

# SKYW

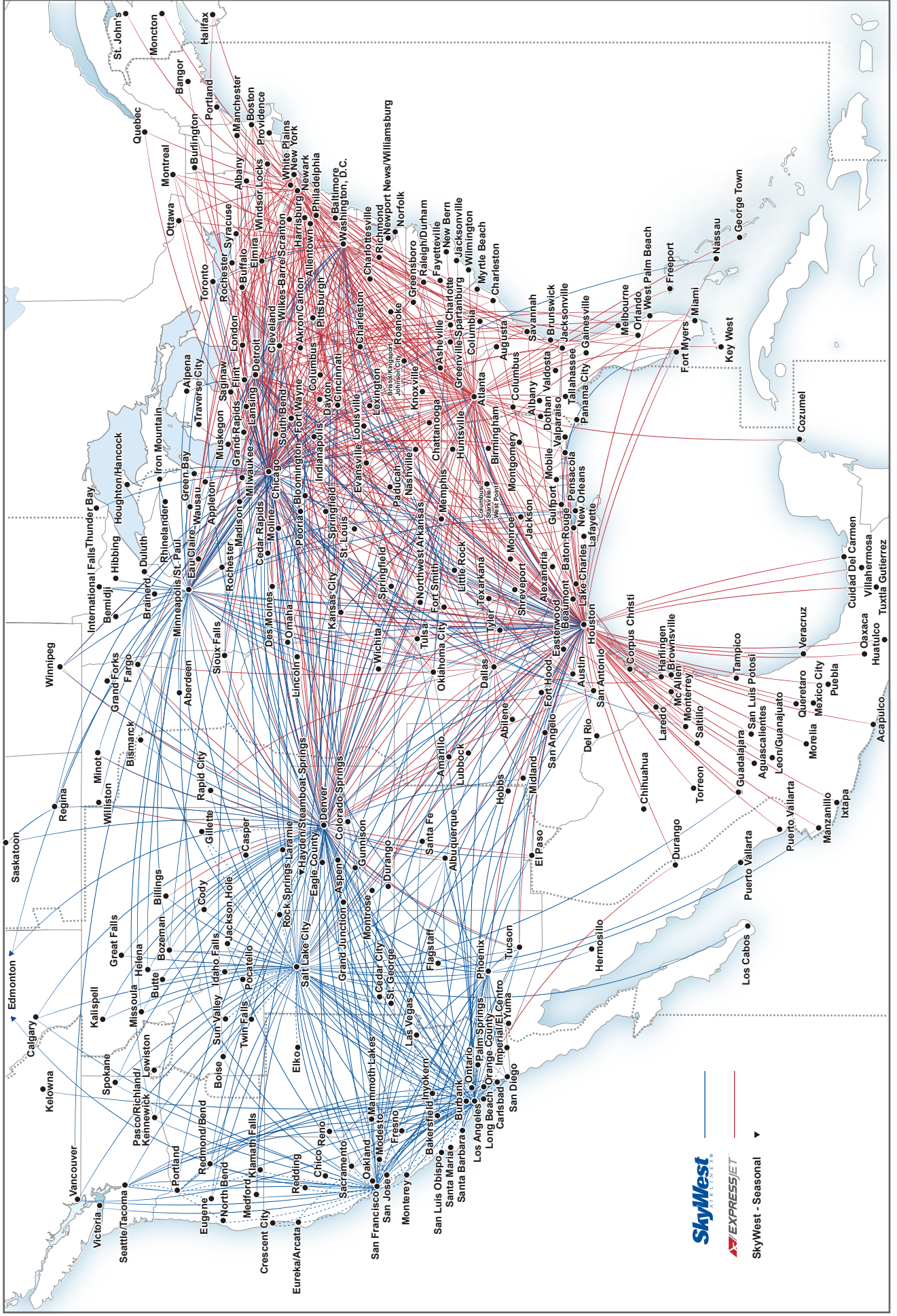
2012  
ANNUAL REPORT



NOTICE OF 2013 ANNUAL MEETING AND PROXY STATEMENT

**SKYW** SKYWEST, INC.

CURRENT COMBINED ROUTE SYSTEM



**SkyWest**  
AIRLINES®

**EXPRESSJET**

SkyWest - Seasonal

To our Shareholders:

We are pleased to report that 2012 was a significant “turn-around” year for our company. We significantly improved both our financial and operating results from the net loss we experienced during 2011. We implemented a return to profitability plan during 2012 and, as a result, we generated pretax income of approximately \$86 million which represented a \$136 million improvement from the results for 2011. We also reported net income of approximately \$51 million or \$0.99 per diluted share that resulted in an improvement of \$1.51 per diluted share compared to the loss per diluted share of \$(0.52) for 2011.

### **Accomplishments in 2012**

During 2012, we responded positively to a specific need of Delta Air Lines (“Delta”), one of our major partners. Specifically, we entered into an agreement to operate 34 additional dual-class aircraft for Delta, consisting primarily of CRJ900’s (29) and CRJ700’s (5) of which 20 total aircraft were delivered by the end of 2012. The remaining 14 CRJ900 aircraft are currently expected to be delivered by May of 2013. In conjunction with this arrangement, we agreed to remove 66 CRJ200 regional jet aircraft from our Delta operations beginning in September 2013 which will require early removal from our long-term contract with Delta. This agreement demonstrated our ability to react positively in behalf of our major partner and created a solution that was beneficial to both parties.

As a result of agreeing to early removal of CRJ200 regional jet aircraft from our Delta long-term contract, we were able to capitalize on the opportunity to create another major partner relationship with American Airlines, Inc. (“American”). During 2012 we reached agreement with American to provide and fly a total of 23 CRJ200 regional jet aircraft operating as American Eagle. We inducted 12 of these aircraft into operations at Los Angeles, CA in November 2012. The remaining 11 aircraft were inducted into operations on February 14, 2013, at Dallas, TX. The aircraft operating from Los Angeles are flown by SkyWest Airlines while the aircraft operating from Dallas are flown by ExpressJet Airlines. Using both of these operating airline platforms greatly increases our ability to offer meaningful solutions to major US partners.

We also expanded our contract with United/Continental by adding seven ERJ135 aircraft under a short-term arrangement to assist United/Continental with additional capacity needs during 2012. These aircraft are flown by ExpressJet Airlines.

### **Challenges in 2012**

The acquisition of ExpressJet Holdings, Inc. (“ExpressJet”) in November 2010, has been challenging and has not met our financial return targets. At the time of the acquisition we identified approximately \$65 million in anticipated integration benefits and cost reductions and we have realized approximately \$30 million of these benefits and cost reductions shortly after acquisition. The remaining anticipated benefits of approximately \$35 million are largely contingent upon finalizing collective bargaining agreements. We continue to remain focused on achieving overall competitive costs and competitive collective bargaining agreements and believe that although we are optimistic about the future performance of ExpressJet Airlines (formerly ExpressJet and Atlantic Southeast Airlines), our ability to achieve our expected financial returns is dependent on our success at reducing and managing an overall cost structure at industry competitive levels.

During 2012 we were on the downward slope of a three-year overhaul cycle program for our United CRJ200 regional jet fleet and incurred total overhaul costs of approximately \$55 million, down from the \$77 million we spent during 2011. As a result of this overhaul cycle, our gross overhaul costs have exceeded the amounts we have been reimbursed by United. We anticipate that during 2013 we will spend approximately \$45 million in gross overhaul costs, approximately \$2 million more than reimbursements from our major partners; however, we further anticipate that 2013 will be the last year in this overhaul cycle where gross overhaul costs will exceed amounts reimbursed by our major partners.

### **Financial Results and Strength**

Under certain of our flying contracts, fuel we purchased for our flights was directly reimbursed by our major partners and, for financial reporting purposes, was included in our operating revenues. The majority of fuel utilized under those flying contracts is now purchased directly by our major partners and as a result we experienced a reduction of approximately \$163 million in reported operating revenues and operating expenses related directly to fuel purchases by our major partners under our contract flying for the year ended December 31, 2012, compared to 2011. We anticipate similar reductions in our operating revenues

and operating expenses for the six-month period ending June 30, 2013 as a result of our major partner's direct fuel purchases during that period. At that point, we anticipate that our major partners will be directly purchasing fuel for our entire contract flying operations.

After excluding certain reimbursable costs under our contract flying arrangements, such as fuel and certain engine overhaul expenses, we were able to increase our total operating revenues by approximately \$79 million as a result of experiencing increases in block hour production by 2.1% or approximately 47,000 hours as well as increased performance incentive payments based on improved operational performance such as completion of flights and timeliness of flights. We also received normal expected contract rate escalations. In addition, after excluding reimbursable costs such as fuel and certain engine overhaul expenses from total operating expenses, we were able to reduce our total operating costs by approximately \$70 million in spite of increased block hour production. These efforts helped to increase our operating margin 3.6 percentage points to 4.7 percent for the year ended December 31, 2012 compared to 2011. Further, we produced net income of approximately \$51 million for the year ended December 31, 2012 compared to a net loss of approximately (\$27) million for 2011.

We ended 2012 with approximately \$709 million in cash and marketable securities which was an increase of approximately \$62 million compared to our position at December 31, 2011 of approximately \$647 million. Our long-term debt decreased by approximately \$136 million as a result of normal recurring debt payments and our net debt position (i.e. total debt less cash and marketable securities) decreased approximately \$236 million or a reduction of 20.2 percent. As a result of the strength of our balance sheet and our liquidity position, we believe we are well-positioned to finance future growth and short-term fleet replacement plans.

