

SKYWEST INC
Form 10-Q
August 08, 2012
Table of Contents

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, 2012

OR

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

For the transition period from _____ to _____

Commission file number 0-14719

SKYWEST, INC.

Incorporated under the laws of Utah

87-0292166
(I.R.S. Employer ID No.)

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444 South River Road

St. George, Utah 84790

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

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

Class	Outstanding at August 1, 2012
Common stock, no par value	51,253,324

Table of Contents

SKYWEST, INC.

QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

<u>PART I</u>	<u>FINANCIAL INFORMATION:</u>		3
	<u>Item 1.</u>	<u>Financial Statements</u>	3
		<u>Consolidated Balance Sheets as of June 30, 2012 (unaudited) and December 31, 2011</u>	3
		<u>Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2012 and 2011</u>	5
		<u>Condensed Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2012 and 2011</u>	6
		<u>Notes to Condensed Consolidated Financial Statements</u>	7
	<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
	<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
	<u>Item 4.</u>	<u>Controls and Procedures</u>	27
<u>PART II</u>	<u>OTHER INFORMATION:</u>		28
	<u>Item 1.</u>	<u>Legal Proceedings</u>	28
	<u>Item 1A.</u>	<u>Risk Factors</u>	29
	<u>Item 6.</u>	<u>Exhibits</u>	29
		<u>Signature</u>	30
Exhibit 31.1	Certification of Chief Executive Officer		
Exhibit 31.2	Certification of Chief Accounting Officer		
Exhibit 32.1	Certification of Chief Executive Officer		
Exhibit 32.2	Certification of Chief Accounting Officer		

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****SKYWEST, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Dollars in Thousands)

ASSETS

	June 30, 2012 (unaudited)	December 31, 2011
CURRENT ASSETS:		
Cash and cash equivalents	\$ 108,714	\$ 129,526
Marketable securities	501,332	497,552
Restricted cash	19,445	19,434
Income tax receivable	285	1,568
Receivables, net	139,261	130,510
Inventories, net	114,076	115,211
Prepaid aircraft rents	329,874	285,737
Deferred tax assets	79,551	69,519
Other current assets	31,217	31,407
Total current assets	1,323,755	1,280,464
PROPERTY AND EQUIPMENT:		
Aircraft and rotatable spares	3,986,412	3,973,027
Buildings and ground equipment	294,199	291,294
	4,280,611	4,264,321
Less accumulated depreciation and amortization	(1,483,375)	(1,380,846)
Total property and equipment, net	2,797,236	2,883,475
OTHER ASSETS		
Intangible assets, net	18,373	19,497
Other assets	99,446	98,472
Total other assets	117,819	117,969
Total assets	\$ 4,238,810	\$ 4,281,908

See accompanying notes to condensed consolidated financial statements.

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

(Dollars in Thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2012 (unaudited)	December 31, 2011
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 205,524	\$ 208,398
Accounts payable	231,196	220,784
Accrued salaries, wages and benefits	117,613	112,987
Accrued aircraft rents	18,489	22,285
Taxes other than income taxes	18,215	21,186
Other current liabilities	38,980	38,508
Total current liabilities	630,017	624,148
OTHER LONG-TERM LIABILITIES	48,775	50,194
LONG-TERM DEBT, net of current maturities	1,525,269	1,606,993
DEFERRED INCOME TAXES PAYABLE	589,610	567,874
DEFERRED AIRCRAFT CREDITS	94,509	98,438
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, 5,000,000 shares authorized; none issued		
Common stock, no par value, 120,000,000 shares authorized; 76,224,130 and 75,833,696 shares issued, respectively	603,491	598,985
Retained earnings	1,116,346	1,104,144
Treasury stock, at cost, 25,279,790 and 25,221,481 shares, respectively	(371,206)	(370,309)
Accumulated other comprehensive income	1,999	1,441
Total stockholders' equity	1,350,630	1,334,261
Total liabilities and stockholders' equity	\$ 4,238,810	\$ 4,281,908

See accompanying notes to condensed consolidated financial statements.

