

SKYWEST INC
Form 10-K/A
February 07, 2003

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**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K/A

Amendment No. 1

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

For the year ended December 31, 2001

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 whether the registrant (1) has filed all documents and reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. **YES X NO**

The aggregate market value of Common Stock held by non-affiliates (based upon the closing sale price of the Common Stock on the NASDAQ National Market System) on February 4, 2003 was approximately \$609,312,000

As of February 4, 2003, there were 57,645,478 shares of Common Stock outstanding.

Documents Incorporated by Reference

Portions of the Registrant's Annual Report to Shareholders for the year ended December 31, 2001, are incorporated by reference in Part I, II, III and IV, as specified.

Portions of the Registrant's Proxy Statement used in connection with the solicitation of proxies voted at the Registrant's 2002 Annual Meeting of Shareholders are incorporated by reference in Part III as specified.

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

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EXPLANATORY NOTE

SkyWest, Inc. (the Company) is filing this Amendment No. 1 to Annual Report on Form 10-K/A for the purpose of restating the Company's consolidated financial statements for the year ended December 31, 2001 and to modify the related disclosures.

The restatements of the Company's financial statements for the year ended December 31, 2001 disclosed in this Amendment No. 1 to Annual Report on Form 10-K/A are described in detail under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations - Restatement of Financial Statements, included herein within Item 7 of Part II, and the Company's consolidated financial statements and related notes, including, without limitation, Note 11, included herein as Item 8 of Part II.

The Company has amended and restated in its entirety each Item of its Annual Report on Form 10-K for the year ended December 31, 2001 that has been affected by these restatements. This Amendment No. 1 to Annual Report on Form 10-K/A amends and restates only those items of the previous filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2001 required to reflect the effects of the restatement of the Company's financial statements for the year ended December 31, 2001 and related disclosures.

The Items of the Company's Annual Report on Form 10-K for the year ended December 31, 2001 which are amended and restated herein are:

Item 1 of Part I

Items 6, 7 and 8 of Part II; and

Item 14 of Part IV

The remaining Items contained within the Company's original Annual Report on Form 10-K for the year ended December 31, 2001, filed with the Securities and Exchange Commission on April 1, 2002, have not been amended. These Items have not been included in this Amendment No. 1 to Annual Report on Form 10-K/A.

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AMENDMENT NO. 1 TO ANNUAL REPORT ON FORM 10-K/A**

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* NI = Not included or amended by this Amendment No. 1 to Annual Report on Form 10-K/A

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PART I

ITEM 1. BUSINESS

General

SkyWest, Inc. (the Company), through its wholly owned subsidiary, SkyWest Airlines, Inc. (SkyWest), operates the largest independent regional airline in the United States. SkyWest offers scheduled passenger and air freight service with nearly 1,000 daily departures to 81 cities in 23 states and Canada. SkyWest has been a code-sharing partner with Delta Air Lines, Inc. (Delta) in Salt Lake City and United Airlines (United) in Los Angeles since 1987 and 1997, respectively. In April 1998, SkyWest expanded its United Express Agreement to provide service as United Express in United's Portland and Seattle/Tacoma markets and in additional Los Angeles markets, which began in April 1998. In January 1998, SkyWest expanded its operations to serve as the United Express carrier in San Francisco, which began in June 1998. Today, SkyWest operates as the Delta Connection in Salt Lake City and Dallas Fort Worth and as United Express in Los Angeles, San Francisco, Denver and in the Pacific Northwest. SkyWest believes that its success in attracting multiple code-sharing relationships is attributable to its delivery of high quality customer service with an all cabin-class fleet. As of February 28, 2002, 69% of SkyWest's capacity operated under the Delta code and 31% operated under the United code. With principal hubs located at Los Angeles, Salt Lake City, San Francisco, Portland, Dallas/Fort Worth and Seattle/Tacoma, SkyWest offers a convenient and frequent flight schedule designed to maximize connecting and origin-destination traffic for its major code-sharing partners. As of December 31, 2001, SkyWest operated a fleet of 82 Embraer EMB-120 Brasilia turboprops (Braslias) and 49 Canadair Regional Jets (CRJs).

Historically, multiple code-sharing relationships have enabled SkyWest to reduce reliance on any single major airline code and to enhance and stabilize operating results through a mix of SkyWest-controlled flying and contract flying. On SkyWest-controlled flights, SkyWest controls scheduling, ticketing, pricing and seat inventories and receives a prorated portion of passenger fares. On contract routes, the major airline partner controls scheduling, ticketing, pricing and seat inventories with SkyWest receiving from its major airline partners negotiated payments per flight departure and incentives related to passenger volumes and levels of customer service. The Company transitioned all of its Delta Connection CRJ flights to contract flying October 1, 2001 and transitioned all of its Delta Connection Brasilia flights to contract flying effective January 1, 2002. This transition resulted in essentially all SkyWest flights operating as contract flying as of January 1, 2002. As of December 31, 2001, the Company had agreements to acquire an additional 96 CRJs with options for an additional 119 aircraft. These aircraft will be allocated between SkyWest's Delta Connection and United Express operations.

