenses excluding directly-reimbursed landing fee and station rent from airline partners | \$ 71,138 | \$ 75,156 | \$ (4,018) | (5.3) | % |

The decrease in other operating expense (less directly-reimbursed landing fees and station rents, expenses) was primarily related to the decrease in our fleet size and in other operating costs that resulted from the reduction in

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departures and block hour production of 5.4% and 5.3%, respectively, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

Interest Expense. Interest expense increased \$8.8 million, or 48.0%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The increase in interest expense was primarily related to the additional interest expense associated with the 47 E175 aircraft added to our fleet since June 30, 2016 which were debt financed.

Total airline expense. Total airline expense (consisting of total operating expense and interest expense) decreased \$5.3 million, or 0.7%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The following table summarizes our total airline expense less the directly-reimbursed expenses that impacted comparability for the periods indicated (dollar amounts in thousands):

| | For the three months ended June 30, | | | | |
|--|-------------------------------------|------------|-----------|----------|---|
| | 2017 | 2016 | \$ Change | % Change | |
| Total airline expense | \$ 730,226 | \$ 735,488 | (5,262) | (0.7) | % |
| Less: directly-reimbursed fuel from airline partners | 17,112 | 13,425 | 3,687 | 27.5 | % |
| Less: directly-reimbursed landing fee and station rent from airline partners | 4,036 | 4,025 | 11 | 0.3 | % |
| Less: directly-reimbursed engine maintenance from airline partners | 18,753 | 15,425 | 3,328 | 21.6 | % |
| Total airline expense excluding directly-reimbursed fuel, landing fee, station rent and engine maintenance | \$ 690,325 | \$ 702,613 | (12,288) | (1.7) | % |

Total airline expenses (excluding directly-reimbursed fuel, engine overhaul, landing fees and station rents) decreased \$12.3 million, or 1.7%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The decrease in total airline expenses (excluding directly-reimbursed fuel, engine overhaul, landing fees and station rents) was primarily due to the reduction in fleet size and related block hour production of 5.3% during the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

Income taxes. Our provision for income taxes was 37.6% and 39.3% for the three months ended June 30, 2017 and 2016, respectively. The reduction in our effective tax rate was primarily due to a \$0.3 million discrete tax benefit from excess tax deductions generated from employee equity transactions that occurred during the three months ended June 30, 2017 pursuant to ASU No. 2016-09, and a year over year increase in income before income taxes which diluted the effective tax rate impact related to expenses not deductible for tax purposes. The effective rate of our income tax provision may vary in future periods under ASU No. 2016-09 based on multiple variables including changes in our stock price, timing of employee stock option exercises and timing of restricted share vesting, among other factors.

Net income. Primarily due to the factors described above, we generated net income of \$50.5 million, or \$0.95 per diluted share, for the three months ended June 30, 2017, compared to net income of \$40.2 million, or \$0.77 per diluted share, for the three months ended June 30, 2016.

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Six Months Ended June 30, 2017 and 2016

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

| | For the six months ended June 30, | | | | |
|---------------------------------------|-----------------------------------|------------|----------|-----|--|
| | 2017 | 2016 | % Change | | |
| Block hours | 919,783 | 980,209 | (6.2) | % | |
| Departures | 544,188 | 582,929 | (6.6) | % | |
| Passengers carried | 25,385,351 | 26,583,951 | (4.5) | % | |
| Passenger load factor | 80.3 | % 81.1 | % (0.8) | pts | |
| Average passenger trip length (miles) | 515 | 526 | (2.1) | % | |

Revenues. Total operating revenues increased \$11.8 million, or 0.8%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. Our total operating revenue includes passenger revenues, which primarily consist of revenue earned on flights we operate under our fixed-fee and prorate arrangements, and airport customer service revenue, including airport counter, gate, and ramp services, on flights we operate under our flying arrangements. Our total operating revenue also includes ground handling and other revenues, which primarily consist of revenue earned from providing airport counter, gate and ramp services to other airlines on flights operated by other airlines, and government subsidy revenue we receive for providing flight service to certain locations under our prorate arrangements. Changes in our passenger revenue and ground handling and other revenue are summarized below.

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

| | For the six months ended June 30, | | | | | |
|--|-----------------------------------|--------------|------------|----------|---|--|
| | 2017 | 2016 | \$ Change | % Change | | |
| Passenger revenues | \$ 1,536,752 | \$ 1,529,203 | \$ 7,549 | 0.5 | % | |
| Less: directly-reimbursed fuel from airline partners | 32,989 | 23,916 | 9,073 | 37.9 | % | |
| Less: directly-reimbursed landing fee and station rent from airline partners | 8,288 | 6,464 | 1,824 | 28.2 | % | |
| Less: directly-reimbursed engine maintenance from airline partners | 33,882 | 32,990 | 892 | 2.7 | % | |
| Passenger revenue excluding directly-reimbursed fuel, landing fee, station rent and engine maintenance | \$ 1,461,593 | \$ 1,465,833 | \$ (4,240) | (0.3) | % | |