#### **Aircraft Fleet**

At December 31, 2012, our fleet consisted of 744 total aircraft. This compares to 732 total aircraft as of December 31, 2011. The net increase of 12 aircraft resulted primarily from net additions in our large dual-class regional jet fleet and the receipt of these aircraft under our Delta agreement during 2012. Of the 744 total aircraft, our fleet consisted primarily of regional jets (702) and we anticipate reductions over the next several years of our 50-seat regional jet capacity in favor of larger 76-seat regional jet capacity as this aligns more closely with the "scope clause" requirements of the collective bargaining agreements of our major partners.

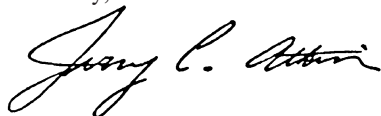
#### **Forward Thinking**

We believe our overall strategic positioning has value based on our size and breadth of operations, our experienced and talented people and financial resources that are unmatched in our regional market.

We are very pleased to report the progress made during 2012, both financially and operationally and believe we are moving towards achieving our objectives with regards to our improved profitability plan. By returning to profitability and improving our overall financial condition we have again placed ourselves as leaders in this industry and positioned ourselves to be selected as a carrier of choice by US majors who have regional aircraft needs. Our two airline operating platforms allow us to offer scale and we can fulfill needs of multiple parties. We also have the financial resources to finance growth as needed and due to our current liquidity and balance sheet position can offer immediate solutions to major partners.

We continue to rely on our 20,000 employees and their ability to offer unmatched quality and service to our passengers and our partners. We are grateful for their significant contributions to the success of our company.

Sincerely,



Jerry C. Atkin  
Chairman and Chief Executive Officer



Bradford R. Rich  
President

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 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 No. 0-14719

**SKYWEST, INC.**

Incorporated under the Laws of Utah

87-0292166

(IRS Employer ID No.)

444 South River Road  
St. George, Utah 84790  
(435) 634-3000

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

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

**Common Stock, No Par Value**

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates (based upon the closing sale price of the registrant's common stock on The Nasdaq National Market) on June 29, 2012 was approximately \$320,824,359.

As of February 8, 2013, there were 51,805,588 shares of the registrant's common stock outstanding.

**Documents Incorporated by Reference**

Portions of the registrant's proxy statement to be used in connection with the Registrant's 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report as specified.

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**SKYWEST, INC.**  
**ANNUAL REPORT ON FORM 10-K**

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## PART I

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

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

### **Cautionary Statement Concerning Forward-Looking Statements**

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

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

## **ITEM 1. BUSINESS**

### **General**

Through SkyWest Airlines and ExpressJet, we offer scheduled passenger service with approximately 4,000 daily departures to destinations in the United States, Canada, Mexico and the Caribbean. Substantially all of our flights are operated as Delta Connection, United Express, US Airways Express, American Eagle or Alaska under code-share arrangements with Delta, United Air Lines, Inc. (“United”) US Airways Group, Inc. (“US Airways”), American Airlines, Inc. (“American”) and Alaska Airlines (“Alaska”). SkyWest Airlines and ExpressJet generally provide regional flying to our partners under long-term, fixed-fee code-share agreements. Among other features of our fixed-fee agreements, our partners generally reimburse us for specified direct operating expenses (including fuel expense, which is passed through to our partners), and pay us a fee for operating the aircraft.

On December 31, 2011, Atlantic Southeast and ExpressJet Delaware completed the ExpressJet Combination. Since November 17, 2011, the operations formerly conducted by Atlantic Southeast and ExpressJet Delaware have been conducted under a single operating certificate issued by the U.S.

Federal Aviation Administration (the “FAA”). We currently anticipate that we will complete the full integration of the operations of Atlantic Southeast and ExpressJet Delaware into ExpressJet during 2013 and 2014.

SkyWest Airlines and ExpressJet have developed industry-leading reputations for providing quality regional airline service during their long operating histories. SkyWest Airlines has been flying since 1972 and ExpressJet (and its predecessors) since 1979. As of December 31, 2012, our consolidated fleet consisted of a total of 744 aircraft, of which 445 were assigned to United, 261 were assigned to Delta, 15 were assigned to US Airways, 12 were assigned to American, five were assigned to Alaska, four were subleased to affiliated entities and two were subleased to unaffiliated entities. We currently operate two types of regional jet aircraft: the Bombardier Aerospace (“Bombardier”) regional jet, which comes in three different configurations (the 50-seat Bombardier CRJ200 Regional Jet (the “CRJ200”), the 70-seat Bombardier CRJ700 Regional Jet (the “CRJ700”) and the 70-90-seat Bombardier CRJ900 Regional Jet (the “CRJ900”)), and the Embraer S.A. (“Embraer”) regional jet, which we operate in two different configurations the 50-seat Embraer ERJ-145 regional jet (“ERJ145”) and the 37-seat Embraer ERJ-135 regional jet (“ERJ135”). We also operate the 30-seat Embraer Brasilia EMB-120 turboprop (the “Brasilia turboprop”).

We were incorporated in Utah in 1972. Our principal executive offices are located at 444 South River Road, St. George, Utah 84790, and our primary telephone number is (435) 634-3000. We maintain an Internet web site at [www.skywest.com](http://www.skywest.com). Our website provides a link to the web site of the SEC, through which our annual, quarterly and current reports, as well as amendments to those reports, are available. In addition, we provide electronic or paper copies of our SEC filings free of charge upon request.

## **Our Operating Platforms**

### *SkyWest Airlines*

SkyWest Airlines provides regional jet and turboprop service to airports primarily located in the midwestern and western United States. SkyWest Airlines offered approximately 1,750 daily scheduled departures as of December 31, 2012, of which approximately 1,050 were United Express flights, 500 were Delta Connection flights, 90 were US Airways Express flights, 85 were American Eagle flights and 25 were Alaska-coded flights. SkyWest Airlines’ operations are conducted principally from airports located in Chicago (O’Hare), Denver, Los Angeles, Houston, Minneapolis, Portland, Seattle, Phoenix, San Francisco and Salt Lake City. SkyWest Airlines’ fleet as of December 31, 2012 consisted of 28 CRJ900s, all of which were flown for Delta; 94 CRJ700s, of which 70 were flown for United, 19 were flown for Delta and five were flown for Alaska; 159 CRJ200s, of which 78 were flown for United, 54 were flown for Delta, 15 were flown for US Airways and 12 were flown for American; and 42 Brasilia turboprops, of which 34 were flown for United and eight were flown for Delta.

SkyWest Airlines currently conducts Delta Connection operations pursuant to the terms of an Amended and Restated Delta Connection Agreement, pursuant to which SkyWest Airlines is paid primarily on a fee-per-completed block hour and departure basis, plus a payment based on block hours flown (the “SkyWest Airlines Delta Connection Agreement”). SkyWest Airlines’ United code-share operations are conducted under a United Express Agreement, pursuant to which SkyWest Airlines is paid primarily on a fee-per-completed block hour and departure basis, plus a margin based on performance incentives (the “SkyWest Airlines United Express Agreement”). SkyWest Airlines currently conducts its Alaska and US Airways operations pursuant to the terms of code-share agreements with Alaska and US Airways, respectively, pursuant to which SkyWest Airlines is paid primarily on a fee-per-completed block hour and departure basis, plus a fixed margin per aircraft each month, and an incentive or penalty based on performance incentives. During 2012, SkyWest Airlines entered into a code-share agreement with American (the “SkyWest Airlines American Agreement”),



pursuant to which SkyWest Airlines currently operates as American Eagle on designated routes, and is paid primarily on a fee-per-completed block hour and departure basis, plus a fixed margin per aircraft each month and an incentive or penalty based on performance incentives.

### *ExpressJet*

ExpressJet provides regional jet service principally in the United States, primarily from airports located in Atlanta, Cleveland, Chicago (O'Hare), Denver, Houston, Detroit, Memphis, Newark, Minneapolis and Washington Dulles. ExpressJet offered more than 2,125 daily scheduled departures as of December 31, 2012, of which approximately 750 were Delta Connection flights and 1,375 were United Express flights. As of December 31, 2012, the ExpressJet fleet consisted of 18 CRJ900s (all of which were flown for Delta), 41 CRJ700s (all of which were flown for Delta), 107 CRJ200s (93 of which were flown for Delta and 14 of which were flown for United), 242 ERJ145s, (all of which were flown for United) and seven ERJ135s(all of which were flown for United).

ExpressJet currently conducts Delta Connection operations pursuant to the terms of a Second Amended and Restated Delta Connection Agreement initially executed between Delta and Atlantic Southeast and to which ExpressJet is now a party (the "ExpressJet Delta Connection Agreement"). Under the ExpressJet Delta Connection Agreement, ExpressJet is paid primarily on a fee-per-completed block hour and departure basis, plus, if ExpressJet completes a certain minimum percentage of its Delta Connection flights, a specified margin on such costs. Additionally, the ExpressJet Delta Connection Agreement provides for incentive compensation upon satisfaction of certain performance goals. ExpressJet's United code-share operations are conducted under a Capacity Purchase Agreement initially executed by ExpressJet and Continental Airlines, Inc. ("Continental") and to which United became a party through its merger with Continental (the "United CPA") and two United Express Agreements between ExpressJet and United (collectively, the "ExpressJet United Express Agreements"). Under the ExpressJet United Express Agreements and the United CPA ExpressJet is paid by United, primarily on a fee-per-completed block hour and departure basis, plus a margin based on performance incentives. During 2012, ExpressJet entered into a code-share agreement with American, pursuant to which ExpressJet is paid primarily on a fee-per-completed block hour and departure basis, plus a fixed margin per aircraft each month and an incentive or penalty based on performance incentives. ExpressJet is scheduled to begin operations with American during February 2013.

