

SKYWEST INC
Form 10-K
February 26, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No. 0 14719

SKYWEST, INC.

Incorporated under the Laws of Utah 87 0292166
(IRS Employer ID No.)

444 South River Road

St. George, Utah 84790

(435) 634 3000

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

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, No Par Value

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

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

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

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

Large accelerated filer Accelerated filer Non accelerated filer Smaller reporting company
(Do not check if a
smaller reporting company)

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

The aggregate market value of the registrant's common stock held by non affiliates (based upon the closing sale price of the registrant's common stock on The Nasdaq National Market) on June 30, 2015 was approximately \$759,240,572.

As of February 16, 2016, there were 51,127,542 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference

Portions of the registrant's proxy statement to be used in connection with the Registrant's 2015 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report as specified.

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SKYWEST, INC.

ANNUAL REPORT ON FORM 10 K

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PART I

Unless otherwise indicated in this Report, “SkyWest,” “we,” “us,” “our” and similar terms refer to SkyWest, Inc. and “SkyWest Airlines” refers to our wholly owned subsidiary, SkyWest Airlines, Inc.

Effective December 31, 2011, our subsidiary, ExpressJet Airlines, Inc. was merged into our subsidiary, Atlantic Southeast Airlines, Inc., with the surviving corporation named ExpressJet Airlines, Inc. (the “ExpressJet Combination”). In this Report, “Atlantic Southeast” refers to Atlantic Southeast Airlines, Inc. for periods prior to the ExpressJet Combination, “ExpressJet Delaware” refers to ExpressJet Airlines, Inc., a Delaware corporation, for periods prior to the ExpressJet Combination, and “ExpressJet” refers to ExpressJet Airlines, Inc., the Utah corporation resulting from the ExpressJet Combination, for periods subsequent to the ExpressJet Combination.

Cautionary Statement Concerning Forward Looking Statements

Certain of the statements contained in this Report should be considered “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward looking statements may be identified by words such as “may,” “will,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “plan,” “project,” “could,” “should,” “hope,” “if” and similar terms used in connection with statements regarding our outlook, anticipated operations, the revenue environment, our contractual relationships, and our anticipated financial performance. These statements include, but are not limited to, statements about our future growth and development plans, including our future financial and operating results, our plans for SkyWest Airlines and ExpressJet, our objectives, expectations and intentions and other statements that are not historical facts. Readers should keep in mind that all forward looking statements are based on our existing beliefs about present and future events outside of our control and on assumptions that may prove to be incorrect. If one or more risks identified in this Report materializes, or any other underlying assumption proves incorrect, our actual results will vary, and may vary materially, from those anticipated, estimated, projected, or intended. These risks and uncertainties include, but are not limited to, those described below in Item 1A. Risk Factors.

There may be other factors that may affect matters discussed in forward looking statements set forth in this Report, which factors may also cause actual results to differ materially from those discussed. We assume no obligation to publicly update any forward looking statement to reflect actual results, changes in assumptions or changes in other factors affecting these statements other than as required by applicable law.

ITEM 1. BUSINESS

General

Through SkyWest Airlines and ExpressJet, we offer scheduled passenger service with approximately 3,400 daily departures to destinations in the United States, Canada, Mexico and the Caribbean. Substantially all of our flights are operated as Delta Connection, United Express, American Eagle or Alaska under code share arrangements with Delta Air Lines, Inc. (“Delta”), United Air Lines, Inc. (“United”), American Airlines, Inc. (“American”) or Alaska Airlines, Inc. (“Alaska”), respectively. SkyWest Airlines and ExpressJet generally provide regional flying to our partners under long term, fixed fee code share agreements. Among other features of our fixed fee agreements, our major airline partners generally reimburse us for specified direct operating expenses (including fuel expense, which is passed through to our partners), and pay us a fee for operating the aircraft.

On December 31, 2011, Atlantic Southeast and ExpressJet Delaware completed the ExpressJet Combination. Since November 17, 2011, the operations formerly conducted by Atlantic Southeast and ExpressJet Delaware have been conducted under a single operating certificate issued by the U.S. Federal Aviation Administration (the “FAA”).