Passenger revenues (excluding directly-reimbursed fuel, landing fees, station rents and engine overhaul expenses from our major airline partners) decreased \$4.2 million, or 0.3%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The decrease in passenger revenues (excluding fuel, landing fees, station rents and engine overhaul reimbursements) was primarily driven by the removal of 76 CRJ200, ERJ145 and CRJ700 aircraft from flying arrangements since June 30, 2016, significantly offset by 47 new E175 aircraft added to flying arrangements since June 30, 2016. Additionally, our revenue for the six months ended June 30, 2016 included an \$11.5 million favorable resolution of a flying agreement matter with one of our major airline partners, and we did not have a comparable matter for the six months ended June 30, 2017.

Our passenger revenue attributed to our directly-reimbursed fuel, landing fees, station rents and engine overhaul expenses increased by \$11.8 million, or 18.6%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. This increase in directly-reimbursed expenses was primarily due to the increase in our average fuel cost per gallon from \$1.60 for the six months ended June 30, 2016, to \$1.92 for the six months ended June 30, 2017.

Ground handling and other. Total ground handling and other revenues increased \$4.2 million, or 12.3%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The increase was primarily related to an increase in ground handling operations provided to third party airlines on a short-term contract basis.

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Individual expense components attributable to our operations are expressed in the following table (dollar amounts in thousands):

| | For the six months ended June 30, | | | | |
|---|-----------------------------------|--------------|-------------|----------|---|
| | 2017 | 2016 | \$ Change | % Change | |
| | Amount | Amount | Amount | Percent | |
| Salaries, wages and benefits | \$ 595,969 | \$ 609,785 | \$ (13,816) | (2.3) | % |
| Aircraft maintenance, materials and repairs | 284,681 | 281,149 | 3,532 | 1.3 | % |
| Depreciation and amortization | 141,320 | 137,688 | 3,632 | 2.6 | % |
| Aircraft rentals | 113,123 | 139,691 | (26,568) | (19.0) | % |
| Aircraft fuel | 71,493 | 57,638 | 13,855 | 24.0 | % |
| Ground handling services | 35,436 | 37,727 | (2,291) | (6.1) | % |
| Other | 150,262 | 153,790 | (3,528) | (2.3) | % |
| Total operating expenses | \$ 1,392,284 | \$ 1,417,468 | \$ (25,184) | (1.8) | % |
| Interest expense | 51,612 | 36,012 | 15,600 | 43.3 | % |
| Total airline expenses | \$ 1,443,896 | \$ 1,453,480 | \$ (9,584) | (0.7) | % |

Salaries, wages and employee benefits. Salaries, wages and employee benefits decreased \$13.8 million, or 2.3%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The decrease in salaries, wages and employee benefits was primarily due to a decrease in direct labor costs resulting from a net reduction in our fleet size and related level of departures and block hours, which was partially offset by costs incurred to hire and train pilots prior to the E175 aircraft deliveries.

Aircraft maintenance, materials and repairs. Aircraft maintenance expense increased \$3.5 million, or 1.3%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The following table summarizes our aircraft maintenance, materials and repairs less the directly-reimbursed engine overhaul costs under our fixed-fee arrangements for the periods indicated (dollar amounts in thousands). Additionally, our aircraft maintenance, materials and repairs expense for the six months ended June 30, 2016 included \$3.0 million of maintenance costs associated with an early lease termination on three CRJ700 aircraft, and we did not have a comparable expense for the six months ended June 30, 2017.

| | For the six months ended June 30, | | | | |
|--|-----------------------------------|------------|-----------|----------|---|
| | 2017 | 2016 | \$ Change | % Change | |
| Aircraft maintenance, materials and repairs | \$ 284,681 | \$ 281,149 | \$ 3,532 | 1.3 | % |
| Less: directly-reimbursed engine maintenance from airline partners | 33,882 | 32,990 | 892 | 2.7 | % |
| Other aircraft maintenance, materials and repairs | \$ 250,799 | \$ 248,159 | \$ 2,640 | 1.1 | % |

Other aircraft maintenance, materials and repairs, excluding our directly-reimbursed engine overhaul costs, increased \$2.6 million, or 1.1%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The increase in aircraft maintenance expense (excluding directly-reimbursed engine overhaul costs) was primarily due to an increase in non-directly-reimbursed engine overhaul costs primarily associated with the additional E175 aircraft added to our fleet since June 30, 2016, which was partially offset by a decrease in direct maintenance costs that corresponds with our net decrease in fleet size and block hour reduction of 6.2%.

Depreciation and amortization. Depreciation and amortization expense increased \$3.6 million, or 2.6%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The increase in depreciation and amortization expense was primarily due to the purchase of 47 E175 aircraft and spare engines subsequent to June 30, 2016, which was partially offset by a reduction in owned 50-seat aircraft and related depreciation since June 30, 2016.