Table of Contents

SKYWEST, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
OPERATING REVENUES:				
Passenger	\$ 920,633	\$ 919,690	\$ 1,822,989	\$ 1,764,166
Ground handling and other	16,581	14,007	35,399	35,482
Total operating revenues	937,214	933,697	1,858,388	1,799,648
OPERATING EXPENSES:				
Salaries, wages and benefits	290,676	290,126	581,490	576,273
Aircraft maintenance, materials and repairs	167,150	176,399	346,786	339,573
Aircraft fuel	153,544	161,408	300,994	288,149
Aircraft rentals	83,944	88,072	168,846	174,494
Depreciation and amortization	64,182	63,697	128,497	126,890
Station rentals and landing fees	44,254	42,322	88,187	84,948
Ground handling services	29,615	32,875	64,930	69,728
Merger and integration related costs		1,364		2,395
Other	57,043	58,394	111,395	117,932
Total operating expenses	890,408	914,657	1,791,125	1,780,382
OPERATING INCOME	46,806	19,040	67,263	19,266
OTHER INCOME (EXPENSE):				
Interest income	2,043	2,114	3,996	4,080
Interest expense	(19,387)	(20,052)	(39,167)	(40,272)
Other, net	(815)	(2,859)	(4,667)	(3,365)
	(18,159)	(20,797)	(39,838)	(39,557)
INCOME (LOSS) BEFORE INCOME TAXES	28,647	(1,757)	27,425	(20,291)
PROVISION (BENEFIT) FOR INCOME TAXES				
TAXES	11,687	(3,336)	11,147	(10,806)
NET INCOME (LOSS)	\$ 16,960	\$ 1,579	\$ 16,278	\$ (9,485)
BASIC EARNINGS (LOSS) PER SHARE				
BASIC EARNINGS (LOSS) PER SHARE	\$ 0.33	\$ 0.03	\$ 0.32	\$ (0.18)
DILUTED EARNINGS (LOSS) PER SHARE				
DILUTED EARNINGS (LOSS) PER SHARE	\$ 0.33	\$ 0.03	\$ 0.32	\$ (0.18)
Weighted average common shares:				
Basic	50,944	52,698	50,912	53,271
Diluted	51,789	53,371	51,335	53,271
Dividends declared per share	\$ 0.04	\$ 0.04	\$ 0.08	\$ 0.08
COMPREHENSIVE INCOME (LOSS):				
Net income (loss)	\$ 16,960	\$ 1,579	\$ 16,278	\$ (9,485)
Proportionate share of other companies foreign currency translation adjustment, net of taxes	141	130	448	290
Net unrealized appreciation on marketable securities, net of taxes	35	333	111	642
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ 17,136	\$ 2,042	\$ 16,837	\$ (8,553)

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See accompanying notes to condensed consolidated financial statements.

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

(In Thousands)

	Six Months Ended June 30	
	2012	2011
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 109,347	\$ 51,324
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(222,616)	(234,342)
Sales of marketable securities	219,362	382,351
Proceeds from the sale of equipment	630	191
Acquisition of property and equipment:		
Aircraft and rotatable spare parts	(27,555)	(29,029)
Deposits on aircraft		(13,500)
Buildings and ground equipment	(3,252)	(5,009)
Increase in other assets	(9,397)	(3,850)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(42,828)	96,812
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(84,598)	(79,363)
Tax benefit from exercise of common stock options	73	2
Return of deposits on aircraft and rotatable spare parts		400
Net proceeds from issuance of common stock	2,161	2,203
Purchase of treasury stock	(897)	(40,259)
Payment of cash dividends	(4,070)	(4,326)
NET CASH USED IN FINANCING ACTIVITIES	(87,331)	(121,343)
Increase (decrease) in cash and cash equivalents	(20,812)	26,793
Cash and cash equivalents at beginning of period	129,526	112,338
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 108,714	\$ 139,131
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid (received) during the year for:		
Interest, net of capitalized amounts	\$ 39,261	\$ 41,370
Income taxes	\$ (1,477)	\$ 698

See accompanying notes to condensed consolidated financial statements.

Table of Contents

SKYWEST, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note A Condensed Consolidated Financial Statements

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, 2011. The results of operations for the three and six-months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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 differ and may differ materially from those estimates and assumptions.

