

SKYWEST INC
Form 10-Q
August 07, 2013
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _____ to _____

Commission file 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 ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

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 2, 2013
Common stock, no par value	52,026,668

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SKYWEST, INC.

QUARTERLY REPORT ON FORM 10-Q

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(Dollars in Thousands)

ASSETS

	June 30, 2013 (unaudited)	December 31, 2012
CURRENT ASSETS:		
Cash and cash equivalents	\$ 140,546	\$ 133,772
Marketable securities	505,516	556,117
Restricted cash	19,559	19,553
Receivables, net	86,892	130,102
Inventories, net	129,206	113,581
Prepaid aircraft rents	362,990	325,999
Deferred tax assets	168,033	124,320
Other current assets	23,350	30,596
Total current assets	1,436,092	1,434,040
PROPERTY AND EQUIPMENT:		
Aircraft and rotatable spares	4,029,501	3,997,926
Deposits on aircraft	24,200	
Buildings and ground equipment	275,477	274,085
	4,329,178	4,272,011
Less accumulated depreciation and amortization	(1,651,377)	(1,561,015)
Total property and equipment, net	2,677,801	2,710,996
OTHER ASSETS		
Intangible assets, net	16,123	17,248
Other assets	110,054	92,353
Total other assets	126,177	109,601
Total assets	\$ 4,240,070	\$ 4,254,637

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, 2013 (unaudited)	December 31, 2012
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 173,201	\$ 171,454
Accounts payable	217,647	222,671
Accrued salaries, wages and benefits	125,738	121,352
Accrued aircraft rents	11,587	12,745
Taxes other than income taxes	19,166	22,353
Income tax payable	1,480	1,255
Other current liabilities	37,133	39,595
Total current liabilities	585,952	591,425
OTHER LONG-TERM LIABILITIES	59,132	57,422
LONG-TERM DEBT, net of current maturities	1,382,849	1,470,568
DEFERRED INCOME TAXES PAYABLE	715,285	657,620
DEFERRED AIRCRAFT CREDITS	85,629	90,427
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, 5,000,000 shares authorized; none issued		
Common stock, no par value, 120,000,000 shares authorized; 77,178,934 and 76,713,154 shares issued, respectively	614,703	609,763
Retained earnings	1,166,921	1,147,117
Treasury stock, at cost, 25,295,636 and 25,280,364 shares, respectively	(371,407)	(371,211)
Accumulated other comprehensive income	1,006	1,506
Total stockholders' equity	1,411,223	1,387,175
Total liabilities and stockholders' equity	\$ 4,240,070	\$ 4,254,637

See accompanying notes to condensed consolidated financial statements.

Table of Contents**SKYWEST, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

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

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
OPERATING REVENUES:				
Passenger	\$ 826,122	\$ 920,633	\$ 1,611,993	\$ 1,822,989
Ground handling and other	13,008	16,581	30,624	35,399
Total operating revenues	839,130	937,214	1,642,617	1,858,388
OPERATING EXPENSES:				
Salaries, wages and benefits	300,342	290,676	597,738	581,490
Aircraft maintenance, materials and repairs	171,528	167,150	338,684	346,786
Aircraft rentals	81,814	83,944	164,402	168,846
Depreciation and amortization	61,174	64,182	122,174	128,497
Aircraft fuel	46,802	153,544	96,483	300,994
Station rentals and landing fees	36,998	44,254	71,086	88,187
Ground handling services	33,117	29,615	67,694	64,930
Other	56,800	57,043	118,238	111,395
Total operating expenses	788,575	890,408	1,576,499	1,791,125
OPERATING INCOME	50,555	46,806	66,118	67,263
OTHER INCOME (EXPENSE):				
Interest income	870	2,043	2,597	3,996
Interest expense	(17,526)	(19,387)	(35,491)	(39,167)
Other, net	(187)	(815)	5,852	(4,667)
Total other expense, net	(16,843)	(18,159)	(27,042)	(39,838)
INCOME BEFORE INCOME TAXES	33,712	28,647	39,076	27,425
PROVISION FOR INCOME TAXES	12,992	11,687	15,121	11,147
NET INCOME	\$ 20,720	\$ 16,960	\$ 23,955	\$ 16,278
BASIC EARNINGS PER SHARE				
\$ 0.40	\$ 0.33	\$ 0.46	\$ 0.32	
DILUTED EARNINGS PER SHARE				
\$ 0.39	\$ 0.33	\$ 0.46	\$ 0.32	
Weighted average common shares:				
Basic	51,881	50,944	51,822	50,912
Diluted	52,547	51,789	52,522	51,335
Dividends declared per share				
\$ 0.04	\$ 0.04	\$ 0.08	\$ 0.08	
COMPREHENSIVE INCOME:				
Net income	\$ 20,720	\$ 16,960	\$ 23,955	\$ 16,278
Proportionate share of other companies foreign currency translation adjustment, net of taxes		141		448
Net unrealized appreciation (depreciation) on marketable securities, net of taxes	(563)	35	(499)	111
TOTAL COMPREHENSIVE INCOME	\$ 20,157	\$ 17,136	\$ 23,456	\$ 16,837