Aircraft rentals. Aircraft rentals decreased \$26.6 million, or 19.0%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The decrease in aircraft rentals was primarily due to a reduction of our fleet size that was financed through leases subsequent to June 30, 2016. Additionally, our aircraft rental expense for the six months ended June 30, 2016 included \$6.8 million of costs associated with an early lease termination on three CRJ700 aircraft, and we did not have a comparable expense for the six months ended June 30, 2017.

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Aircraft Fuel. Fuel costs increased \$13.9 million, or 24.0%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The following table summarizes our aircraft fuel expenses less directly-reimbursed fuel expense under our fixed-fee arrangements for the periods indicated (dollar amounts in thousands):

| | For the six months ended June 30, | | | | |
|---|-----------------------------------|-----------|-----------|----------|---|
| | 2017 | 2016 | \$ Change | % Change | |
| Aircraft fuel expenses | \$ 71,493 | \$ 57,638 | \$ 13,855 | 24.0 | % |
| Less: directly-reimbursed fuel from airline partners | 32,989 | 23,916 | 9,073 | 37.9 | % |
| Aircraft fuel less directly-reimbursed fuel from airline partners | \$ 38,504 | \$ 33,722 | \$ 4,782 | 14.2 | % |

The increase in fuel cost (less directly-reimbursed fuel from major airline partners) was primarily due to an increase in our average fuel cost per gallon from \$1.60 for the six months ended June 30, 2016 to \$1.92 for the six months ended June 30, 2017. Aircraft fuel cost not directly-reimbursed from major airline partners consists of fuel cost incurred under our prorate arrangements. In the event one of our major airline partners purchases fuel directly from vendors on flights we operate pursuant to a fixed-fee arrangement, we do not incur the fuel expense. The following table summarizes the gallons of fuel we purchased directly from fuel vendors and our fuel expense, for the periods indicated:

| (in thousands) | For the six months ended June 30, | | | |
|------------------------|-----------------------------------|-----------|----------|---|
| | 2017 | 2016 | % Change | |
| Fuel gallons purchased | 37,160 | 36,107 | 2.9 | % |
| Fuel expense | \$ 71,493 | \$ 57,638 | 24.0 | % |

Ground handling service. Ground handling service expense decreased \$2.3 million, or 6.1%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. Ground handling service expense includes airport-related customer service costs (our employee customer service labor costs are reflected in salaries, wages and benefits), such as outsourced airport gate and ramp agent services, airport security fees and passenger interruption costs. The decrease in ground handling service expense was primarily due to a reduction in passenger interruption related costs during the six months ended June 30, 2016.

Other operating expenses. Other operating expenses, primarily consisting of property taxes, hull and liability insurance, landing fees, station rents, simulator costs, crew per diem, and crew hotel costs, decreased \$3.5 million, or 2.3%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. Under our fixed-fee arrangements, landing fee and station rental expense are directly-reimbursed expenses. The following table summarizes our other operating expenses (less directly-reimbursed landing fees and station rents under our fixed-fee arrangements) for the periods indicated (dollar amounts in thousands):

| | For the six months ended June 30, | | | |
|---|-----------------------------------|------------|------------|----------|
| | 2017 | 2016 | \$ Change | % Change |
| Other operating expenses | \$ 150,262 | \$ 153,790 | \$ (3,528) | (2.3) % |
| Less: directly-reimbursed landing fee and station rent from airline partners | 8,288 | 6,464 | 1,824 | 28.2 % |
| Other operating expenses excluding directly-reimbursed landing fee and station rent from airline partners | \$ 141,974 | \$ 147,326 | \$ (5,352) | (3.6) % |

The decrease in other operating expense (less directly-reimbursed landing fees and station rents, expenses) was primarily related to the decrease in our fleet size and in other operating costs that resulted from the reduction in departures and block hour production of 6.6% and 6.2%, respectively, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Interest Expense. Interest expense increased \$15.6 million, or 43.3%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The increase in interest expense was primarily related to the additional interest expense associated with the 47 E175 aircraft added to our fleet since June 30, 2016 which were debt financed.

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Total airline expense. Total airline expense (consisting of total operating expense and interest expense) decreased \$9.6 million, or 0.7%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The following table summarizes our total airline expense less the directly-reimbursed expenses that impacted comparability for the periods indicated (dollar amounts in thousands):

| | For the six months ended June 30, | | | | |
|--|-----------------------------------|--------------|-----------|----------|---|
| | 2017 | 2016 | \$ Change | % Change | |
| Total airline expense | \$ 1,443,896 | \$ 1,453,480 | (9,584) | (0.7) | % |
| Less: directly-reimbursed fuel from airline partners | 32,989 | 23,916 | 9,073 | 37.9 | % |
| Less: directly-reimbursed landing fee and station rent from airline partners | 8,288 | 6,464 | 1,824 | 28.2 | % |
| Less: directly-reimbursed engine maintenance from airline partners | 33,882 | 32,990 | 892 | 2.7 | % |
| Total airline expense excluding directly-reimbursed fuel, landing fee, station rent and engine maintenance | \$ 1,368,737 | \$ 1,390,110 | (21,373) | (1.5) | % |