Effective December 31, 2011, ExpressJet Airlines, Inc., a wholly-owned subsidiary of SkyWest (ExpressJet Delaware) was merged into Atlantic Southeast Airlines, Inc., another wholly-owned subsidiary of SkyWest (Atlantic Southeast). On January 1, 2012, Atlantic Southeast, the surviving entity of such merger (the ExpressJet Combination), changed its name to ExpressJet Airlines, Inc. In this Report, Atlantic Southeast refers to Atlantic Southeast Airlines, Inc., a Georgia corporation, 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 combination of Atlantic Southeast and ExpressJet Delaware, for periods subsequent to the consummation of the ExpressJet Combination.

Note B Passenger and Ground Handling Revenue

Passenger and Ground Handling Revenues

The Company recognizes passenger and ground handling revenues when the service is provided. Under the Company's contract and pro-rate flying agreements with Delta Airlines, Inc. (Delta), United Air Lines, Inc. (United), Continental Airlines, Inc. (Continental), US Airways

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Group, Inc. (US Airways) and Alaska Airlines (Alaska), revenue is considered earned when the flight is completed. Revenue is recognized under the Company's pro-rate flying agreements based upon the portion of the pro-rate passenger fare the Company anticipates that it will receive.

Delta Connection Agreements

SkyWest Airlines and ExpressJet are each parties to a Delta Connection Agreement with Delta, pursuant to which SkyWest Airlines and ExpressJet provide contract flight services for Delta. The Delta Connection Agreements provide for fifteen-year terms, subject to early termination by Delta, SkyWest Airlines or ExpressJet, as applicable, upon the occurrence of certain events. Delta's termination rights include (i) cross-termination rights between the two Delta Connection Agreements, (ii) the right to terminate each of the Delta Connection Agreements upon the occurrence of certain force majeure events, including certain labor-related events, that prevent SkyWest Airlines or ExpressJet from performance for certain periods, and (iii) the right to terminate each of the Delta Connection Agreements if SkyWest Airlines or ExpressJet fails to maintain competitive base rate costs, subject to certain adjustment rights. The SkyWest Airlines and ExpressJet Delta Connection Agreements contain multi-year rate reset provisions beginning in 2010 and each 5th year thereafter. In addition to the termination rights, Delta has the right to extend the term of the Delta Connection Agreements upon the occurrence of certain events or at the expiration of the initial term. SkyWest Airlines and ExpressJet have the right to terminate their respective Delta Connection Agreement upon the occurrence of certain breaches by Delta, including the failure to cure payment defaults. SkyWest Airlines and ExpressJet also have cross-termination rights between the two Delta Connection Agreements.

Table of Contents

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

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

The Delta Connection Agreements also provide that, beginning with the fifth anniversary of the execution of the agreements (September 8, 2010), Delta has the right to require that certain contractual rates under those agreements shall not exceed the second lowest of all carriers within the Delta Connection program. During the fourth quarter of 2010, SkyWest Airlines and Atlantic Southeast reached an agreement with Delta on contractual rates satisfying the 2010 rate reset provision and the second-lowest rate provision and agreed to rates through December 31, 2015. Delta additionally waived its right to require that the contractual rates payable under the Delta Connection Agreements shall not exceed the second-lowest rates of all carriers within the Delta Connection program through December 31, 2015.

In the event the Company has a reimbursement dispute with a major partner, the Company evaluates the dispute under its established revenue recognition criteria and, provided the revenue recognition criteria have been met, the Company recognizes revenue based on management's estimate of the resolution of the dispute. During the quarter ended December 31, 2007, Delta notified the Company, SkyWest Airlines and Atlantic Southeast of a dispute under the Delta Connection Agreements executed by Delta with SkyWest Airlines and Atlantic Southeast. The dispute relates to allocation of liability for certain irregular operations (IROP) expenses that are paid by SkyWest Airlines and ExpressJet to their passengers under certain situations. As a result, Delta withheld a combined total of approximately \$25 million (pre-tax) from one of the weekly scheduled wire payments to SkyWest Airlines and Atlantic Southeast during December 2007. Delta continues to withhold a portion of the funds the Company believes are payable as weekly scheduled wire payments to SkyWest Airlines and ExpressJet (See Note 1 for additional details).

United Express Agreements

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

On February 10, 2010, Atlantic Southeast and United entered into a United Express Agreement, pursuant to which ExpressJet, as successor to Atlantic Southeast, operates 14 CRJ200s as a United Express carrier. The ExpressJet United Express Agreement is a capacity purchase agreement with a five-year term, and other terms which are generally consistent with the SkyWest Airlines United Express Agreement.