SkyWest Airlines and ExpressJet have developed industry leading reputations for providing quality regional airline service during their long operating histories. SkyWest Airlines has been flying since 1972 and ExpressJet (and its predecessors) since 1979. As of December 31, 2015, we had a combined fleet of 702 aircraft consisting of the following:

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	CRJ200	CRJ700	CRJ900	ERJ135	ERJ145	E175	EMB120	Total
United	83	70	—	5	166	40	—	364
Delta	111	60	64	—	—	—	—	235
American	31	—	—	—	16	—	—	47
Alaska	—	9	—	—	—	5	—	14
Aircraft in scheduled service	225	139	64	5	182	45	—	660
Subleased to an un-affiliated entity	2	—	—	—	—	—	—	2
Other*	10	—	—	4	—	—	26	40
Total	237	139	64	9	182	45	26	702

*Other aircraft consisted of leased aircraft removed from service that were in the process of being returned to the lessor and owned aircraft removed from service that were for sale.

As of December 31, 2015, our fleet scheduled for service consisted of aircraft manufactured by Bombardier Aerospace (“Bombardier”) and Embraer S.A. (“Embraer”) summarized as follows:

Manufacturer	Aircraft Type	Seat Configuration
Bombardier	CRJ900s	76
Bombardier	CRJ700s	66-70
Bombardier	CRJ200s	50
Embraer	E175s	76
Embraer	ERJ145s	50
Embraer	ERJ135s	37

We ceased operation of the 30 seat Embraer Brasilia EMB 120 turboprop (the “EMB120”) during the fiscal year ended December 31, 2015.

We were incorporated in Utah in 1972. Our principal executive offices are located at 444 South River Road, St. George, Utah 84790, and our primary telephone number is (435) 634 3000. We maintain an internet website at inc.skywest.com, which provides a link to our annual, quarterly and current reports filed with the Securities and Exchange Commission (“SEC”). In addition, we provide electronic or paper copies of our SEC filings free of charge upon request.

Our Operating Platforms

SkyWest Airlines

SkyWest Airlines provides regional jet service to airports primarily located in the Midwestern and Western United States, as well as Mexico and Canada. SkyWest Airlines offered approximately 1,700 daily scheduled departures as of December 31, 2015, of which approximately 920 were United Express flights, 560 were Delta Connection flights, 170 were American Eagle flights and 50 were Alaska coded flights. SkyWest Airlines’ operations are conducted principally from airports located in Chicago (O’Hare), Denver, Los Angeles, Houston, Minneapolis, Portland, Seattle, Phoenix, San Francisco and Salt Lake City. As of December 31, 2015, SkyWest Airlines operated a fleet of 348 aircraft consisting of the following:

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	CRJ200	CRJ700	CRJ900	E175	Total
United	83	70	—	40	193
Delta	69	19	36	—	124
American	17	—	—	—	17
Alaska	—	9	—	5	14
Total	169	98	36	45	348

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SkyWest Airlines conducts its code share operations with its major airline partners pursuant to the following agreements:

Major airline partner	Agreement
United	“SkyWest Airlines United Express Agreements” and “SkyWest Airlines United Express Pro rate Agreement”
Delta	“SkyWest Airlines Delta Connection Agreement” and “SkyWest Airlines Delta Pro rate Agreement”
American	“SkyWest Airlines American Agreement” and “SkyWest Airlines American Pro rate Agreement”
Alaska	“SkyWest Airlines Alaska Agreement”

A summary of the terms for each SkyWest Airlines code share agreement with the respective major partner is provided under the heading “Code Share Agreements” below on page 6.