Total airline expenses (excluding directly-reimbursed fuel, engine overhaul, landing fees and station rents) decreased \$21.4 million, or 1.5%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The decrease in total airline expenses (excluding directly-reimbursed fuel, engine overhaul, landing fees and station rents) was primarily due to the reduction in fleet size and related block hour production of 6.2% during the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Income taxes. Our provision for income taxes was 36.0% and 39.3% for the six months ended June 30, 2017 and 2016, respectively. The reduction in our effective tax rate was primarily due to a \$3.3 million discrete tax benefit from excess tax deductions generated from employee equity transactions that occurred during the six months ended June 30, 2017 pursuant to ASU No. 2016-09 and a year over year increase in income before income taxes which diluted the effective tax rate impact related to expenses not deductible for tax purposes. The effective rate of our income tax provision may vary in future periods under ASU No. 2016-09 based on multiple variables including changes in our stock price, timing of employee stock option exercises and timing of restricted share vesting, among other factors.

Net income. Primarily due to the factors described above, we generated net income of \$85.3 million, or \$1.61 per diluted share, for the six months ended June 30, 2017, compared to net income of \$67.3 million, or \$1.29 per diluted share, for the six months ended June 30, 2016.

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Our Business Segments

Three Months Ended June 30, 2017 and 2016

For the three and six months ended June 30, 2017 and 2016, we had three reportable segments which are the basis of our internal financial reporting: SkyWest Airlines, ExpressJet and SkyWest Leasing. Our segment disclosure relates to components of our business for which separate financial information is available to, and regularly evaluated by, our chief operating decision maker. Our operating segments consist of SkyWest Airlines, ExpressJet and SkyWest Leasing. Corporate overhead expense is allocated to the operating expenses of SkyWest Airlines and ExpressJet.

| | For the three months ended June 30, (dollar amounts in thousands) | | | | | |
|------------------------------------|--|----------------|---------------------|---------------------|---|--|
| | 2017 Amount | 2016 Amount | \$ Change Amount | % Change Percent | | |
| Operating Revenues: | | | | | | |
| SkyWest Airlines operating revenue | \$ 537,749 | \$ 504,107 | \$ 33,642 | 6.7 | % | |
| ExpressJet operating revenues | 212,025 | 266,241 | (54,216) | (20.4) | % | |
| SkyWest Leasing operating revenues | 59,985 | 30,990 | 28,995 | 93.6 | % | |
| Total Operating Revenues | \$ 809,759 | \$ 801,338 | \$ 8,421 | 1.1 | % | |
| Airline Expenses: | | | | | | |
| SkyWest Airlines airline expense | \$ 466,376 | \$ 434,896 | \$ 31,480 | 7.2 | % | |
| ExpressJet airline expense | 216,158 | 276,473 | (60,315) | (21.8) | % | |
| SkyWest Leasing airline expense | 47,692 | 24,119 | 23,573 | 97.7 | % | |
| Total Airline Expense(1) | \$ 730,226 | \$ 735,488 | \$ (5,262) | (0.7) | % | |
| Segment profit (loss): | | | | | | |
| SkyWest Airlines segment profit | \$ 71,373 | \$ 69,211 | \$ 2,162 | 3.1 | % | |
| ExpressJet segment loss | (4,133) | (10,232) | 6,099 | (59.6) | % | |
| SkyWest Leasing profit | 12,293 | 6,871 | 5,422 | 78.9 | % | |
| Total Segment Profit | \$ 79,533 | \$ 65,850 | \$ 13,683 | 20.8 | % | |
| Interest Income | 1,330 | 485 | 845 | 174.2 | % | |
| Consolidated Income Before Taxes | \$ 80,863 | \$ 66,335 | \$ 14,528 | 21.9 | % | |

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

SkyWest Airlines Segment Profit. SkyWest Airlines segment profit increased \$2.2 million, or 3.1%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. SkyWest Airlines block hour production increased to 303,921, or 7.9%, for the three months ended June 30, 2017, from 281,622 for the three months ended June 30, 2016, primarily due to the additional block hour production from the new E175 aircraft added subsequent to June 30, 2016. Significant items contributing to the SkyWest Airlines segment profit are set forth below.

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SkyWest Airlines Operating Revenues increased by \$33.6 million, or 6.7%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The increase was primarily due to revenue associated with 47 additional E175 aircraft subsequent to June 30, 2016. SkyWest Airlines revenue for the three months ended June 30, 2016 included an \$11.5 million favorable resolution of a flying agreement matter with one of its major airline partners, and SkyWest Airlines did not have a comparable matter for the three months ended June 30, 2017.

SkyWest Airlines Airline Expense increased by \$31.5 million, or 7.2%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The increase in the SkyWest Airlines Airline Expense was primarily due to the following factors:

- SkyWest Airlines' salaries, wages and benefits expense increased by \$15.7 million, or 9.2%, for the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The increase was primarily due to the additional block hour production along with crew training associated with the new E175 aircraft deliveries.