Since being founded in 1972 as a Utah corporation, the Company has experienced significant growth. During the past five years, consolidated operating revenues have increased at a compounded annual growth rate of 23.1%, from \$262.1 million in 1997 to \$601.9 million in 2001. Total passengers carried by SkyWest have increased from approximately 2,899,000 to approximately 6,230,000 over the same period and the Company's total assets increased from \$260.9 million at December 31, 1997 to \$831.6 million (restated) at December 31, 2001. In 2001, the Company experienced growth in available seat miles, revenue passenger miles, passengers carried and load factors. The Company generated net income of \$50.5 million (restated) in 2001, \$60.9 million in 2000 and \$53.9 million in 1999. During 1999, the Company sold the operations of Scenic Airlines, Inc. and recorded a loss on the sale of \$0.4 million net of income taxes. The amount has been reflected as discontinued operations in the Company's consolidated financial statements. Additionally, during 2000, the Company sold the operations of National Parks Transportation in order to focus on the core airline business and continued development of its Delta and United relationships. The improvement since fiscal 1997 reflects, among other factors, the addition of United as a code-sharing partner in October 1997.

Joint Marketing and Code Sharing Agreements

Since April 1987, SkyWest has operated as the Delta Connection in certain SkyWest markets pursuant to the terms of a joint marketing and code sharing agreement with Delta. In July 1990, SkyWest and Delta entered into a revised Delta Connection Agreement, modified in April 1997 and May 1999, under which SkyWest coordinates with Delta to facilitate interline connections at the Salt Lake City International Airport. The primary benefit of this affiliation is the use of the Delta designation code (DL) in listing flights in the Official Airline Guide and in the computerized reservation systems used throughout the industry. SkyWest's code sharing arrangement with Delta allocates to SkyWest, on certain flights, a portion of the passenger fare on a formula or other basis, subject to periodic adjustments. This code sharing agreement also provides for negotiated minimum payments per flight departure and incentives related to

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passenger volumes and levels of customer service, on certain flights. SkyWest also participates in cooperative advertising and marketing activities with Delta, including Delta's Frequent Flyer Program, the Delta Meeting Network and Delta Dream Vacations.

The Company believes the arrangement created between SkyWest and Delta is similar to those which exist between other major and regional airlines. The Delta Connection Agreement terminates in June 2010, and is subject to earlier termination in various circumstances, including upon 180 days advance notice by either party for any or no reason. During the year ended December 31, 2001, Delta sold its ownership interest in the Company, which consisted of approximately 6.2 million shares of common stock and represented approximately 11% of the Company's outstanding common stock.

In 2000 and 1997, the Company reached separate ten-year agreements with Delta and United, respectively, to fly certain routes under contract flying arrangements. The Company is compensated on a fee-per-departure basis plus incentive payments based on operational performance. The fee-per-departure and incentive amounts are negotiated on an annual basis based on projected operating costs. The agreements with Delta and United contain certain provisions pursuant to which the parties could terminate the agreement, subject to certain rights of the other party, if certain performance criteria are not maintained.

Markets and Routes

SkyWest's flight schedules are structured to facilitate the connection of its passengers with flights of Delta and United at the airports it serves. The following table shows selected information about the cities served by SkyWest as of March 15, 2002.

State and City	Served Since (1)
Alabama:	
Birmingham	2001
Mobile	2002
Arizona:	
Yuma	1979
Phoenix	2000
California:	
San Diego	1968
Palm Springs	1970
Los Angeles	1977
Imperial	1979
Ontario	1981
Santa Maria	1982
Santa Barbara	1983
Bakersfield	1983
Fresno	1985
Sacramento	1986
San Francisco	1995
San Jose	1986
San Luis Obispo	1986
Orange County	1986
Monterey	1987
Crescent City	1998
Eureka	1998
Redding	1998
Chico	1998
Modesto	1998
Visalia	1998
Inyokern	1998
Oxnard	1998
Carlsbad	1998