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	
	2013	2012
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 129,277	\$ 109,347
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(294,649)	(222,616)
Sales of marketable securities	344,682	219,362
Proceeds from the sale of equipment	102	630
Acquisition of property and equipment:		
Aircraft and rotatable spare parts	(44,469)	(27,555)
Deposits on aircraft	(24,200)	
Buildings and ground equipment	(4,442)	(3,252)
Increase in other assets	(11,719)	(9,397)
NET CASH USED IN INVESTING ACTIVITIES	(34,695)	(42,828)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(85,971)	(84,598)
Tax benefit (deficiency) from exercise of common stock options	(175)	73
Net proceeds from issuance of common stock	2,666	2,161
Purchase of treasury stock	(196)	(897)
Payment of cash dividends	(4,132)	(4,070)
NET CASH USED IN FINANCING ACTIVITIES	(87,808)	(87,331)
Increase (decrease) in cash and cash equivalents	6,774	(20,812)
Cash and cash equivalents at beginning of period	133,772	129,526
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 140,546	\$ 108,714
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid (received) during the year for:		
Interest, net of capitalized amounts	\$ 36,633	\$ 39,261
Income taxes	\$ 880	\$ (1,477)

See accompanying notes to condensed consolidated financial statements.

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SKYWEST, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note A 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, 2012. The results of operations for the three and six-months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

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, the Company's subsidiary, ExpressJet Airlines, Inc., a Delaware corporation, was merged into the Company's subsidiary, Atlantic Southeast Airlines, Inc., a Utah corporation, with the surviving corporation named ExpressJet Airlines, Inc. (the ExpressJet Combination). In these notes to condensed consolidated financial statements, 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 combination of Atlantic Southeast and ExpressJet Delaware, for periods subsequent to the consummation of the ExpressJet Combination.

Recent Accounting Standards

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

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Recently issued accounting guidance revises the reporting of items reclassified out of accumulated other comprehensive income and is effective for fiscal years beginning after December 15, 2012. We adopted this guidance in the quarter ended March 31, 2013, and have determined that the balance and the activity during the period in accumulated other comprehensive income was not material.

Note B Passenger and Ground Handling Revenues

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 Group, Inc. (US Airways), American Airlines, Inc. (American) 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. 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 and pro-rate agreements.

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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 continuing each fifth year thereafter. In addition to its 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.

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.

During 2012, the Company reached an agreement with Delta to add 34 additional used dual-class Bombardier regional jet aircraft that were previously operated for Delta by other regional carriers in exchange for the early termination of 66 Bombardier CRJ200 regional jet aircraft (CRJ200s) under the SkyWest Airlines and ExpressJet Delta Connection Agreements. The 34 additional dual-class aircraft are subleased from Delta for a nominal amount. The 34 additional dual-class aircraft consist of 29 Bombardier CRJ900 regional jet aircraft (CRJ900s) and five Bombardier CRJ700 regional jet aircraft (CRJ700s). As of June 30, 2013, the Company had taken delivery of 29 CRJ900s and five CRJ700s. The Company anticipates that all 66 CRJ200 aircraft will be removed from service under the Delta Connection Agreements by December 31, 2015. Of the 66 CRJ200s to be removed from service, 41 CRJ200s are subleased from Delta for a nominal amount, and are scheduled to be returned to Delta without obligation to the Company.

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 H 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

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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 May 16, 2013, SkyWest Airlines and United entered into a United Express Agreement to operate 40 new Embraer E175 dual-class regional jet aircraft. Under the agreement, it is anticipated that the 40 aircraft will be introduced into service in the second quarter of 2014, with deliveries continuing to mid-2015. The United Express Agreement has a 12-year term for each of the aircraft subject to the agreement, and other terms which are generally consistent with the SkyWest Airlines United Express Agreement.

On February 1, 2010, Atlantic Southeast and United entered into a United Express Agreement, pursuant to which ExpressJet, as successor to Atlantic Southeast, operates 14 Bombardier CRJ200s as a United Express carrier. The ExpressJet United Express Agreement is a capacity purchase agreement with a five-year term for each of the aircraft subject to the agreement, and other terms which are generally consistent with the SkyWest Airlines United Express Agreement.