### **Competition and Economic Conditions**

The airline industry is highly competitive. SkyWest Airlines and ExpressJet compete principally with other code-sharing regional airlines, but also with regional airlines operating without code-share agreements, as well as low-cost carriers and major airlines. The combined operations of SkyWest Airlines and ExpressJet extend throughout most major geographic markets in the United States. Our competition includes, therefore, nearly every other domestic regional airline, and to a certain extent, most major and low-cost domestic carriers. The primary competitors of SkyWest Airlines and ExpressJet among regional airlines with code-share arrangements include Air Wisconsin Airlines Corporation ("Air Wisconsin"), American Eagle Airlines, Inc. ("American Eagle") (owned by American), Compass Airlines ("Compass"), Horizon Air Industries, Inc. ("Horizon") (owned by Alaska Air Group, Inc. , Mesa Air Group, Inc. ("Mesa"), Pinnacle Airlines Corp. ("Pinnacle"), Republic Airways Holdings Inc. ("Republic"), Trans State Airlines, Inc. ("Trans State") and PSA Airlines, Inc. ("PSA") (owned by US Airways). Major airlines award contract flying to these regional airlines based primarily upon, the following criteria: low cost, financial resources, overall customer service levels relating to on-time arrival and departure statistics, cancellation of flights, baggage handling performance and the overall image of the regional airline as a whole. The principal competitive factors

we experience with respect to our pro-rate flying include fare pricing, customer service, routes served, flight schedules, aircraft types and relationships with major partners.

The principal competitive factors for code-share partner regional airlines are code-share agreement terms, customer service, aircraft types, fare pricing, flight schedules and markets and routes served. The combined operations of SkyWest Airlines and ExpressJet represent the largest regional airline operation in the United States. However, some of the major and low-cost carriers are larger, and have greater financial and other resources than SkyWest Airlines and ExpressJet, individually or collectively. Additionally, regional carriers owned by major airlines, such as American Eagle and PSA, may have access to greater resources, through their parent companies, than SkyWest Airlines and ExpressJet, and may have enhanced competitive advantages since they are subsidiaries of major airlines. Moreover, federal deregulation of the industry allows competitors to rapidly enter our 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 leisure travel. Many airlines have historically reported lower earnings or substantial losses during periods of economic recession, heavy fare discounting, high fuel costs and other disadvantageous environments. Economic downturns, combined with competitive pressures, have contributed to a number of reorganizations, bankruptcies, liquidations and business combinations among major and regional carriers. The effect of economic downturns may be somewhat mitigated by the predominantly contract-based flying arrangements of SkyWest Airlines and ExpressJet. Nevertheless, the per-passenger component in such fee structure would be affected by an economic downturn. In addition, if Delta or United, or any of our other code-share partners, experience a prolonged decline in passenger load or are negatively affected by low ticket prices or high fuel prices, they will likely seek to renegotiate their code-share agreements with SkyWest Airlines and ExpressJet, as applicable, or cancel flights in order to reduce their costs.

## **Industry Overview**

### *Majors, Low-Cost Carriers and Regional Airlines*

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

Low-cost carriers, such as Southwest Airlines Co. (“Southwest”), JetBlue Airways Corporation (“JetBlue”) and Republic, generally offer fewer conveniences to travelers and have lower cost structures than major airlines, which permits them to offer flights to and from many of the same markets as the major airlines, but at lower prices. Low-cost carriers typically fly direct flights with limited service to smaller cities, concentrating on higher demand flights to and from major population bases.

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

In contrast to low-cost carriers, regional airlines generally do not try to establish an independent route system to compete with the major airlines. Rather, regional airlines typically enter into relationships with one or more major airlines, pursuant to which the regional airline agrees to use its smaller, lower-cost aircraft to carry passengers booked and ticketed by the major airline between a hub of the major airline and a smaller outlying city. In exchange for such services, the major airline pays

the regional airline either a fixed flight fee, termed “contract” or “fixed-fee” flights, or receives a percentage of applicable ticket revenues, termed “pro-rate” or “revenue-sharing” flights.

#### *Relationship of Regional and Major Airlines*

Regional airlines generally enter into code-share agreements with major airlines, pursuant to which the regional airline is authorized to use the major airline’s two-letter flight designator codes to identify the regional airline’s flights and fares in the central reservation systems, to paint its aircraft with the colors and/or logos of its code-share partner and to market and advertise its status as a carrier for the code-share partner. For example, SkyWest Airlines flies out of Chicago (O’Hare), Washington Dulles, Denver, Houston, Los Angeles and San Francisco as United Express, out of Salt Lake City and Minneapolis as Delta Connection, out of Seattle and Portland as an Alaska carrier, out of Phoenix as a US Airways carrier and out of Los Angeles as American Eagle. ExpressJet operates primarily as Delta Connection out of Atlanta and Detroit and as United Express out of Chicago (O’Hare), Houston, Cleveland, Newark, Denver and Washington Dulles. Code-share agreements also generally obligate the major airline to provide services such as reservations, ticketing, ground support and gate access to the regional airline, and both partners often coordinate marketing, advertising and other promotional efforts. In exchange, the regional airline provides a designated number of low-capacity (usually between 30 and 70 seats) flights between larger airports served by the major airline and surrounding cities, usually in lower-volume markets. The financial arrangements between the regional airlines and their code-share partners usually involve contractual or fixed-fee payments based on the flights or a revenue-sharing arrangement based on the flight ticket revenues, as explained below:

- *Fixed-Fee Arrangements.* Under a fixed-fee arrangement, the major airline generally pays the regional airline a fixed-fee for each departure, with additional incentives based on completion of flights, on-time performance and baggage handling performance. In addition, the major and regional airline often enter into an arrangement pursuant to which the major airline bears the risk of changes in the price of fuel and other such costs that are passed through to the major airline partner. Regional airlines benefit from a fixed-fee arrangement because they are sheltered from most of the elements that cause volatility in airline financial performance, including variations in ticket prices, passenger loads and fuel prices. However, regional airlines in fixed-fee arrangements do not benefit from positive trends in ticket prices, passenger loads or fuel prices and, because the major airlines absorb most of the costs associated with the regional airline flight, the margin between the fixed-fees for a flight and the expected per-flight costs tends to be smaller than the margins associated with revenue-sharing arrangements.
- *Revenue-Sharing Arrangements.* Under a revenue-sharing arrangement, the major airline and regional airline negotiate a proration formula, pursuant to which the regional airline receives a percentage of the ticket revenues for those passengers traveling for one portion of their trip on the regional airline and the other portion of their trip on the major airline. Substantially all costs associated with the regional airline flight are borne by the regional airline. In such a revenue-sharing arrangement, the regional airline realizes increased profits as ticket prices and passenger loads increase or fuel prices decrease and, correspondingly, realizes decreased profits as ticket prices and passenger loads decrease or fuel prices increase.

#### **Code-Share Agreements**

SkyWest Airlines and ExpressJet operate under United Express Agreements with United. SkyWest Airlines and ExpressJet operate under Delta Connection Agreements with Delta. ExpressJet operates under the United CPA with United. SkyWest Airlines and ExpressJet operate under capacity purchase agreements with American. SkyWest Airlines operates under code-share agreements with US Airways and Alaska.

These code-share agreements authorize Delta, United, American, Alaska and US Airways to identify our flights and fares under their two-letter flight designator codes (“DL,” “UA” “AA”, “AS” or “US,” respectively) in the central reservation systems, and generally require us to paint our aircraft with their colors and logos and to market our status as Delta Connection, United Express, American Eagle, US Airways Express or Alaska, as applicable. Under each of our code-share agreements, our passengers participate in the major partner’s frequent flyer program, and the major partner provides additional services such as reservations, ticket issuance, ground support services and gate access. We also coordinate our marketing, advertising and other promotional efforts with our major partners. During the year ended December 31, 2012, approximately 91% of our passenger revenues related to contract flights, where Delta, United, Alaska and US Airways controlled scheduling, ticketing, pricing and seat inventories. The remainder of our passenger revenues during the year ended December 31, 2012 related to pro-rate flights, where we controlled scheduling, ticketing, pricing and seat inventories, and shared revenues with Delta or United according to pro-rate formulas. The following summaries of our code-share agreements do not purport to be complete and are qualified in their entirety by reference to the applicable agreement.

#### *SkyWest Airlines Delta Connection Agreement*

SkyWest Airlines and Delta are parties to the SkyWest Airlines Delta Connection Agreement, dated as of September 8, 2005. As of December 31, 2012, SkyWest Airlines operated 28 CRJ900s, 19 CRJ700s and 45 CRJ200s under the SkyWest Airlines Delta Connection Agreement. As of December 31, 2012, SkyWest Airlines was operating more than 500 Delta Connection flights per day between Salt Lake City, Detroit or Minneapolis and outlying destinations. Additionally, as of December 31, 2012, SkyWest Airlines operated eight Brasilia turboprops and nine CRJ200 under the Delta code under a revenue-sharing arrangement. Generally, Delta is entitled to all passenger, cargo and other revenues associated with each flight.

In exchange for providing the designated number of flights and performing SkyWest Airlines’ other obligations under the SkyWest Airlines Delta Connection Agreement, SkyWest Airlines is scheduled to receive from Delta on a weekly basis (i) specified fixed rate payments for each completed flight, which are intended to pay for certain costs related to the Delta Connection flights, plus (ii) a fixed dollar payment per completed flight block hour, subject to annual escalation at an agreed rate. Costs directly reimbursed by Delta under the SkyWest Airlines Delta Connection Agreement include costs primarily related to fuel, aircraft engine maintenance and aircraft ownership.