ExpressJet

ExpressJet provides regional jet service principally in the Eastern United States, primarily from airports located in Atlanta, Cleveland, Chicago (O’Hare), Houston, Detroit, Memphis, Newark and Minneapolis, as well as Mexico and Canada. ExpressJet offered approximately 1,658 daily scheduled departures as of December 31, 2015, of which approximately 926 were Delta Connection flights, 586 were United Express flights and 146 were American Eagle flights. As of December 31, 2015, ExpressJet operated a fleet of 312 aircraft consisting of the following:

	CRJ200	ERJ145	ERJ135	CRJ700	CRJ900	Total
United	—	166	5	—	—	171
Delta	42	—	—	41	28	111
American	14	16	—	—	—	30
Total	56	182	5	41	28	312

ExpressJet conducts its code share operations with its major airline partners pursuant to the following agreements:

Major airline partner	Agreement
United (ERJ aircraft types)	“ExpressJet United ERJ Agreement”
United (CRJ aircraft types)	“ExpressJet United CRJ Agreement”
Delta	“ExpressJet Delta Connection Agreement”
American	“ExpressJet American Agreement” and “ExpressJet American Pro rate Agreement”

A summary of the terms for each ExpressJet code share agreement with the respective major partner is provided under the heading “Code Share Agreements” below on page 6.

Competition and Economic Conditions

The airline industry is highly competitive. SkyWest Airlines and ExpressJet compete principally with other regional airlines. The combined operations of SkyWest Airlines and ExpressJet extend throughout most major geographic markets in the United States. Our competition includes, therefore, nearly every other domestic regional airline. The primary competitors of SkyWest Airlines and ExpressJet include Air Wisconsin Airlines Corporation (“Air Wisconsin”); Envoy Air Inc. (“Envoy”), PSA Airlines, Inc. (“PSA”) and Piedmont Airlines (“Piedmont”) (Envoy, PSA and

Piedmont are owned by American); Horizon Air Industries, Inc. (“Horizon”) (owned by Alaska Air Group, Inc.); Mesa Air Group, Inc. (“Mesa”); Endeavor, Inc. (“Endeavor”) (owned by Delta); Republic Airways Holdings Inc. (“Republic”); and Trans State Airlines, Inc. (“Trans State”). Major airlines typically award additional code-share flying arrangements to regional airlines based primarily upon the following criteria: ability to fly contracted schedules,

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availability of labor resources, including pilots, low operating cost, financial resources, geographical infrastructure, overall customer service levels relating to on time arrival and flight completion percentages and the overall image of the regional airline.

The principal competitive factors for regional airline code share arrangements include labor resources, code share agreement terms, reliable flight operations, operating cost structure, certification to operate certain aircraft types, geographical infrastructure and markets and routes served.

The combined operations of SkyWest Airlines and ExpressJet represent the largest regional airline operations in the United States. However, regional carriers owned by major airlines may have access to greater resources through their parent companies than SkyWest Airlines and ExpressJet.

Generally, the airline industry is highly sensitive to changes in general economic conditions. Economic downturns, combined with competitive pressures, have contributed to a number of reorganizations, bankruptcies, liquidations and business combinations among major and regional carriers. The effect of economic downturns may be somewhat mitigated by the predominantly contract based flying arrangements of SkyWest Airlines and ExpressJet. If, however, any of our code share partners experience a prolonged decline in the number of passengers or are negatively affected by low ticket prices or high fuel prices, they may seek to renegotiate their code share agreements with SkyWest Airlines or ExpressJet, or materially reduce scheduled flights in order to reduce their costs. In addition, adverse weather conditions can impact our ability to complete scheduled flights and have a negative impact on our operations and financial condition.

Industry Overview

Major and Regional Airlines

The airline industry in the United States has traditionally been comprised of several major airlines, including American, Delta and United. The major airlines offer scheduled flights to most major U.S. cities, numerous smaller U.S. cities, and cities throughout the world through a hub and spoke network.

Regional airlines, such as SkyWest Airlines, ExpressJet, Mesa, Air Wisconsin, Endeavor, Trans State and Republic, typically operate smaller aircraft on lower volume routes than major and low cost carriers. Several regional airlines, including Envoy, Endeavor, PSA, Piedmont and Horizon, are wholly owned subsidiaries of major airlines.