On December 1, 2009, ExpressJet Delaware and United 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 the 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.

United Capacity Purchase Agreement

Effective November 12, 2010, ExpressJet Delaware entered into a Capacity Purchase Agreement with Continental, to which United became a party pursuant to its merger with Continental in 2010 (the "United CPA"). Pursuant to the United CPA, ExpressJet Delaware agreed to provide regional airline service in the Continental (now United) flight system. Under the terms of the United CPA, to which ExpressJet succeeded as a party through the ExpressJet Combination, ExpressJet operates 229 aircraft in the United flight system and United 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 United CPA. Additionally, ExpressJet may earn incentive compensation upon achievement of certain operating performance criteria, but is subject to financial penalties if it fails to achieve minimum operating performance criteria. At the end of each month, the Company calculates the incentives achieved during the month under the United 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, but is subject to financial penalties if it fails to achieve minimum 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 from the US Airways Express Agreement and recognizes revenue accordingly.

American Agreement

In September 2012, SkyWest Airlines and ExpressJet each entered into a Capacity Purchase Agreement with American (collectively, the American Agreements), which sets forth the terms and conditions governing the American Eagle operations conducted by SkyWest Airlines and ExpressJet, respectively. SkyWest Airlines placed 12 CRJ200s into service for American on November 14, 2012, and ExpressJet placed 11 CRJ200s into service for American on February 14, 2013. The aircraft flown under the American Agreements have been removed from flying contracts SkyWest Airlines and ExpressJet had with another major partner. The term of each American Agreement is four years. The American Agreements provide for SkyWest Airlines and ExpressJet to be compensated primarily on a fee-per-completed-block hour and departure basis and to be reimbursed for fuel and other costs. The American Agreements also provide for SkyWest Airlines and ExpressJet to receive incentive compensation upon each airline's

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achievement of certain performance criteria, but also impose financial penalties if the airline fails to achieve minimum performance criteria. The incentives are defined in the American Agreements as being measured and determined on a quarterly basis. At the end of each quarter, the Company calculates the incentives achieved during the quarter from the American Agreements 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 its major partners, 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. Other revenue primarily consists of revenue attributed to ground handling services the Company provides for other airlines.

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, 2013, the Company granted options to purchase 173,558 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 stock option grants during the six months ended June 30, 2013.

Expected annual dividend rate	1.21%
Risk-free interest rate	0.92%
Average expected life (years)	6.0
Expected volatility of common stock	0.446
Forfeiture rate	0.00%
Weighted average fair value of option grants	\$ 5.04

During the six months ended June 30, 2013, the Company granted 284,026 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, 2013, the Company granted 27,492 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 \$13.24 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, 2013 and 2012, the Company recorded pre-tax share-based compensation expense of \$1.1 million and \$1.1 million, respectively. During the six months ended June 30, 2013 and 2012, the Company recorded pre-tax share-based compensation expense of \$2.4 million and \$2.4 million, respectively.

Note D Net Income Per Common Share

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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 months ended June 30, 2013 and 2012, options to acquire 3,298,000 and 3,952,000 shares, respectively, were excluded from the computation of Diluted EPS as their impact was anti-dilutive. During the six months ended June 30, 2013 and 2012, options to acquire 3,368,000 and 3,971,000 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, 2013		2012		Six Months Ended June 30, 2013		2012	
	(Unaudited)				(Unaudited)			
Numerator								
Net Income	\$	20,720	\$	16,960	\$	23,955	\$	16,278
Denominator								
Weighted average number of common shares outstanding		51,881		50,944		51,822		50,912
Effect of outstanding share-based awards		666		845		700		423
Weighted average number of shares for diluted net income per common share		52,547		51,789		52,522		51,335
Basic earnings per share	\$	0.40	\$	0.33	\$	0.46	\$	0.32
Diluted earnings per share	\$	0.39	\$	0.33	\$	0.46	\$	0.32

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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 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. The following represents the Company's segment data for the three-month periods ended June 30, 2013 and 2012 (in thousands).

	Three months ended June 30, 2013			
	SkyWest Airlines	ExpressJet	Other	Consolidated
Operating revenues	463,068	375,588	474	839,130
Operating expense	411,917	374,431	2,227	788,575
Depreciation and amortization expense	38,839	22,335		61,174
Interest expense	11,227	5,362	937	17,526
Segment profit (loss)(1)	39,924	(4,205)	(2,690)	33,029
Identifiable intangible assets, other than goodwill				