The SkyWest Airlines Delta Connection Agreement provides that, beginning with the fifth anniversary of the execution of the agreement (September 8, 2010), Delta has the right to require that certain contractual rates under that agreement shall not exceed the second lowest rates of all carriers within the Delta Connection Program. On November 19, 2010, SkyWest Airlines reached an agreement with Delta related to the second lowest rate provisions to be applied under the SkyWest Airlines Delta Connection Agreement. As a result of that agreement, SkyWest Airlines and Delta have established the contractual rates which will apply under the SkyWest Airlines Delta Connection Agreement through December 31, 2015.

The SkyWest Airlines Delta Connection Agreement is scheduled to terminate on December 31, 2022, unless Delta elects to exercise its option to extend the term for up to four additional five-year terms. The SkyWest Airlines Delta Connection Agreement is subject to early termination in various circumstances, including:

- if SkyWest Airlines or Delta commits a material breach of the SkyWest Airlines Delta Connection Agreement, subject to 30-day notice and cure rights;

- if SkyWest Airlines fails to conduct all flight operations and maintain all aircraft under the SkyWest Airlines Delta Connection Agreement in compliance in all material respects with applicable government regulations;
- if SkyWest Airlines fails to satisfy certain performance and safety requirements;
- if, under certain circumstances, Delta has a right to terminate the ExpressJet Delta Connection Agreement;
- if the other party files for bankruptcy, reorganization or similar action (subject to limitations imposed by the U.S. Bankruptcy Code) or if either party makes an assignment for the benefit of creditors; or
- if SkyWest Airlines fails to maintain competitive base rate costs (provided, however, that SkyWest Airlines has the right to adjust its rates prior to any such termination).

#### *ExpressJet Delta Connection Agreement*

ExpressJet and Delta are parties to the ExpressJet Delta Connection Agreement, originally dated as of September 8, 2005. As of December 31, 2012, ExpressJet operated 18 CRJ900s, 41 CRJ700s and 93 CRJ200s for Delta under the ExpressJet Delta Connection Agreement. As of December 31, 2012, ExpressJet was operating more than 750 Delta Connection flights per day between Atlanta or Detroit and outlying destinations. Under the ExpressJet Delta Connection Agreement, Delta is entitled to all passenger, cargo and other revenues associated with each flight. Commencing in 2008, ExpressJet obtained the right to maintain its percentage of total Delta Connection flights that it had in 2007, so long as its bid for additional regional flying is competitive with bids submitted by other regional carriers.

In exchange for providing the designated number of flights and performing ExpressJet's other obligations under the ExpressJet Delta Connection Agreement, ExpressJet is scheduled to receive from Delta on a weekly basis (i) specified fixed rate payments for each completed flight, which are intended to pay for certain direct costs related to Delta Connection flights plus (ii) if ExpressJet completes a certain minimum percentage of its Delta Connection flights, an amount equal to a certain percentage of the direct costs (not including fuel costs) related to the Delta Connection flights. Costs directly reimbursed by Delta under the ExpressJet Delta Connection Agreement include costs related to fuel, ground handling, and aircraft engine maintenance and aircraft ownership. The ExpressJet Delta Connection Agreement also provides for incentive compensation based upon ExpressJet's performance, including on-time arrival performance and completion percentage rates.

The ExpressJet Delta Connection Agreement provides that, upon the fifth anniversary of the execution of the agreement (September 8, 2010), Delta obtained the right to require that certain contractual rates under that agreement shall not exceed the second lowest rates of all carriers within the Delta Connection Program. On November 19, 2010, ExpressJet (formerly Atlantic Southeast) reached an agreement with Delta related to the second lowest rate provisions to be applied under the ExpressJet Delta Connection Agreement. As a result of that agreement, ExpressJet and Delta have established the contractual rates which will apply under the ExpressJet Delta Connection Agreement through December 31, 2015.

The ExpressJet Delta Connection Agreement is scheduled to terminate on September 8, 2020, unless Delta elects to exercise its option to extend the term for up to four additional five-year terms. The ExpressJet Delta Connection Agreement is subject to early termination in various circumstances including:

- if ExpressJet or Delta commits a material breach of the ExpressJet Delta Connection Agreement, subject to 30-day notice and cure rights;

- if ExpressJet fails to conduct all flight operations and maintain all aircraft under the ExpressJet Delta Connection Agreement in compliance in all material respects with applicable government regulations;
- if ExpressJet fails to satisfy certain performance and safety requirements;
- if, under certain circumstances, Delta has a right to terminate the SkyWest Airlines Delta Connection Agreement;
- if the other party files for bankruptcy, reorganization or similar action (subject to limitations imposed by the U.S. Bankruptcy Code) or if either party makes an assignment for the benefit of creditors; or
- if ExpressJet fails to maintain competitive base rate costs (provided, however, that ExpressJet has the right to adjust its rates prior to any such termination).

During 2012, we reached an agreement with Delta to add 34 additional used dual-class Bombardier regional jet aircraft in exchange for the early termination of 66 CRJ200 aircraft under our Delta Connection Agreements. All 34 dual-class aircraft will be operated under the terms and conditions of the SkyWest Airlines Delta Connection Agreement regardless of whether SkyWest Airlines or ExpressJet operate the aircraft. The 34 additional aircraft consist of five CRJ700s and 29 CRJ900s. As of December 31, 2012, we had taken delivery of 15 CRJ900s and five CRJ700s. Of the 20 dual-class aircraft that were in operation as of December 31, 2012, ExpressJet was operating 11. The remaining lease terms of the 34 additional aircraft currently run through December 31, 2022. We anticipate that the 14 remaining CRJ900 aircraft will be delivered by June 2013. We anticipate that all 66 CRJ200 aircraft will be removed from the Delta Connection Agreements by December 31, 2015. Of the 66 CRJ200s scheduled to be removed from Delta operations, 41 CRJ200s are subleased from Delta for a nominal amount, which are scheduled to be returned to Delta without obligation to us.

#### *SkyWest Airlines United Express Agreement*

SkyWest Airlines and United are parties to the SkyWest Airlines United Express Agreement entered into on July 31, 2003. As of December 31, 2012, SkyWest Airlines operated 70 CRJ700s, 78 CRJ200s and 34 Brasilia turboprops under the SkyWest Airlines United Express Agreement, flying a total of approximately 1,050 United Express flights per day between Chicago (O'Hare), Denver, Houston, Los Angeles, San Francisco or Washington Dulles and designated outlying destinations. Generally, under the SkyWest Airlines United Express Agreement, United retains all air fares, cargo rates, mail charges and other revenues associated with each flight.

In exchange for providing the designated number of flights and performing SkyWest Airlines' obligations under the SkyWest Airlines United Express Agreement, SkyWest Airlines receives from United compensation (subject to an annual adjustment) of a fixed fee per completed block hour, a fixed fee per completed departure, a fixed fee per passenger, and a fixed fee for overhead and aircraft costs. The SkyWest Airlines United Express Agreement provides for incentives based upon SkyWest Airlines' performance, including on-time arrival performance and completion percentage rates. Additionally, certain of SkyWest Airlines' operating costs are reimbursed by United, including costs related to fuel and aircraft ownership. As of December 31, 2012, 25 of the 34 Brasilia turboprops and 17 of the 78 CRJ200s SkyWest Airlines operated under the SkyWest Airlines United Express Agreement were operated under a revenue-sharing arrangement. On October 16, 2009, SkyWest Airlines and United agreed to extend the right of SkyWest Airlines to operate 40 regional jet aircraft under the SkyWest Airlines United Express Agreement until the end of their respective lease terms.

United has the option, upon twelve months prior notice, to extend the SkyWest Airlines United Express Agreement for five years. The SkyWest Airlines United Express Agreement is scheduled to

terminate in 2024. The SkyWest Airlines United Express Agreement is subject to early termination in various circumstances including:

- if SkyWest Airlines or United fails to fulfill an obligation under the SkyWest Airlines United Express Agreement for a period of 60 days after written notice to cure;
- if SkyWest Airlines' operations fall below certain performance levels for a period of three consecutive months;
- subject to limitations imposed by the U.S. Bankruptcy Code, if the other party becomes insolvent, fails to pay its debts when due, takes action leading to its cessation as a going concern, makes an assignment of substantially all of its assets, or ceases or suspends operations;
- if bankruptcy proceedings are commenced against the other party (subject to limitations imposed by the U.S. Bankruptcy Code) and certain specified conditions are not satisfied; or
- if SkyWest Airlines operates, subject to certain exceptions, any additional regional jets or turboprop aircraft pursuant to a marketing or code-share relationship with any party other than United to provide hub service at United's hubs in Chicago (O'Hare), Denver, San Francisco, Seattle/Tacoma, or Washington, D.C. (Dulles International Airport).

#### *ExpressJet United CPA*

Effective November 12, 2010, ExpressJet Delaware and Continental entered into the United CPA, whereby ExpressJet Delaware agreed to provide regional airline service in the Continental flight system. The rights and obligations of ExpressJet Delaware under the United CPA became the rights and obligations of ExpressJet as a consequence of the ExpressJet Combination. The rights and obligations of Continental under the United CPA became the rights and obligations of United as a consequence of United's merger with Continental in 2010.