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- SkyWest Airlines' aircraft maintenance, materials and repairs expense increased by \$15.4 million, or 19.0%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The increase was primarily attributable to a higher number of engines placed under its Power-by-the-Hour engine maintenance contracts for its additional E175 aircraft and direct maintenance costs related to the increased volume of departures.
- SkyWest Airlines' aircraft rental expenses decreased \$5.7 million, or 11.2%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016, primarily due to a reduction in the number of aircraft financed through leases in its fleet subsequent to June 30, 2016.
- SkyWest Airlines' fuel expense increased \$4.9 million, or 15.4%, compared to the three months ended June 30, 2016. The increase in fuel expense was primarily due to an increase in the average fuel cost per gallon in 2017 compared to 2016 along with an increase in the volume of gallons purchased. The average fuel cost per gallon was \$1.89 and \$1.69 for the three months ended June 30, 2017 and 2016, respectively.

ExpressJet Segment Loss. ExpressJet segment loss decreased \$6.1 million, or 59.6%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. ExpressJet's block hour production decreased to 163,179, or 22.9%, for the three months ended June 30, 2017, from 211,714 for the three months ended June 30, 2016, primarily due to the removal of 50-seat aircraft. Significant items contributing to the ExpressJet segment loss are set forth below.

ExpressJet Operating Revenues decreased by \$54.2 million, or 20.4%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The decrease in ExpressJet Operating Revenues was primarily due to a reduction in scheduled departures in ExpressJet's 50-seat aircraft.

ExpressJet's Airline Expense decreased \$60.3 million, or 21.8%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The decrease in ExpressJet Airline Expense was primarily due to the following factors:

- ExpressJet's salaries, wages and benefits expense decreased \$24.1 million, or 17.9%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016, primarily due to a reduction in direct labor costs associated with 22.9% fewer block hours produced year over year.
- ExpressJet's aircraft maintenance, materials and repairs expense decreased \$5.3 million, or 8.6%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The decrease was primarily due to the decrease in fleet size subsequent to June 30, 2016, and a decrease in the number of directly-reimbursed engine events. Additionally, ExpressJet's aircraft maintenance, materials and repairs expense for the three months ended June 30, 2016 included \$3.0 million of maintenance costs associated with an early lease termination on three CRJ700 aircraft, and ExpressJet did not have a comparable expense for the three months ended June 30, 2017.

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- ExpressJet's aircraft rental expenses decreased \$11.5 million, or 53.4%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016, primarily due to a reduction of our fleet size that were financed through leases subsequent to June 30, 2016. Additionally, ExpressJet's aircraft rental expense for the three months ended June 30, 2016 included \$6.8 million of costs associated with an early lease termination on three CRJ700 aircraft, and ExpressJet did not have a comparable expense for the three months ended June 30, 2017.
- ExpressJet's depreciation expense decreased \$9.7 million, or 45.4%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The decrease in depreciation expense was primarily due to a reduction in owned 50-seat aircraft related long-lived assets since June 30, 2016.
- ExpressJet's other operating expense decreased \$8.3 million, or 26.2%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016. The decrease was primarily due to a

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decrease in direct operating costs associated with a 22.9% reduction in block hour production year over year.

SkyWest Leasing Segment Profit. SkyWest Leasing profit increased \$5.4 million, or 78.9%, during the three months ended June 30, 2017, compared to the three months ended June 30, 2016, primarily due to 47 E175 aircraft added to our fleet subsequent to June 30, 2016.

Six Months Ended June 30, 2017 and 2016

| | For the six months ended June 30, (dollar amounts in thousands) | | | | | |
|------------------------------------|--|----------------|---------------------|---------------------|---|--|
| | 2017 Amount | 2016 Amount | \$ Change Amount | % Change Percent | | |
| Operating Revenues: | | | | | | |
| SkyWest Airlines operating revenue | \$ 1,020,703 | \$ 970,403 | \$ 50,300 | 5.2 | % | |
| ExpressJet operating revenues | 440,683 | 534,048 | (93,365) | (17.5) | % | |
| SkyWest Leasing operating revenues | 113,788 | 58,963 | 54,825 | 93.0 | % | |
| Total Operating Revenues | \$ 1,575,174 | \$ 1,563,414 | \$ 11,760 | 0.8 | % | |
| Airline Expenses: | | | | | | |
| SkyWest Airlines airline expense | \$ 907,545 | \$ 855,639 | \$ 51,906 | 6.1 | % | |
| ExpressJet airline expense | 446,765 | 552,215 | (105,450) | (19.1) | % | |
| SkyWest Leasing airline expense | 89,586 | 45,626 | 43,960 | 96.3 | % | |
| Total Airline Expense(1) | \$ 1,443,896 | \$ 1,453,480 | \$ (9,584) | (0.7) | % | |
| Segment profit (loss): | | | | | | |
| SkyWest Airlines segment profit | \$ 113,158 | \$ 114,764 | \$ (1,606) | (1.4) | % | |
| ExpressJet segment loss | (6,082) | (18,167) | 12,085 | (66.5) | % | |
| SkyWest Leasing profit | 24,202 | 13,337 | 10,865 | 81.5 | % | |
| Total Segment Profit | \$ 131,278 | \$ 109,934 | \$ 21,344 | 19.4 | % | |
| Interest Income | 1,990 | 915 | 1,075 | 117.5 | % | |
| Consolidated Income Before Taxes | \$ 133,268 | \$ 110,849 | \$ 22,419 | 20.2 | % | |