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State and City	Served Since (1)
Colorado:	
Grand Junction	1983
Colorado Springs	1995
Denver	2000
Durango	2001
Montrose	2001
Florida:	
Pensacola	2001
Tallahassee	2002
Idaho:	
Pocatello	1980
Idaho Falls	1982
Twin Falls	1983
Boise	1988
Sun Valley	1990
Iowa:	
Des Moines	2001
Kansas:	
Wichita	2001
Minnesota:	
Minneapolis	2000
Missouri:	
Kansas City	2001
Montana:	
West Yellowstone	1986(2)
Helena	1988(2)
Bozeman	1988
Billings	1988
Butte	1988
Missoula	1998
Nebraska:	
Omaha	1998
New Mexico:	
Albuquerque	1995
Nevada:	
Las Vegas	1974
Elko	1982
Reno	1982
North Carolina:	
Greensboro	2001
Oklahoma:	
Oklahoma City	2001
Tulsa	2001
Oregon:	
Eugene	1995
Portland	1995
Redmond	1998
Medford	1998

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State and City	Served Since (1)
South Dakota:	
Rapid City	1994
Tennessee:	
Memphis	2001
Nashville	2002
Texas:	
Austin	2001
Dallas	2001
El Paso	2001
Houston	2001
Utah:	
Cedar City	1972
Salt Lake City	1972
St. George	1972
Washington:	
Pasco	1996
Yakima	1998
Seattle	1998
Spokane	1999
Wyoming:	
Jackson Hole	1986
Casper	1994
Cody	1995
Canada:	
Vancouver B.C	1997
Calgary	1999

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- (1) Refers to the calendar year service was initiated.
 - (2) Service is provided on a seasonal basis.

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Government Regulation

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

SkyWest believes it is operating in compliance with FAA regulations and holds all necessary operating and airworthiness certificates and licenses. The Company incurs substantial costs in maintaining current certifications and otherwise complying with the laws, rules and regulations to which it is subject. SkyWest's flight operations, maintenance programs, record keeping and training programs are conducted under FAA approved procedures. SkyWest does not operate at any airports where landing slots are restricted.

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

Competition and Economic Conditions

The airline industry is highly competitive. The Company not only competes with other regional airlines, some of which are owned by or are operated as code sharing partners of major airlines, but also faces competition from low-fare airlines and major airlines on certain routes. The Company is the dominant regional airline operating out of the Salt Lake City International Airport; however, Southwest Airlines, a national low-fare airline, also operates out of the Salt Lake City International Airport, which results in significant price competition at the Salt Lake City hub. Competition in the Southern California and Pacific Northwest markets, which the Company serves from its hubs in Los Angeles, Seattle/Tacoma and Portland, is particularly intense, with a large number of carriers in these markets. The Company's principal competitor in the Los Angeles International Airport is American Eagle. The Company's principal competitor in the Seattle/Tacoma and Portland markets is Horizon Airlines.

The principal competitive factors in the regional airline industry are fare pricing, customer service, routes served, flight schedules, aircraft types and code-sharing relationships. Certain of the Company's competitors are larger and have significantly greater financial resources than the Company. Moreover, federal deregulation of the industry allows competitors to rapidly enter markets and to quickly discount and restructure fares. The airline industry is particularly susceptible to price discounting because airlines incur only nominal costs to provide service to passengers occupying otherwise unsold seats.

Generally, the airline industry is highly sensitive to general economic conditions, in large part due to the discretionary nature of a substantial percentage of both business and pleasure travel. In the past, many airlines have reported decreased earnings or substantial losses resulting from periods of economic recession, heavy fare discounting and other factors. Economic downturns combined with competitive pressures have contributed to a number of bankruptcies and liquidations among major and regional carriers. The effect of economic downturns is somewhat mitigated by the Company's fixed-fee arrangements with respect to certain flights. Nonetheless, the per passenger component in such fee structures would be affected by an economic downturn. In addition, if the Company's major airline code-sharing partners experience longer-term declines in passenger loads or are injured by low ticket prices, high fuel prices or other factors, they will likely seek to reduce the Company's fixed fees or cancel a number of flights in order to reduce their costs.

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Employees

As of March 15, 2002, the Company employed 4,509 full-time equivalent employees consisting of 1,750 pilots and flight attendants, 1,841 customer service personnel, 637 mechanics and other maintenance personnel, and 281 administration and support personnel. The Company's employees are not currently represented by any union. The Company is aware, however, that collective bargaining group organization efforts among its employees occur from time to time and management anticipates that such efforts will continue in the future. During August 1999, the question of whether or not to join the Airline Pilots Association (ALPA) was submitted to the Company's pilots, who voted against joining ALPA by a narrow margin. Under governing rules, the Company's pilots may again vote on this issue at any time because one year has passed since the previous vote. If unionization efforts are successful, the Company may be subjected to risks of work interruption or stoppage and/or incur additional expenses associated with union representation of its employees. In connection with the Company's proposed acquisition of an additional 96 CRJs and related expansion, the Company anticipates hiring approximately 2,500 additional employees, many of whom may be represented by a union in their current employment. The Company has never experienced any work stoppages and considers its relationships with its employees to be good.