The United CPA provides for a ten-year term, subject to early termination by United or ExpressJet upon the occurrence of certain events. United's termination rights include the right to terminate the United CPA if ExpressJet's performance falls below identified standards (and such failure is not cured within 60 days following receipt of notice), upon the occurrence of a labor strike lasting 15 days or longer and upon the occurrence of a material default under certain lease agreements relating to aircraft operated by ExpressJet under the United CPA (provided that such material default is not cured within 60 days following receipt of notice). ExpressJet's termination rights include the right to terminate the United CPA if United fails to make payment of \$500,000 or more due to ExpressJet under the United CPA and such failure is not cured within five business days following receipt of notice.

Under the terms of the United CPA, ExpressJet operates 220 ERJ145s and seven ERJ135s in the United flight system. All of the ERJ145s and ERJ 135s are leased to ExpressJet by United pursuant to sublease or lease agreements. Upon the expiration of the United CPA, ExpressJet is obligated to return the subleased or leased aircraft to United.

Under the terms of the *United* CPA, 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 for good operating performance, but is subject to financial penalties for poor operating performance. The parties to the United CPA have made customary representations, warranties and covenants, and the United CPA contains other provisions typical of agreements of this kind, including with respect to various operational, marketing and administrative matters.

### *ExpressJet United Express Agreements*

ExpressJet and United are parties to two ExpressJet United Express Agreements, consisting of a United Express Agreement initially executed between ExpressJet Delaware and United, dated December 1, 2009, and a United Express Agreement initially executed between Atlantic Southeast and United, dated February 10, 2010. As of December 31, 2012, ExpressJet operated 22 ERJ145s and 14 CRJ200s under the United Express Agreements. Generally, under the ExpressJet United Express Agreements, United retains all air fares, cargo rates, mail charges and other revenues associated with each flight.

In exchange for providing the designated number of flights and performing ExpressJet's obligations under the ExpressJet United Express Agreements, ExpressJet receives from United compensation (subject to an annual adjustment) of a fixed fee per completed block hour, fixed fee per completed departure, fixed fee per passenger and a fixed fee for overhead and aircraft costs. The ExpressJet United Express Agreements provide for incentives based upon ExpressJet's performance, including on-time arrival performance and completion percentage rates. Additionally, certain of ExpressJet's operating costs are reimbursed by United, including fuel costs.

ExpressJet's rights to fly aircraft under the ExpressJet United Express Agreements expire in two tranches: the agreements expire with respect to 22 ERJ145s on April 30, 2015, and 14 CRJ200s during 2015. Under the agreements, United must notify ExpressJet of its intention to renew each tranche of aircraft not less than six months prior to the end of the term for such aircraft.

### *SkyWest Airlines American Agreement*

On September 11, 2012, SkyWest Airlines and American entered into the SkyWest Airlines American Agreement. As of December 31, 2012, SkyWest Airlines operated 12 CRJ200s under the SkyWest Airlines American Agreement, flying approximately 85 American Eagle flights per day between Los Angeles and designated outlying destinations. Generally, under the SkyWest Airlines American Agreement, American retains all air fares, cargo rates, mail charges and other revenues associated with each flight.

In exchange for providing the designated number of flights and performing SkyWest Airlines' obligations under the SkyWest Airlines American Agreement, SkyWest Airlines receives from American compensation (subject to an annual adjustment) of a fixed fee per completed block hour, a fixed fee per completed departure, a fixed fee per passenger, and a fixed fee for overhead and aircraft costs. The SkyWest Airlines American Agreement provides for incentives and penalties based upon SkyWest Airlines' performance, including on-time arrival performance, completion percentage rates and customer complaints. Additionally, certain of SkyWest Airlines' operating costs are reimbursed or paid directly by American, including costs related to fuel.

The SkyWest Airlines American Agreement is scheduled to terminate in 2016. The SkyWest Airlines American Agreement is subject to early termination in various circumstances including:

- if SkyWest Airlines or American fails to fulfill an obligation under the SkyWest Airlines American Agreement for a period of 30 days after written notice to cure;
- if SkyWest Airlines' operations fall below certain performance levels;
- subject to limitations imposed by the U.S. Bankruptcy Code, if the other party makes a general assignment for the benefit of creditors or becomes insolvent; or
- if bankruptcy proceedings are commenced against the other party (subject to limitations imposed by the U.S. Bankruptcy Code) and certain specified conditions are not satisfied.



### *ExpressJet American Agreement*

On September 11, 2012, ExpressJet and American entered into the ExpressJet American Agreement. During the first quarter of 2013, ExpressJet is scheduled to begin operating 11 CRJ200s under the ExpressJet American Agreement between Dallas and designated outlying destinations. Generally, under the ExpressJet American Agreement, American retains all air fares, cargo rates, mail charges and other revenues associated with each flight.

In exchange for providing the designated number of flights and performing ExpressJet's obligations under the ExpressJet American Agreement, ExpressJet is entitled to receive from American compensation (subject to an annual adjustment) of a fixed fee per completed block hour, a fixed fee per completed departure, a fixed fee per passenger, and a fixed fee for overhead and aircraft costs. The ExpressJet American Agreement provides for incentives and penalties based upon ExpressJet's performance, including on-time arrival performance, completion percentage rates and customer complaints. Additionally, certain of ExpressJet's operating costs are reimbursed or paid directly by American, including costs related to fuel.

The ExpressJet American Agreement is scheduled to terminate in 2017. The ExpressJet American Agreement is subject to early termination in various circumstances including:

- if ExpressJet or American fails to fulfill an obligation under the ExpressJet American Agreement for a period of 30 days after written notice to cure;
- if ExpressJet's operations fall below certain performance levels;
- subject to limitations imposed by the U.S. Bankruptcy Code, if the other party makes a general assignment for the benefit of creditors or becomes insolvent; or
- if bankruptcy proceedings are commenced against the other party (subject to limitations imposed by the U.S. Bankruptcy Code) and certain specified conditions are not satisfied.

### *SkyWest Airlines Alaska Capacity Purchase Agreement*

On April 13, 2011, SkyWest Airlines and Alaska entered into the SkyWest Airlines Alaska Capacity Purchase Agreement. As of December 31, 2012, SkyWest Airlines operated five CRJ700s under the SkyWest Airlines Alaska Capacity Purchase Agreement, flying approximately 25 Alaska flights per day between Seattle or Portland and designated outlying destinations. Generally, under the SkyWest Airlines Alaska Capacity Purchase Agreement, Alaska retains all air fares, cargo rates, mail charges and other revenues associated with each flight.

In exchange for providing the designated number of flights and performing SkyWest Airlines' obligations under the SkyWest Airlines Alaska Capacity Purchase Agreement, SkyWest Airlines receives from Alaska compensation (subject to an annual adjustment) of a fixed fee per completed block hour, a fixed fee per completed departure, a fixed fee per passenger, and a fixed fee for overhead and aircraft costs. Additionally, certain of SkyWest Airlines' operating costs are reimbursed or paid directly by Alaska, including costs related to fuel and aircraft ownership.

The SkyWest Airlines Alaska Capacity Purchase Agreement is scheduled to terminate in 2018. The SkyWest Airlines Alaska Capacity Purchase Agreement is subject to early termination in various circumstances including:

- if SkyWest Airlines or Alaska fails to fulfill an obligation under the SkyWest Airlines Alaska Capacity Purchase Agreement for a period of 30 days after written notice to cure;
- if SkyWest Airlines' operations fall below certain performance levels;

- subject to limitations imposed by the U.S. Bankruptcy Code, if the other party makes a general assignment for the benefit of creditors or becomes insolvent; or
- if bankruptcy proceedings are commenced against the other party (subject to limitations imposed by the U.S. Bankruptcy Code) and certain specified conditions are not satisfied.

#### *SkyWest Airlines US Airways Express Agreement*

On November 17, 2011, SkyWest Airlines and US Airways entered into the SkyWest Airlines US Airways Express Agreement. As of December 31, 2012, SkyWest Airlines operated 14 CRJ200s under the SkyWest Airlines US Airways Express Agreement, flying a total of approximately 90 US Airways Express flights per day between Phoenix and designated outlying destinations. Additionally, as of December 31, 2012, SkyWest Airlines operated one CRJ200s under a revenue-sharing arrangement. Generally, under the SkyWest Airlines US Airways Express Agreement, US Airways retains all air fares, cargo rates, mail charges and other revenues associated with each flight.

In exchange for providing the designated number of flights and performing SkyWest Airlines' obligations under the SkyWest Airlines US Airways Express Agreement, SkyWest Airlines receives from US Airways compensation (subject to an annual adjustment) of a fixed fee per completed block hour, a fixed fee per completed departure, a fixed fee per passenger, and a fixed fee for overhead and aircraft costs. The SkyWest Airlines US Airways Express Agreement provides for incentives and penalties based upon SkyWest Airlines' performance, including on-time arrival performance and completion percentage rates. Additionally, certain of SkyWest Airlines' operating costs are reimbursed by US Airways, including costs related to fuel and insurance.

The SkyWest Airlines US Airways Agreement is scheduled to terminate in 2015. The SkyWest Airlines US Airways Express Agreement is subject to early termination in various circumstances including:

- if SkyWest Airlines or US Airways fails to fulfill an obligation under the SkyWest Airlines US Airways Express Agreement for a period of 30 days after written notice to cure;
- if SkyWest Airlines' operations fall below certain performance levels;
- subject to limitations imposed by the U.S. Bankruptcy Code, if the other party becomes insolvent, fails to pay its debts when due, takes action leading to its cessation as a going concern, makes an assignment of substantially all of its assets, or ceases or suspends operations; or
- if bankruptcy proceedings are commenced against the other party (subject to limitations imposed by the U.S. Bankruptcy Code) and certain specified conditions are not satisfied.