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

SkyWest Airlines Segment Profit. SkyWest Airlines segment profit decreased \$1.6 million, or 1.4%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. SkyWest Airlines block hour production increased to 581,756, or 5.2%, for the six months ended June 30, 2017, from 553,158 for the six months ended June 30, 2016, primarily due to the additional block hour production from the new E175 aircraft added subsequent to June 30, 2016. Significant items contributing to the SkyWest Airlines segment profit are set forth below.

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SkyWest Airlines Operating Revenues increased by \$50.3 million, or 5.2%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The increase was primarily due to revenue associated with 47 additional E175 aircraft subsequent to June 30, 2016. SkyWest Airlines revenue for the six months ended June 30, 2016 included an \$11.5 million favorable resolution of a flying agreement matter with one of its major airline partners, and SkyWest Airlines did not have a comparable matter for the six months ended June 30, 2017.

SkyWest Airlines Airline Expense increased by \$51.9 million, or 6.1%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The increase in the SkyWest Airlines Airline Expense was primarily due to the following factors:

- SkyWest Airlines' salaries, wages and benefits expense increased by \$27.1 million, or 8.0%, for the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The increase was primarily due to the additional block hour production along with crew training associated with the new E175 aircraft deliveries.

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- SkyWest Airlines' aircraft maintenance, materials and repairs expense increased by \$21.5 million, or 14.1%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The increase was primarily attributable to a higher number of engines placed under its Power-by-the-Hour engine maintenance contracts for its additional E175 aircraft and direct maintenance costs related to the increased volume of departures.
- SkyWest Airlines' aircraft rental expenses decreased \$9.1 million, or 8.9%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016, primarily due to a reduction in the number of aircraft financed through leases in its fleet subsequent to June 30, 2016.
- SkyWest Airlines' fuel expense increased \$13.7 million, or 24.2%, compared to the six months ended June 30, 2016. The increase in fuel expense was primarily due to an increase in the average fuel cost per gallon in 2017 compared to 2016 along with an increase in the volume of gallons purchased. The average fuel cost per gallon was \$1.92 and \$1.60 for the six months ended June 30, 2017 and 2016, respectively.

ExpressJet Segment Loss. ExpressJet segment loss decreased \$12.1 million, or 66.5%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. ExpressJet's block hour production decreased to 338,027, or 20.8%, for the six months ended June 30, 2017, from 427,051 for the six months ended June 30, 2016, primarily due to the removal of 50-seat aircraft. Significant items contributing to the ExpressJet segment loss are set forth below.

ExpressJet Operating Revenues decreased by \$93.4 million, or 17.5%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The decrease in ExpressJet Operating Revenues was primarily due to a reduction in scheduled departures in ExpressJet's 50-seat aircraft.

ExpressJet Airline Expense decreased \$105.5 million, or 19.1%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The decrease in ExpressJet Airline Expense was primarily due to the following factors:

- ExpressJet's salaries, wages and benefits expense decreased \$41.2 million, or 15.1%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016, primarily due to a reduction in direct labor costs associated with 20.8% fewer block hours produced year over year.
- ExpressJet's aircraft maintenance, materials and repairs expense decreased \$18.0 million, or 14.0%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The decrease was primarily due to the decrease in fleet size subsequent to June 30, 2016 and a decrease in the number of directly-reimbursed engine events. Additionally, ExpressJet's aircraft maintenance, materials and repairs expense for the six months ended June 30, 2016 included \$3.0 million of maintenance costs associated with an early lease termination on three CRJ700 aircraft and ExpressJet did not have a comparable expense for the six months ended June 30, 2017.

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- ExpressJet's aircraft rental expenses decreased \$17.5 million, or 46.9%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016, primarily due to a reduction of our fleet size that was financed through leases subsequent to June 30, 2016. Additionally, ExpressJet's aircraft rental expense for the six months ended June 30, 2016 included \$6.8 million of costs associated with an early lease termination on three CRJ700 aircraft and ExpressJet did not have a comparable expense for the six months ended June 30, 2017.
- ExpressJet's depreciation expense decreased \$16.5 million, or 38.6%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The decrease in depreciation expense was primarily due to a reduction in 50-seat owned aircraft related long-lived assets since June 30, 2016.