Seasonality

As is common in the airline industry, SkyWest's operations are favorably affected by increased travel, historically occurring in the summer months, and are unfavorably affected by decreased business travel during the months from November through January and by inclement weather which occasionally results in cancelled flights, principally during the winter months. However, SkyWest does expect some mitigation of the historical seasonal trends due to the transition from some at risk flying to essentially all contract flying effective January 1, 2002.

Forward-Looking Statements

This Annual Report on Form 10-K contains various forward-looking statements and information that are based on management's beliefs, as well as assumptions made by and information currently available to management. When used in this document, the words believe, anticipate, estimate, project, expect, and similar expressions are intended to identify forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, projected or expected. Among the key factors that may have a direct bearing on the Company's operating results include, among other things, changes in SkyWest's code-sharing relationships, fluctuations in the economy and the demand for air travel, the degree and nature of competition and SkyWest's ability to expand services in new and existing markets and to maintain profit margins in the face of pricing pressures.

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The following selected financial and operating data of the Company should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Company's audited consolidated financial statements and related notes. The information required by this item was originally incorporated by reference to page 13 of the Company's Annual Report to Shareholders for the year ended December 31, 2001 and furnished to the Securities and Exchange Commission (the Commission) as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the Year Ended December 31, 2001. The Company's consolidated financial statements as of and for the year ended December 31, 2001, and quarterly results of operations for the quarters ended September 30, 2001 and December 31, 2001 have been restated. For a further discussion of the restatement, see Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement of Financial Statements, included herein within Item 7 of Part II, and the Company's audited consolidated financial statements and related notes, including, without limitation, Note 11, included herein as Item 8 of Part II.

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(Restated)				
Consolidated Financial Data:					
Operating revenues (000)	\$ 601,865	\$ 522,997	\$ 455,122	\$ 352,470	\$ 262,134
Operating income (000)	65,564	89,047	82,819	55,658	27,348
Net income (000)	50,516	60,874	53,858	35,787	18,385
Net income per common share(1):					
Basic	\$ 0.90	\$ 1.18	\$ 1.10	\$ 0.74	\$ 0.45
Diluted	0.88	1.16	1.08	0.73	0.45
Weighted average shares (000)(1):					
Basic	56,365	51,521	48,964	48,316	40,716
Diluted	57,237	52,644	49,778	49,072	41,188
Total assets (000)	\$ 831,566	\$ 676,412	\$ 459,481	\$ 388,284	\$ 260,933
Current assets (000)	386,556	361,602	240,160	206,925	116,389
Current liabilities (000)	115,738	81,935	79,684	66,657	47,659
Long-term debt, net of current maturities (000)	113,688	75,751	53,873	56,817	51,248
Stockholders' equity (000)	545,840	484,953	298,526	243,311	142,541
Return on average equity (unaudited)	9.8%	16.1%	19.9%	17.0%	14.0%
Operating Data (unaudited):					
Passengers carried	6,229,867	5,598,499	5,446,872	4,422,328	2,898,972
Revenue passenger miles (000)	1,732,180	1,277,001	1,161,918	938,172	744,716
Available seat miles (000)	2,837,278	2,256,635	2,100,062	1,712,333	1,472,721
Load factor	61.1%	56.6%	55.3%	54.8%	50.6%
Break-even load factor	54.4%	47.2%	45.6%	46.5%	45.7%
Yield per revenue passenger mile	34.41¢	40.42¢	38.46¢	36.85¢	34.27¢
Revenue per available seat mile	21.21¢	23.18¢	21.67¢	21.20¢	17.84¢
Cost per available seat mile	18.90¢	19.23¢	17.71¢	17.70¢	15.90¢
Average passenger trip length	278	228	213	212	257
Number of aircraft at end of year	131	107	102	60	60

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QUARTERLY FINANCIAL AND STOCK PRICE DATA
(Unaudited)

	Year ended December 31, 2001				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
			(Restated)	(Restated)	(Restated)
Operating revenues (000)	\$ 131,194	\$ 149,664	\$ 155,540	\$ 165,467	\$ 601,865
Operating income (000)	11,232	24,986	10,925	18,421	65,564
Net income (000)	10,193	17,673	8,878	13,772	50,516
Net income per common share:					
Basic	\$ 0.18	\$ 0.32	\$ 0.16	\$ 0.24	\$ 0.90
Diluted	0.18	0.31	0.15	0.24	0.88
Stock price data (unaudited): High	\$ 28.81	\$ 30.49	\$ 33.94	\$ 26.50	\$ 33.94
Low	17.75	20.56	11.25	17.17	11.25

	Year ended December 31, 2000				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues (000)	\$ 123,098				