On December 1, 2009, ExpressJet Delaware and United also entered into a United Express Agreement, which sets forth the principal terms and conditions governing the United Express operations presently conducted by ExpressJet. Under the terms of that United Express Agreement, to which ExpressJet became a party through the ExpressJet Combination, ExpressJet is compensated primarily on a fee-per-completed-block hour and departure basis and is reimbursed for fuel and other costs. Additionally, ExpressJet is eligible for incentive compensation upon the achievement of certain performance criteria. The incentives are defined in that ExpressJet United Express Agreement as being measured and determined on a monthly basis. At the end of each month, the Company calculates the incentives achieved during the month and recognizes revenue accordingly.

Continental CPA

Effective November 12, 2010, ExpressJet Delaware entered into a Capacity Purchase Agreement with Continental (the *Continental CPA*), whereby ExpressJet Delaware agreed to provide regional airline service in the Continental flight system. Under

Table of Contents

the terms of the Continental CPA, to which ExpressJet became a party through the ExpressJet Combination, ExpressJet operates 227 aircraft in the Continental flight system and Continental has agreed to compensate ExpressJet on a monthly basis based on the block hours flown by ExpressJet and the weighted average number of aircraft operated by ExpressJet under the Continental CPA. Additionally, ExpressJet may earn incentive compensation for good operating performance, but is subject to financial penalties for poor operating performance. At the end of each month, the Company calculates the incentives achieved during the month under the Continental CPA and recognizes revenue accordingly.

Alaska Capacity Purchase Agreement

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

US Airways Express Agreement

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

Other Revenue Items

The Company's passenger and ground handling revenues could be impacted by a number of factors, including changes to the Company's code-share agreements with Delta, United, Continental, Alaska or US Airways, integration of the operations of Atlantic Southeast and ExpressJet Delaware and the implementation of the ExpressJet Combination, contract modifications resulting from contract re-negotiations, the Company's ability to earn incentive payments contemplated under the Company's code-share agreements and settlement of reimbursement disputes with the Company's major partners.

Note C Share-Based Compensation

The fair value of stock options granted by the Company has been estimated as of the grant date using the Black-Scholes option pricing model. During the six months ended June 30, 2012, the Company granted options to purchase 200,115 shares of common stock under the SkyWest, Inc. 2010 Long-Term Incentive Plan (the 2010 Incentive Plan). The following table shows the assumptions used and weighted average fair value for

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stock option grants during the six months ended June 30, 2012.

Expected annual dividend rate		1.23%
Risk-free interest rate		0.81%
Average expected life (years)		5.6
Expected volatility of common stock		.409
Forfeiture rate		0.0%
Weighted average fair value of option grants	\$	4.43

During the six months ended June 30, 2012, the Company granted 290,265 restricted stock units to the Company's employees under the 2010 Incentive Plan. The restricted stock units have a three-year vesting period, during which the recipient must remain employed with the Company or one of the Company's subsidiaries. Upon vesting, a restricted stock unit will be replaced with a common share of stock. Additionally, during the six months ended June 30, 2012, the Company granted 27,874 fully-vested shares of common stock to the Company's directors. The weighted average fair value of the shares of restricted stock on the date of grant was \$13.06 per share.

The Company records share-based compensation expense only for those options and restricted stock units that are expected to vest. The estimated fair value of the stock options and restricted stock units is amortized over the applicable vesting periods. During the three months ended June 30, 2012 and 2011, the Company recorded pre-tax share-based compensation expense of \$1.1 million and \$1.2 million, respectively. During the six months ended June 30, 2012 and 2011, the Company recorded pre-tax share-based compensation expense of \$2.4 million and \$3.0 million, respectively.

Table of Contents

Note D Net Income (Loss) Per Common Share

Basic net income (loss) per common share (Basic EPS) excludes dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) 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 (loss) per common share. During the three months ended June 30, 2012 and 2011, options to acquire 3,952,000 and 3,282,000 shares, respectively, were excluded from the computation of Diluted EPS as their impact was anti-dilutive. During the six months ended June 30, 2012 and 2011, options to acquire 3,971,000 and 4,510,000 shares, respectively, were excluded from the computation of Diluted EPS as their impact was anti-dilutive.