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- ExpressJet's other operating expense decreased \$9.6 million, or 15.9%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The decrease was primarily due to a decrease in direct operating costs associated with a 20.8% reduction in block hour production year over year.

SkyWest Leasing Segment Profit. SkyWest Leasing profit increased \$10.9 million, or 81.5%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016, primarily due to 47 E175 aircraft added to our fleet subsequent to June 30, 2016.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash Position and Liquidity. The following table provides a summary of the net cash provided by (used in) our operating, investing and financing activities for the six months ended June 30, 2017 and 2016, and our total cash and marketable securities positions as of June 30, 2017 and December 31, 2016 (in thousands):

| | For the six months ended June 30, | | | | | |
|---|-----------------------------------|------------|------------|----------|---|--|
| | 2017 | 2016 | \$ Change | % Change | | |
| Net cash provided by operating activities | \$ 331,783 | \$ 228,034 | \$ 103,749 | 45.5 | % | |
| Net cash used in investing activities | (528,340) | (313,183) | (215,157) | 68.7 | % | |
| Net cash provided by financing activities | 193,239 | 110,096 | 83,143 | 75.5 | % | |

| | June 30, | | December 31, | | | |
|--------------------------------------|------------|------------|--------------|----------|---|--|
| | 2017 | 2016 | \$ Change | % Change | | |
| Cash and cash equivalents | \$ 143,448 | \$ 146,766 | \$ (3,318) | (2.3) | % | |
| Restricted cash | 8,262 | 8,243 | 19 | 0.2 | % | |
| Marketable securities | 482,809 | 409,898 | 72,911 | 17.8 | % | |
| Total cash and marketable securities | \$ 634,519 | \$ 564,907 | \$ 69,612 | 12.3 | % | |

Cash Flows provided by Operating Activities

Net cash provided by operating activities increased \$103.7 million, or 45.5%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The increase in net cash provided by operating activities was primarily due to an increase in income before income taxes of \$22.4 million for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 and cash provided by changes in current assets and liabilities of \$80.3 million.

Cash Flows used in Investing Activities

Net cash used in investing activities increased \$215.2 million, or 68.7%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The increase in cash used in investing activities was primarily due to net purchases of marketable securities, which increased by \$83.1 million from the six months ended June 30, 2016 to the six months ended June 30, 2017, and the acquisition of 17 E175 aircraft and the related spare aircraft assets during the six months ended June 30, 2017, compared to eleven E175 aircraft and the related spare aircraft assets purchased during the six months ended June 30, 2016, which in total represented an increase of \$199.8 million. These uses of cash were partially offset by proceeds received from the sale of 15 CRJ200 aircraft, eleven EMB120 aircraft and one CRJ700 aircraft for \$50.7 million during the six months ended June 30, 2017.

Cash Flows provided by Financing Activities

Net cash provided by financing activities increased \$83.1 million, or 75.5%, during the six months ended June 30, 2017, compared to the six months ended June 30, 2016. The increase was primarily related to proceeds from the issuance of long-term debt of \$384.8 million associated with 17 E175 aircraft acquired during the six months ended June 30, 2017, compared to the proceeds from issuance of debt of \$249.0 million associated with eleven E175 aircraft

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acquired during the six months ended June 30, 2016. This increase in cash provided by financing activities was partially offset by an additional \$33.2 million used as principal payments on long-term debt primarily due to the payoff of debt on 15 CRJ200 aircraft and one CRJ700 aircraft that we sold during the six months ended June 30, 2017. Additionally, during the six months ended June 30, 2017, we used \$13.9 million to purchase treasury shares and towards the net settlement of income taxes on employee equity awards that vested or stock options that were exercised.

Liquidity and Capital Resources

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

At June 30, 2017, our total capital mix was 36.7% equity and 63.3% long-term debt, compared to 37.6% equity and 62.4% long-term debt at December 31, 2016.

Significant Commitments and Obligations

General

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

| | Total | July - 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter |
|--|------------|-------------|------------|------------|------------|------------|------------|
| Operating lease payments for aircraft and facility obligations | \$ 842,292 | \$ 76,117 | \$ 157,512 | \$ 123,878 | \$ 135,746 | \$ 112,536 | \$ 236,503 |
| Firm aircraft and spare engine commitments | 67,590 | 33,087 | 14,787 | 14,787 | 4,929 | — | — |
| Interest commitments(1) | 566,265 | 54,790 | 99,990 | 87,424 | 75,152 | 64,007 | 184,902 |
| Principal maturities on | 2,786,258 | 155,887 | 309,850 | 312,188 | 279,007 | 266,011 | 1,463,315 |

| | | | | | | | | |
|-----------------|--------------|------------|------------|------------|------------|------------|--------------|--|
| long-term debt | | | | | | | | |
| Total | | | | | | | | |
| commitments | | | | | | | | |
| and obligations | \$ 4,262,405 | \$ 319,881 | \$ 582,139 | \$ 538,277 | \$ 494,834 | \$ 442,554 | \$ 1,884,720 | |

(1) At June 30, 2017, we had variable rate notes representing 3.3% of our total long-term debt. Actual interest commitments will change based on the actual variable interest.