#### **Markets and Routes**

As of December 31, 2012, SkyWest Airlines and ExpressJet scheduled the following daily flights as a United Express carrier: 610 flights to or from Houston International Airport, 425 flights to or from Chicago O'Hare International Airport, 325 flights to or from Denver International Airport, 300 flights to or from San Francisco International Airport, 250 flights to or from Los Angeles International Airport, 275 flights to or from Newark International Airport, 150 flights to or from Washington Dulles International Airport and 90 flights to or from Cleveland International Airport.

As of December 31, 2012, SkyWest Airlines and ExpressJet scheduled the following daily flights as Delta Connection carriers: 530 flights to or from Hartsfield—Jackson Atlanta International Airport, 300 flights to or from Salt Lake City International Airport, 175 flights to or from Minneapolis International Airport, 125 flights to or from Detroit International Airport, 70 flights to or from Memphis International Airport and 50 flights to or from Cincinnati/Northern Kentucky International Airport.

As of December 31, 2012, SkyWest Airlines scheduled 90 daily flights as a US Airways Express carrier to or from Phoenix International Airport.

As of December 31, 2012, SkyWest Airlines scheduled 85 daily flights as an American Eagle carrier to or from Los Angeles International Airport.

As of December 31, 2012, SkyWest Airlines scheduled ten daily flights as an Alaska carrier to or from Portland International Airport and 15 daily flights as an Alaska carrier to or from Seattle-Tacoma International Airport.

Our flight schedules are structured to facilitate the connection of our passengers with flights of our major partners at the airports we serve.

### **Training and Aircraft Maintenance**

SkyWest Airlines and ExpressJet employees perform substantially all routine airframe and engine maintenance and periodic inspection of equipment at their respective maintenance facilities, and provide substantially all training to SkyWest Airlines and ExpressJet crew members and maintenance personnel at their respective training facilities. SkyWest Airlines and ExpressJet also contract with third party vendors for non-routine airframe and engine maintenance.

### **Fuel**

Historically, we have not experienced problems with the availability of fuel, and believe we will be able to obtain fuel in quantities sufficient to meet our existing and anticipated future requirements at competitive prices. Standard industry contracts generally do not provide protection against fuel price increases, nor do they ensure availability of supply; however, our code-share agreements with Delta, United, American, Alaska and US Airways provide for fuel used in the performance of the code-share agreements to be reimbursed by our major partners, thereby reducing our exposure to fuel price fluctuations. During the year ended December 31, 2012, United purchased the majority of the fuel for our United aircraft under contract directly from its fuel vendors; and Delta purchased the majority of the fuel for our Delta aircraft under contract directly from its fuel vendors. A substantial increase in the price of jet fuel, to the extent our fuel costs are not reimbursed, or the lack of adequate fuel supplies in the future, could have a material adverse effect on our business, financial condition, results of operations or liquidity.

### **Employee Matters**

#### ***Railway Labor Act***

Our relations with labor unions in the U.S. are governed by the Railway Labor Act (the "RLA"). Under the RLA, a labor union seeking to represent an unrepresented craft or class of employees is required to file with the National Mediation Board (the "NMB") an application alleging a representation dispute, along with authorization cards signed by at least 35% of the employees in that craft or class. The NMB then investigates the dispute and, if it finds the labor union has obtained a sufficient number of authorization cards, conducts an election to determine whether to certify the labor union as the collective bargaining representative of that craft or class. Under the NMB's usual rules, a labor union will be certified as the representative of the employees in a craft or class only if more than 50% of those employees vote for union representation. A certified labor union then enters into negotiations toward a collective bargaining agreement with the employer.

Under the RLA, a collective bargaining agreement between an airline and a labor union does not expire, but instead becomes amendable as of a stated date. Either party may request that the NMB appoint a federal mediator to participate in the negotiations for a new or amended agreement. If no agreement is reached in mediation, the NMB may determine, at any time, that an impasse exists and

offer binding arbitration. If either party rejects binding arbitration, a 30-day “cooling off” period begins. At the end of this 30-day period, the parties may engage in “self help,” unless the U.S. President appoints a Presidential Emergency Board (“PEB”) to investigate and report on the dispute. The appointment of a PEB maintains the “status quo” for an additional 60 days. If the parties do not reach agreement during this period, the parties may then engage in “self help.” “Self help” includes, among other things, a strike by the union or the imposition of proposed changes to the collective bargaining agreement by the airline. Congress and the President have the authority to prevent “self help” by enacting legislation that, among other things, imposes a settlement on the parties.

**Collective Bargaining**

As of December 31, 2012, we had 18,145 full-time equivalent employees. Approximately 42% of these employees were represented by unions, including the employee groups listed in the table below. Notwithstanding the completion of the ExpressJet Combination, ExpressJet’s employee groups continue to be represented by those unions who provided representation prior to the ExpressJet Combination. Accordingly, the following table refers to ExpressJet’s employee groups based upon their union affiliations prior to the ExpressJet Combination.

<u>Employee Group</u>	<u>Approximate Number of Active Employees Represented</u>	<u>Representatives</u>	<u>Status of Agreement</u>
Atlantic Southeast Pilots . . . . .	1,620	Air Line Pilots Association International	Amendable
Atlantic Southeast Flight Attendants . . . . .	940	International Association of Machinists and Aerospace Workers	Amendable
Atlantic Southeast Flight Controllers . . . . .	70	Transport Workers Union of America	Amendable
Atlantic Southeast Mechanics . . . . .	420	International Brotherhood of Teamsters	Amendable
Atlantic Southeast Stock Clerks . . . . .	70	International Brotherhood of Teamsters	Amendable
ExpressJet Delaware Pilots . . . . .	2,560	Air Line Pilots Association International	Amendable
ExpressJet Delaware Flight Attendants . . . . .	1,200	International Association of Machinists and Aerospace Workers	Amendable
ExpressJet Delaware Mechanics . . . . .	670	International Brotherhood of Teamsters	Amendable
ExpressJet Delaware Dispatchers . . . . .	80	Transport Workers Union of America	Amendable
ExpressJet Delaware Stock Clerks . . . . .	75	International Brotherhood of Teamsters	Amendable

The successful combination of the employee groups of ExpressJet Delaware and Atlantic Southeast and achievement of the anticipated benefits of our acquisition of ExpressJet Delaware will depend significantly on the results of our efforts to integrate the work groups of Atlantic Southeast and

ExpressJet Delaware and on maintaining productive employee relations. The integration of the workforces of ExpressJet Delaware and Atlantic Southeast has been, and we anticipate it will continue to be, challenging. Completing the integration of the workforces of the two airlines will require the resolution of potentially difficult issues relating to representation of various work groups and the relative seniority of the work groups at each carrier. Unexpected delays or expenses or other challenges to integrating the workforces could impact the anticipated synergies from the ExpressJet Combination and affect our financial performance.

As of December 31, 2012, SkyWest and SkyWest Airlines collectively employed 9,300 full-time equivalent employees, consisting of 5,377 pilots and flight attendants, 2,441 customer service personnel, 1,281 mechanics and other maintenance personnel, and 201 administration and support personnel. None of these employees are currently represented by a union. Collective bargaining group organization efforts among SkyWest Airlines' employees do, however, occur from time to time and we anticipate that such efforts will continue in the future. If unionization efforts are successful, we may be subjected to risks of work interruption or stoppage and/or incur additional expenses associated with increased union representation of our employees. Neither SkyWest nor SkyWest Airlines has ever experienced a work stoppage due to a strike or other labor dispute, and we consider SkyWest Airlines' relationships with its employees to be good.

### **Government Regulation**

All interstate air carriers, including SkyWest Airlines and ExpressJet, are subject to regulation by the U.S. Department of Transportation (the "DOT"), the FAA and 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 operating 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 methods, certifications, which are necessary for the continued operations of SkyWest Airlines and ExpressJet, 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.

We believe SkyWest Airlines and ExpressJet are operating in compliance with FAA regulations and hold all operating and airworthiness certificates and licenses which are necessary to conduct their respective operations. We incur substantial costs in maintaining current certifications and otherwise complying with the laws, rules and regulations to which SkyWest Airlines and ExpressJet are subject. SkyWest Airlines' and ExpressJet's flight operations, maintenance programs, record keeping and training programs are conducted under FAA approved procedures. SkyWest Airlines and ExpressJet do not currently operate at any airports where landing slots are restricted.

All air carriers operating in the United States of America are required to comply with federal laws and regulations pertaining to noise abatement and engine emissions. All such 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. SkyWest Airlines and ExpressJet are also subject to certain federal and state laws relating to protection of the environment, labor relations and equal employment opportunity. We believe SkyWest Airlines and ExpressJet are in compliance in all material respects with these laws and regulations.

## **Environmental Matters**

SkyWest, SkyWest Airlines and ExpressJet are subject to various federal, state, local and foreign laws and regulations relating to environmental protection matters. These laws and regulations govern such matters as environmental reporting, storage and disposal of materials and chemicals and aircraft noise. We are, and expect in the future to be, involved in various environmental matters and conditions at, or related to, our properties. We are not currently subject to any environmental cleanup orders or actions imposed by regulatory authorities. We are not aware of any active material environmental investigations related to our assets or properties.

## **Safety and Security**

We are committed to the safety and security of our passengers and employees. Since the September 11, 2001 terrorist attacks, SkyWest Airlines and ExpressJet have taken many steps, both voluntarily and as mandated by governmental agencies, to increase the safety and security of their operations. Some of the safety and security measures we have taken with our code-share partners include: aircraft security and surveillance, positive bag matching procedures, enhanced passenger and baggage screening and search procedures, and securing of cockpit doors. We are committed to complying with future safety and security requirements.