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

	Three Months Ended June 30, 2012 (Unaudited)		2011		Six Months Ended June 30, 2012 (Unaudited)		2011	
Numerator								
Net Income (Loss)	\$	16,960	\$	1,579	\$	16,278	\$	(9,485)
Denominator								
Weighted average number of common shares outstanding		50,944		52,698		50,912		53,271
Effect of outstanding share-based awards		845		673		423		
Weighted average number of shares for diluted net income (loss) per common share		51,789		53,371		51,335		53,271
Basic earnings (loss) per share	\$	0.33	\$	0.03	\$	0.32	\$	(0.18)
Diluted earnings (loss) per share	\$	0.33	\$	0.03	\$	0.32	\$	(0.18)

Note E Segment Reporting

Generally accepted accounting principles require disclosures related to components of a company for which separate financial information is available to and regularly evaluated by the company's chief operating decision maker (CODM) when deciding how to allocate resources and in assessing performance.

The Company's two operating segments consist of the operations of its two operating subsidiaries, SkyWest Airlines and ExpressJet. On December 31, 2011, ExpressJet Delaware and Atlantic Southeast merged through the ExpressJet Combination. In conjunction with the ExpressJet Combination, ExpressJet became a reportable segment. Prior year amounts have been revised to conform to the current year segment presentation. Corporate overhead expense incurred by the Company is allocated to the operating expenses of its two operating subsidiaries. The following represents the Company's segment data for the three months ended June 30, 2012 and 2011 (in thousands).

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Three months ended June 30,2012

	SkyWest Airlines	ExpressJet	Other	Consolidated
Operating revenues	509,135	425,445	2,634	937,214
Operating expense	467,497	421,640	1,271	890,408
Depreciation and amortization expense	38,646	25,536		64,182
Interest expense	12,353	5,959	1,075	19,387
Segment profit (loss)(1)	29,285	(2,154)	288	27,419
Identifiable intangible assets, other than goodwill		18,373		18,373
Total assets	2,604,012	1,634,798		4,238,810
Capital expenditures (including non-cash)	6,700	4,579		11,279

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Table of Contents

Three months ended June 30, 2011

	SkyWest Airlines	ExpressJet	Other	Consolidated
Operating revenues	513,326	417,497	2,874	933,697
Operating expense	479,905	433,371	1,381	914,657
Depreciation and amortization expense	36,825	26,872		63,697
Interest expense	12,621	6,332	1,099	20,052
Segment profit (loss) (1)	20,800	(22,206)	394	(1,012)
Identifiable intangible assets, other than goodwill		20,622		20,622
Total assets	2,545,336	1,794,405		4,339,741
Capital expenditures (including non-cash)	11,318	7,729		19,047

(1) Segment profit is operating income less interest expense

The following represents the Company's segment data for the six-months periods ended June 30, 2012 and 2011 (in thousands).

Six months ended June 30, 2012

	SkyWest Airlines	ExpressJet	Other	Consolidated
Operating revenues	1,004,046	849,074	5,268	1,858,388
Operating expense	940,403	848,192	2,530	1,791,125
Depreciation and amortization expense	77,429	51,068		128,497
Interest expense	24,915	12,005	2,247	39,167
Segment profit (loss)(1)	38,728	(11,123)	491	28,096
Identifiable intangible assets, other than goodwill		18,373		18,373
Total assets	2,604,012	1,634,798		4,238,810
Capital expenditures (including non-cash)	21,953	8,541		30,494

Six months ended June 30, 2011

	SkyWest Airlines	ExpressJet	Other	Consolidated
Operating revenues	992,944	800,956	5,748	1,799,648
Operating expense	936,720	840,962	2,700	1,780,382
Depreciation and amortization expense	73,280	53,610		126,890
Interest expense	25,351	12,711	2,210	40,272
Segment profit (loss) (1)	30,873	(52,717)	838	(21,006)
Identifiable intangible assets, other than goodwill		20,622		20,622
Total assets	2,545,336	1,794,405		4,339,741
Capital expenditures (including non-cash)	21,618	15,048		36,666

(1) Segment profit is operating income less interest expense

Note F Fair Value Measurements

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

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

As of June 30, 2012, 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):