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

Code Share Agreements

Regional airlines generally enter into code share agreements with major airlines, pursuant to which the regional airline is authorized to use the major airline's two letter flight designator codes to identify the regional airline's flights and fares in the central reservation systems, to paint its aircraft with the colors and/or logos of its code share partner and to market and advertise its status as a carrier for the code share partner. Code share agreements also generally obligate the major airline to provide services such as reservations, ticketing, ground support and gate access to the regional airline, and the major partners often coordinate marketing, advertising and other promotional efforts. In exchange, the

regional airline provides a designated number of low capacity (usually between 50 and 76 seats) flights between larger airports served by the major airline and surrounding cities, usually in lower volume markets. The financial arrangements between the regional airlines and their code share partners usually involve either fixed fee arrangements or revenue sharing arrangements as explained below:

- Fixed Fee Arrangements. Under a fixed fee arrangement (referenced in this report as a “fixed fee arrangement,” “contract flying” or a “capacity purchase agreement”), the major airline generally pays the regional airline a fixed fee for each departure, flight or block hours incurred, and an amount per aircraft in

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service each month with additional incentives based on completion of flights, on time performance and other operating metrics. In addition, the major and regional airline often enter into an arrangement pursuant to which the major airline bears the risk of changes in the price of fuel and other such costs that are passed through to the major airline partner. Regional airlines benefit from a fixed fee arrangement because they are sheltered from some of the elements that cause volatility in airline financial performance, including variations in ticket prices, number of passengers and fuel prices. However, regional airlines in fixed fee arrangements generally do not benefit from positive trends in ticket prices (including ancillary revenue programs), the number of passengers enplaned or fuel prices because the major airlines retain passenger fare volatility risk and fuel costs associated with the regional airline flight.

· Revenue Sharing Arrangements. Under a revenue sharing arrangement (referenced in this report as a “revenue sharing” arrangement or “pro rate” arrangement), the major airline and regional airline negotiate a passenger fare proration formula, pursuant to which the regional airline receives a percentage of the ticket revenues for those passengers traveling for one portion of their trip on the regional airline and the other portion of their trip on the major airline. Substantially all costs associated with the regional airline flight are borne by the regional airline. In such a revenue sharing arrangement, the regional airline may realize increased profits as ticket prices and passenger loads increase or fuel prices decrease and, correspondingly, the regional airline realizes decreased profits as ticket prices and passenger loads decrease or fuel prices increase.

SkyWest Airlines has code share agreements with United, Delta, American and Alaska. ExpressJet has code share agreements with United, Delta and American.

During the year ended December 31, 2015, approximately 86.3% of our passenger revenues related to fixed fee contract flights, where Delta, United, Alaska and American controlled scheduling, ticketing, pricing and seat inventories. The remainder of our passenger revenues during the year ended December 31, 2015 related to pro rate flights for Delta, United or American, where we controlled scheduling, pricing and seat inventories, and shared passenger fares with Delta, United or American according to pro rate formulas. The following summaries of our code share agreements do not purport to be complete and are qualified in their entirety by reference to the applicable agreement.

Under our fixed-fee arrangements, the major airline partners compensate us for our costs of owning or leasing the aircraft on a monthly basis. The aircraft compensation structure varies by agreement, but is intended to cover either our aircraft principal and interest debt service costs, our aircraft depreciation and interest expense or our aircraft lease expense costs while the aircraft is under contract. Under our ExpressJet United ERJ Agreement and our ExpressJet American ERJ145 Agreement, the major partner provides the aircraft to us for a nominal amount. The number of aircraft under our fixed fee arrangements and our pro rate arrangements as of December 31, 2015 is reflected in the summary below.

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Delta Connection Agreements

Agreement	Number of aircraft under agreements	Term / Termination Dates	Pass through costs or costs paid directly by major partner
SkyWest Airlines	• CRJ 200 - 48	<ul style="list-style-type: none"> • The contract is scheduled to expire on an individual aircraft basis commencing in 2016 • The final aircraft is scheduled to expire in 2022 	<ul style="list-style-type: none"> • Fuel • Engine Maintenance
Delta Connection Agreement (fixed-fee arrangement)	<ul style="list-style-type: none"> • CRJ 700 - 19 • CRJ 900 - 36 	<ul style="list-style-type: none"> • The average remaining term of the aircraft under contract is 3.8 years • Upon expiration, aircraft may be renewed or extended 	<ul style="list-style-type: none"> • Landing fees • Station Rents, Deice • Insurance
ExpressJet Delta	• CRJ 200 - 42	<ul style="list-style-type: none"> • The contract is scheduled to expire on an individual aircraft basis commencing in 2016 • The final aircraft is scheduled to expire in 2022 	<ul style="list-style-type: none"> • Fuel • Engine Maintenance
Connection Agreement (fixed-fee arrangement)	<ul style="list-style-type: none"> • CRJ 700 - 41 • CRJ 900 - 28 	<ul style="list-style-type: none"> • The average remaining term of the aircraft under contract is 3.7 years • Upon expiration, aircraft may be renewed or extended 	<ul style="list-style-type: none"> • Landing fees • Station Rents, Deice • Insurance
SkyWest Airlines Pro-rate Agreement (revenue-sharing agreement)	• CRJ 200 - 21	• Terminable with 30 days' notice	<ul style="list-style-type: none"> • None