## **Insurance**

SkyWest, SkyWest Airlines and ExpressJet maintain insurance policies we believe are of types customary in the industry and in amounts we believe are adequate to protect against material loss. These policies principally provide coverage for public liability, passenger liability, baggage and cargo liability, property damage, including coverage for loss or damage to our flight equipment, and workers' compensation insurance. We cannot assure, however, that the amount of insurance we carry will be sufficient to protect us from material loss.

## **Seasonality**

Our results of operations for any interim period are not necessarily indicative of those for the entire year, in part because the airline industry is subject to seasonal fluctuations and general economic conditions. Our operations are somewhat favorably affected by pleasure travel on our pro-rate routes, historically contributing to increased travel 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.

## **ITEM 1A. RISK FACTORS**

*In addition to factors discussed elsewhere in this Report, the following are important risks which could adversely affect our future results. Additional risks and uncertainties not presently known to us or that we currently do not deem material may also impair our business operations. If any of the risks we describe below occur, or if any unforeseen risk develops, our operating results may suffer, our financial condition may deteriorate, the trading price of our common stock may decline and investors could lose all or part of their investment in us.*

### **Risks Related to Our Operations**

***We are highly dependent on Delta and United.***

If any of our code-share agreements with Delta or United are terminated, we would be significantly impacted and likely would not have an immediate source of revenue or earnings to offset such loss. A termination of any of these agreements would likely have a material adverse effect on our

financial condition, operating revenues and net income unless we are able to enter into satisfactory substitute arrangements for the utilization of the affected aircraft by other code-share partners, or, alternatively, obtain the airport facilities and gates and make the other arrangements necessary to fly as an independent airline. We may not be able to enter into substitute code-share arrangements, and any such arrangements we might secure may not be as favorable to us as our current agreements. Operating our airlines independent from major partners would be a significant departure from our business plan, would likely be very difficult and would likely require significant time and resources, which may not be available to us at that point.

The current terms of the SkyWest Airlines and ExpressJet Delta Connection Agreements are subject to certain early termination provisions. Delta's termination rights include cross-termination rights (meaning that a breach by either of SkyWest Airlines or ExpressJet of its Delta Connection Agreement could, under certain circumstances, permit Delta to terminate any or all of the Delta Connection Agreements), the right to terminate each of the 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 the right to terminate each of the agreements if SkyWest Airlines or ExpressJet, as applicable, fails to maintain competitive base rate costs, subject to certain rights of SkyWest Airlines to take corrective action to reimburse Delta for lost revenues. The current terms of the SkyWest Airlines and ExpressJet United Express Agreements are subject to certain early termination provisions and subsequent renewals. United may terminate the SkyWest Airlines and ExpressJet United Express Agreements due to an uncured breach by SkyWest Airlines or ExpressJet of certain operational or performance provisions, including measures and standards related to flight completions, baggage handling and on-time arrivals. The current terms of the United CPA are subject to certain early termination provisions and subsequent renewals. United may terminate the United CPA due to an uncured breach by ExpressJet of certain operational and performance provisions, including measures and standards related to flight completions and on-time arrivals.

We currently use the systems, facilities and services of Delta and United to support a significant portion of our operations, including airport and terminal facilities and operations, information technology support, ticketing and reservations, scheduling, dispatching, fuel purchasing and ground handling services. If Delta or United were to cease any of these systems, close any of these facilities or no longer provide these services to us, due to termination of one of our code-share agreements, a strike or other labor interruption by Delta or United personnel or for any other reason, we may not be able to replace those systems, facilities or services on terms and conditions as favorable as those we currently receive, or at all. Since our revenues and operating profits are dependent on our level of flight operations, we could then be forced to significantly reduce our operations. Furthermore, upon certain terminations of our code-share agreements, Delta and United could require us to sell or assign to them facilities and assets, including maintenance facilities, we use in connection with the code-share services we provide. As a result, in order to offer airline service after termination of any of our code-share agreements, we may have to replace these facilities, assets and services. We may be unable to arrange such replacements on satisfactory terms, or at all.

***The amounts we receive under our code-share agreements may be less than the corresponding costs we incur.***

Under our code-share agreements with Delta, United, American, Alaska and US Airways, we are compensated for certain costs we incur in providing services. With respect to costs that are defined as "pass-through" costs, our code-share partner is obligated to pay to us the actual amount of the cost. With respect to other costs, our code-share partner is obligated to pay to us amounts based, in part, on pre-determined rates for certain costs. During the year ended December 31, 2012, approximately 25% of our costs were pass-through costs and approximately 75% of our costs were reimbursable at pre-determined rates. These pre-determined rates may not be based on the actual expenses we incur in delivering the associated services. If we incur expenses that are greater than the pre-determined

reimbursement amounts payable by our code-share partners, our financial results will be negatively affected.

SkyWest Airlines and ExpressJet are parties to Delta Connection Agreements, pursuant to which SkyWest Airlines and ExpressJet provide contract flight services for Delta. Among other provisions, those Delta Connection Agreements provide that Delta has the right to require that certain contractual rates under those agreements shall not exceed the second lowest rates of all carriers within the Delta Connection Program. On November 19, 2010, SkyWest Airlines and ExpressJet reached agreements with Delta related to the second lowest rate provisions to be applied under their respective Delta Connection Agreements. As a result, SkyWest Airlines and ExpressJet have established the contractual rates which will apply under those agreements through December 31, 2015.

There can be no assurance that the agreed-upon rates contemplated by our Delta Connection Agreements will be higher than the costs SkyWest Airlines and ExpressJet will incur to provide the services required under their respective Delta Connection Agreement. The new rates and future rate adjustments could negatively affect our financial position and operating results.

***Increased labor costs, strikes, labor disputes and increased unionization of our workforces may adversely affect our ability to conduct our business.***

Our business is labor intensive, requiring large numbers of pilots, flight attendants, mechanics and other personnel. Labor costs constitute a significant percentage of our total operating costs. For example, during the year ended December 31, 2012, our salary, wage and benefit costs constituted approximately 35% of our total operating costs. Increases in our labor costs could result in a material reduction in our earnings. Any new collective bargaining agreements entered into by other regional carriers with their work forces may also result in higher industry wages and increased pressure on us to increase the wages and benefits of our employees. Future agreements with unionized and non-unionized employees may be on terms that are not as attractive as our current agreements or comparable to agreements entered into by our competitors.

Approximately 42% of our workforce is unionized. Strikes or labor disputes with our unionized employees may adversely affect our ability to conduct business. Relations between air carriers and labor unions in the U.S. are governed by the RLA, which provides that a collective bargaining agreement between an airline and a labor union does not expire, but instead becomes amendable as of a stated date. The RLA generally prohibits strikes or other types of self-help actions both before and after a collective bargaining agreement becomes amendable, unless and until the collective bargaining processes required by the RLA have been exhausted.

SkyWest Airlines' employees are not currently represented by any union; however, collective bargaining group organization efforts among those employees occur from time to time. Such efforts will likely continue in the future and may ultimately result in some or all of SkyWest Airlines' employees being represented by one or more unions. Moreover, one or more unions representing ExpressJet employees may seek a single carrier determination by the National Mediation Board, which could require SkyWest Airlines to recognize such union or unions as the certified bargaining representative of SkyWest Airlines' employees. One or more unions representing ExpressJet employees may also assert that SkyWest Airlines' employees should be subject to ExpressJet's collective bargaining agreements. If SkyWest Airlines' employees were to unionize or be deemed to be represented by one or more unions, negotiations with unions representing SkyWest Airlines' employees could divert management attention and disrupt operations, which may result in increased operating expenses and may negatively impact our financial results. Moreover, we cannot predict the outcome of any future negotiations relating to union representation or collective bargaining agreements. Agreements reached in collective bargaining may increase our operating expenses and negatively impact our financial results.



***Our ability to realize all of the anticipated benefits of our acquisition of ExpressJet Delaware will depend on the successful integration of the operations previously conducted by Atlantic Southeast and ExpressJet Delaware.***

On November 12, 2010, we acquired ExpressJet Delaware through a merger of ExpressJet Holdings, Inc. (“ExpressJet Holdings”), the sole shareholder of ExpressJet Delaware, with a wholly-owned subsidiary of Atlantic Southeast (the “ExpressJet Merger”). Effective December 31, 2011, we combined the operations of Atlantic Southeast and ExpressJet Delaware through the ExpressJet Combination. Many of the potential synergies of our acquisition of ExpressJet Delaware will only result from the successful integration of the operations of Atlantic Southeast and ExpressJet Delaware, both of which operated as independent airlines prior to the ExpressJet Combination. The integration of the operations formerly conducted by Atlantic Southeast and ExpressJet Delaware has required, and will continue to require, our management to devote significant attention and resources to combining the business practices and operations of both airlines. We incurred significant costs, and devoted significant management time, in our efforts to obtain a single operating certificate for the combined operations of Atlantic Southeast and ExpressJet Delaware. Although that single operating certificate was issued by the FAA on November 17, 2011, and the ExpressJet Combination was completed on December 31, 2011, our management and employees will continue to devote significant attention and resources to the successful integration of the operations formerly conducted by Atlantic Southeast and ExpressJet Delaware, particularly with respect to the integration of the work groups of the two airlines.

The integration of the operations formerly conducted by Atlantic Southeast and ExpressJet Delaware could result in the loss of key employees, diversion of management attention, the disruption or interruption of, or the loss of momentum in, our ongoing businesses or inconsistencies in standards, controls, procedures and policies, any of which could adversely affect our ability to maintain relationships with passengers and employees or our ability to achieve the anticipated benefits of the ExpressJet Merger, or could reduce our earnings or otherwise adversely affect our business and financial results.