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Table of Contents

	Total	Fair Value Measurements as of June 30, 2012		Level 3
		Level 1	Level 2	
Marketable Securities				
Bond and bond fund	\$ 497,410	\$	\$ 497,410	\$
Commercial paper	3,543		3,543	
Asset backed securities	379		379	
	501,332		501,332	
Cash, Cash Equivalents and Restricted Cash	128,159	128,159		
Other Assets (a)	3,825			3,825
Total Assets Measured at Fair Value	\$ 633,316	\$ 128,159	\$ 501,332	\$ 3,825

(a) Auction rate securities included in Other assets in the unaudited Consolidated Balance Sheet

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

The Company did not make any significant transfers of securities between Level 1, Level 2 and Level 3 during the six months ended June 30, 2012. The Company's policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

The following table presents the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at June 30, 2012 (in thousands):

Fair Value Measurements Using Significant Unobservable Inputs

(Level 3)

	Auction Rate Securities
Balance at January 1, 2012	\$ 3,793
Total realized and unrealized gains or (losses)	
Included in earnings	
Included in other comprehensive income	32
Transferred out	
Settlements	
Balance at June 30, 2012	\$ 3,825

The fair value of the Company's long-term debt classified as Level 2 was estimated using discounted cash flow analyses, based on the Company's current estimated incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's long-term debt is estimated based on current rates offered to the Company for similar debt and was estimated to be \$1,834.5 million as of June 30, 2012, as

compared to the carrying amount of \$1,730.8 million as of June 30, 2012.

Note G Income Taxes

Primarily as a result of decreases in the Company's estimated pre-tax income, the Company's estimated annual effective tax rate for the three and six-month periods ended June 30, 2011 varied from the federal statutory rate of 35%. The variance also reflected proportionate increase in expenses with limited tax deductibility relative to the Company's pre-tax income for the year ended December 31, 2011.

Note H Investment in Other Companies

In September 2008, the Company entered into an agreement to acquire a 20% interest in Trip Linhas Aereas, a regional airline operating in Brazil (TRIP). As of June 30 2012, the Company's investment balance in TRIP was \$24.1 million, which represented a 20% voting ownership interest in TRIP common stock and a 6% non-voting ownership interest in TRIP preferred stock. In connection with the investment in TRIP, the Company entered into a put option agreement with the majority shareholder of TRIP that allows the Company to put its investment to TRIP's majority shareholder at an established price based on a 5% annual rate of return over the investment period.

Table of Contents

As a subsequent event, on July 12, 2012, the Company sold its interest in TRIP for a price of \$42 million. The purchase price is scheduled to be paid in three installments over a two-year period and may be accelerated upon the occurrence of certain conditions identified in the purchase agreement. As part of the sale transaction, the Company also received an option to acquire 15.38% of the ownership in Trip Investimentos Ltda., the purchaser of the Company's TRIP shares. The option has an initial exercise price per share, the exercise price escalates annually at a specified rate and the Company can exercise the option, in its discretion, between the fourth and sixth anniversaries of the Company's receipt of the required installment payments from Trip Investimentos Ltda. under the purchase agreement.

On September 29, 2010, the Company invested \$7 million for a 30% ownership interest in Mekong Aviation Joint Stock Company, an airline operating in Vietnam (Air Mekong). During 2011, the Company invested an additional \$3 million in Air Mekong. As of June 30, 2012, the Company's investment balance in Air Mekong was \$2.1 million. These investments were recorded as an Other asset on the Company's consolidated balance sheet. The Company accounts for its interest in Trip and Air Mekong using the equity method of accounting. The Company records its equity in Trip's and Air Mekong's earnings on a one-quarter lag. The Company's portion of the losses incurred by Trip and Air Mekong for the six months ended June 30, 2012 was \$5.3 million.

Note I Legal Matters

The Company is subject to certain legal actions which it considers routine to its business activities. As of June 30, 2012, the Company's management believed, after consultation with legal counsel, that the ultimate outcome of such legal matters is not likely to have a material adverse effect on the Company's financial position, liquidity or results of operations. However, the following is a significant outstanding legal matter.

SkyWest Airlines and ExpressJet v. Delta

During the quarter ended December 31, 2007, Delta notified the Company, SkyWest Airlines and Atlantic Southeast, of a dispute under the Delta Connection Agreements executed by Delta with SkyWest Airlines and Atlantic Southeast. The dispute relates to the allocation of liability for certain irregular operation (IROP) expenses paid by SkyWest Airlines and Atlantic Southeast (now ExpressJet) to their passengers and vendors under cert