Purchase Commitments and Options

In 2014, we announced an agreement with Embraer, S.A. for the purchase of new E175 aircraft. We have entered into contracts for firm deliveries of 104 aircraft under the agreement. As of June 30, 2017, we had taken delivery of 103 E175s. We anticipate taking delivery of the remaining E175 covered by the firm order by the end of 2017.

We have not historically funded a substantial portion of our aircraft acquisitions with working capital. Rather, we have generally funded our aircraft acquisitions through a combination of operating leases and long-term debt financing. At the time of each aircraft acquisition, we evaluate the financing alternatives available to us, and select one or more of these methods to fund the acquisition. At present, we intend to fund our acquisition of any additional aircraft through debt financing. Based on current market conditions and discussions with prospective leasing organizations and financial institutions, we currently believe that we will be able to obtain financing for our committed acquisitions, as well as additional aircraft. We intend to finance the remaining firm order for one E175 aircraft purchase with approximately 85% debt and the remaining balance with cash.

Aircraft Lease and Facility Obligations

We also have significant long-term lease obligations primarily relating to our aircraft fleet. At June 30, 2017, we had 372 aircraft under lease with remaining terms ranging from one year or less to eight years. Future minimum lease payments due under all long-term operating leases were approximately \$842.3 million at June 30, 2017. Assuming a 4.77% 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 \$687.5 million at June 30, 2017.

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Long-term Debt Obligations

As of June 30, 2017, we had \$2.8 billion of long-term debt obligations, including current maturities, related to the acquisition of CRJ200, CRJ700, CRJ900 and E175 aircraft and spare engine financings. The average effective interest rate on the debt related to such aircraft and spare engine financings was approximately 3.9% at June 30, 2017.

Guarantees

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

Seasonality

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Aircraft Fuel

In the past, we have not experienced difficulties with fuel availability and we currently expect to be able to obtain fuel at prevailing prices in quantities sufficient to meet our future needs. Pursuant to our fixed-fee arrangements, United, Delta, Alaska and American have agreed to bear the economic risk of fuel price fluctuations on our contracted flights. We bear the economic risk of fuel price fluctuations on our prorate operations. For the six months ended June 30, 2017, prorate flying arrangements represented approximately 11.4% of our total passenger revenue. For illustrative purposes only, we have estimated the impact of the market risk of fuel price fluctuations on our prorate 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 \$9.6 million in fuel expense for the six months ended June 30, 2017.

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 June 30, 2017, we had variable rate notes representing 3.3% of our total long-term debt compared to 5.1% of our long-term debt at December 31, 2016. 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 \$0.5 million in interest expense and received \$2.9 million in additional interest income for the six months ended June 30, 2017. However, under our contractual arrangements with our major airline partners, the majority of the increase in interest expense would be passed through and recorded as passenger revenue in our consolidated statements of operations and comprehensive loss. Also for illustrative purposes only, we have estimated the impact of a hypothetical decrease in interest rates of one percentage point for both variable rate long-term debt and cash and securities. Based upon this hypothetical example, we would have recognized \$0.5 million less in interest expense and received \$2.9 million less in interest income for the six months ended June 30, 2017. If interest rates were to decline, our major airline partners would receive the principal benefit of the decline, since interest expense is generally passed through to our major airline partners, resulting in a reduction to passenger revenue in our consolidated statement of operations and comprehensive income.

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We currently intend to finance the acquisition of aircraft through manufacturer financing, third-party leases or long-term borrowings. Changes in interest rates may impact the actual cost to us to acquire these aircraft. To the extent we place these aircraft in service under our code-share agreements with Delta, United, Alaska or other carriers, our code-share agreements currently provide that reimbursement rates will be adjusted higher or lower to reflect changes in our aircraft financing interest rates.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, performed an evaluation of our disclosure controls and procedures, which have been designed to ensure that information we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. Our management, including our Chief Executive Officer and Chief Financial Officer, concluded that, as of June 30, 2017, those controls and procedures were effective to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control

During the quarter ended June 30, 2017, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to certain legal actions which we consider routine to our business activities. As of June 30, 2017, there were no pending legal proceedings that, if decided against us, were likely to have a material adverse effect on our

financial position, liquidity or results of operations.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 and in our other filings with the SEC, which factors could materially affect our business, financial condition and results of operations. The risks described in our reports filed with the SEC are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and results of operations.

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

Our Board of Directors has adopted a stock repurchase program which authorizes us to repurchase shares of our common stock in the public market or in private transactions, from time to time, at prevailing prices. Our stock repurchase program currently authorizes the repurchase of up to \$100.0 million of our common stock. During the three months ended June 30, 2017, we did not repurchase any additional shares of our common stock.

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ITEM 6. EXHIBITS

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

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, to be signed on its behalf by the undersigned, thereunto duly authorized, on August 4, 2017.

SKYWEST, INC.

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