United Express Agreements

Agreement	Number of aircraft under agreements	Term / Termination Dates	Pass through costs or costs paid directly by major partner
SkyWest Airlines	• CRJ 200 - 57	<ul style="list-style-type: none"> • The contract is scheduled to expire on an individual aircraft basis commencing in 2016 • The final aircraft is scheduled to expire in 2027 	<ul style="list-style-type: none"> • Fuel
United Express	• CRJ 700 - 70	<ul style="list-style-type: none"> • The average remaining term of the aircraft under contract is 4.3 years • Upon expiration, aircraft may be renewed or extended 	<ul style="list-style-type: none"> • Landing fees • Station Rents, Deice
Agreements (fixed-fee arrangement)	• E175 - 40		<ul style="list-style-type: none"> • Insurance
ExpressJet United ERJ	• ERJ 135 - 5		<ul style="list-style-type: none"> • Fuel

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<p>Agreement (fixed-fee arrangement)</p>	<ul style="list-style-type: none"> • ERJ 145 - 166 	<ul style="list-style-type: none"> • The contract is scheduled to expire on an individual aircraft basis commencing in 2016 • The final aircraft is scheduled to expire in 2017 • The average remaining term of the aircraft under contract is 1.9 years • Upon expiration, aircraft may be renewed or extended 	<ul style="list-style-type: none"> • Engine Maintenance • Landing fees • Station Rents, Deice • Insurance • None
<p>SkyWest Airlines United Express Pro-rate Agreement (revenue-sharing arrangement)</p>	<ul style="list-style-type: none"> • CRJ 200 - 26 	<ul style="list-style-type: none"> • Terminable with 120 days' notice 	

Alaska Capacity Purchase Agreement

Agreement	Number of aircraft under agreements	Term / Termination Dates	Pass through costs or costs paid directly by major partner
<p>SkyWest Airlines Alaska Agreement (fixed-fee arrangement)</p>	<ul style="list-style-type: none"> • CRJ 700 - 9 • E175 - 5 	<ul style="list-style-type: none"> • The contract is scheduled to expire on an individual aircraft basis commencing in 2016 • The final aircraft is scheduled to expire in 2028 • Upon expiration, aircraft may be renewed or extended 	<ul style="list-style-type: none"> • Fuel • Landing fees • Station Rents, Deice • Insurance

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American Agreements

Agreement	Number of aircraft under agreements	Term / Termination Dates	Pass through costs or costs paid directly by major partner
SkyWest Airlines American Agreement (fixed-fee agreement)	• CRJ 200 - 12	<ul style="list-style-type: none"> • Scheduled to expire in 2016 • Upon expiration, aircraft may be renewed or extended 	<ul style="list-style-type: none"> • Fuel • Landing fees • Station Rents, Deice • Insurance
SkyWest Airlines American Pro-rate Agreement (revenue-sharing agreement)	• CRJ 200 - 5	<ul style="list-style-type: none"> • Terminable with 120 days' notice 	<ul style="list-style-type: none"> • None
ExpressJet American Agreement (fixed-fee agreement)	<ul style="list-style-type: none"> • CRJ 200 - 11 • ERJ 145 - 16 	<ul style="list-style-type: none"> • Scheduled to expire in 2017 • Upon expiration, aircraft may be renewed or extended 	<ul style="list-style-type: none"> • Fuel • Landing fees • Station Rents, Deice • Insurance