***The integration of the Atlantic Southeast and ExpressJet Delaware workforces will present significant challenges, including the possibility of labor-related disagreements that may adversely affect our operations.***

The successful integration of Atlantic Southeast and ExpressJet Delaware and achievement of the anticipated benefits of the ExpressJet Merger largely depend upon the successful combination of the former employee groups of Atlantic Southeast and ExpressJet Delaware, and on maintaining productive employee relations. The integration of the workforces of the two airlines will require the resolution of potentially difficult issues relating to representation of various work groups and the relative seniority of the work groups at each carrier. Unexpected delays, expenses or other challenges to integrating the workforces could impact the anticipated synergies from the combination of Atlantic Southeast and ExpressJet Delaware and affect ExpressJet’s operations and financial performance.

In order to integrate the former employee groups of Atlantic Southeast and ExpressJet Delaware, ExpressJet must negotiate a joint collective bargaining agreement covering each combined employee group. The process for integrating the former labor groups of ExpressJet Delaware and Atlantic Southeast is governed by a combination of the RLA, the McCaskill-Bond Amendment, and where applicable, the existing provisions of each company’s collective bargaining agreements and union policy. Pending operational integration, ExpressJet will apply the terms of the existing collective bargaining agreements unless other terms have been negotiated. Under the McCaskill-Bond Amendment, seniority integration must be accomplished in a “fair and equitable” manner consistent with the process set forth in the Allegheny-Mohawk Labor Protective Provisions or internal union merger policies, if applicable. Employee dissatisfaction with the results of the seniority integration may lead to litigation that in some cases could delay implementation of the integrated seniority list. The National Mediation Board has exclusive authority to resolve representation disputes arising out of airline mergers.

We can provide no assurance that a successful or timely resolution of labor negotiations for the former labor groups of Atlantic Southeast and ExpressJet Delaware will be achieved. There is a risk that unions or individual employees might pursue judicial or arbitral claims arising out of changes implemented as a result of the ExpressJet Combination. There is also a possibility that employees or unions could engage in job actions such as slow-downs, work-to-rule campaigns, sick-outs or other actions designed to disrupt ExpressJet's normal operations, in an attempt to pressure ExpressJet in collective bargaining negotiations. Although the RLA makes such actions unlawful until the parties have been lawfully released to self-help, and ExpressJet can seek injunctive relief against premature self-help, such actions can cause significant harm even if ultimately enjoined.

***We may be unable to profitably redeploy smaller aircraft removed from service.***

As of December 31 2012, we had 559 small regional aircraft (37-50 seat aircraft), 557 of which were operating under fixed-fee agreements or revenue-sharing agreements. Between December 2013 and December 2015, 21 of these aircraft are scheduled to be removed from fixed-fee operations. In most cases, the term of the aircraft lease or debt agreement applicable to those 21 aircraft exceeds the term of the fixed-fee agreement for such aircraft. To the extent that aircraft are removed from service, we must either sell or sublease the aircraft to another party or redeploy it in order to cover our carrying expenses for that aircraft. Our inability to sell, sublease and/or redeploy aircraft that have been removed from fixed-fee agreements could have a material adverse effect on our financial condition, results of operations or the price of our common stock.

***Maintenance costs will likely continue to increase as the age of our regional jet fleet increases.***

The average age of our CRJ200s, ERJ145s, CRJ700s and CRJ900s is approximately 11.2 years, 11.0 years, 7.6 years and 5.0 years respectively. Most of the parts on these fleets are no longer under warranty and we have started to incur more heavy airframe inspections and engine overhauls on those aircraft. Our non-engine maintenance costs are expected to continue to increase on our CRJ200, ERJ145, CRJ700 and CRJ900 fleets. Our non engine maintenance costs will increase significantly, both on an absolute basis and as a percentage of our operating expenses, as our fleet ages and these warranties expire. Those increased costs will have a negative impact on our financial results.

***We may be negatively impacted if Delta or United experiences significant financial difficulties in the future.***

For the year ended December 31, 2012 approximately 97.0% of the available seat miles ("ASMs") generated in our operations were attributable to our code-share agreements with Delta and United. If Delta or United experiences significant financial difficulties, we would likely be negatively affected. For example, volatility in fuel prices may negatively impact Delta's and United's results of operations and financial condition. Among other risks, Delta and United are vulnerable both to unexpected events (such as additional terrorist attacks or additional spikes in fuel prices) and to deterioration of the operating environment (such as a recession or significant increased competition). There is no assurance that Delta or United will be able to operate successfully under these financial conditions.

In light of the importance of our code-share agreements with Delta and United to our business, a default by Delta or United under any of these agreements, or the termination of these agreements could jeopardize our operations. Such events could leave us unable to operate many of our current aircraft, as well as additional aircraft we are obligated to purchase, which would likely result in a material adverse effect on our operations and financial condition.

The financial condition of Delta and United will continue to pose risks for our operations. Serial bankruptcies are not unprecedented in the commercial airline industry, and Delta and/or United could file for bankruptcy, in which case our code-share agreements could be subject to termination under the U.S. Bankruptcy Code. Regardless of whether subsequent bankruptcy filings prove to be necessary,

Delta and United have required, and will likely continue to require, our participation in efforts to reduce costs and improve their respective financial positions. These efforts could result in lower utilization rates of our aircraft, lower departure rates on the contract flying portion of our business, more volatile operating margins and more aggressive contractual positions, which could result in additional litigation. We believe that any of these developments could have a negative effect on many aspects of our operations and financial condition.

On October 16, 2009, SkyWest Airlines agreed to defer receipt of certain amounts otherwise payable by United under the SkyWest Airlines United Express Agreement. The maximum deferral amount is \$49 million and any amounts deferred accrue a deferral fee of 8%, payable weekly. United's right to defer such payments is scheduled to terminate on October 16, 2019. United's failure to repay the amounts deferred pursuant to the foregoing financing arrangement could have a material adverse effect on our operations and financial condition.

***SkyWest Airlines and ExpressJet are engaged in litigation with Delta, which may negatively impact our financial results and our relationship with Delta***

During the quarter ended December 31, 2007, Delta notified SkyWest, 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 to their passengers and vendors under certain situations. During the period between the execution of the Delta Connection Agreements in September 2005 and December 2007, SkyWest Airlines and Atlantic Southeast passed through to Delta IROP expenses that were paid pursuant to Delta's policies, and Delta accepted and reimbursed those expenses. Delta now claims it is obligated to reimburse only a fraction of the IROP expenses. 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. Since December 2007, Delta has continued to withhold payments from the weekly scheduled wire payments to SkyWest Airlines and Atlantic Southeast (now ExpressJet), and has disputed subsequent billings for IROP expenses. As of December 31, 2012, we had recognized a cumulative total of \$31.7 million of revenue associated with the funds withheld by Delta. Since July 1, 2008, we have not recognized revenue related to IROP expense reimbursements withheld by Delta because collection of those reimbursements is the subject of litigation and is not reasonably assured. The current status of the litigation with Delta is summarized below in Item 3. Legal Proceedings.

There can be no assurance that the dispute between SkyWest Airlines and ExpressJet, on the one hand, and Delta, on the other hand, will be resolved consistent with the position taken by SkyWest Airlines and ExpressJet. If the dispute is not resolved consistent with the position taken by SkyWest Airlines and ExpressJet, our financial results would be negatively impacted. The litigation may have other negative effects on our relationship with Delta and our operations under the existing Delta Connection Agreements.

***Disagreements regarding the interpretation of our code-share agreements with our major partners could have an adverse effect on our operating results and financial condition.***

SkyWest, SkyWest Airlines and ExpressJet are parties to code-share agreements with Delta and United. For the year ended December 31, 2012, approximately 97% of our ASMs were attributable to flights we flew under those agreements. We anticipate that, for the foreseeable future, substantially all of our revenues will be generated under existing or future code-share agreements.

Contractual agreements, such as our code-share agreements, are subject to interpretation and disputes may arise under such agreements if the parties to an agreement apply different interpretations to that agreement. Those disputes may divert management time and resources from the core operation of the business, and may result in litigation, arbitration or other forms of dispute resolution.

In recent years we have experienced disagreements with our major partners regarding the interpretation of various provisions of our code-share agreements. Some of those disagreements have resulted in litigation (see the preceding risk factor entitled “*SkyWest Airlines and ExpressJet are engaged in litigation with Delta, which may negatively impact our financial results and our relationship with Delta*”), and we may be subject to additional disputes and litigation in the future. Those disagreements have also required a significant amount of management time and financial resources.

To the extent that we continue to experience disagreements regarding the interpretation of our code-share or other agreements, we will likely expend valuable management time and financial resources in our efforts to resolve those disagreements. Those disagreements may result in litigation, arbitration or other proceedings. Furthermore, there can be no assurance that any or all of those proceedings, if commenced, would be resolved in our favor. An unfavorable result in any such proceeding could have adverse financial consequences or require us to modify our operations. Such disagreements and their consequences could have an adverse effect on our operating results and financial condition.

***We have a significant amount of contractual obligations.***

As of December 31, 2012, we had a total of approximately \$1.6 billion in total long-term debt obligations. Substantially all of this long-term debt was incurred in connection with the acquisition of aircraft, engines and related spare parts. We also have significant long-term lease obligations primarily relating to our aircraft fleet. These leases are classified as operating leases and therefore are not reflected as liabilities in our consolidated balance sheets. At December 31, 2012, we had 568 aircraft under lease, with remaining terms ranging from one to 13 years. Future minimum lease payments due under all long-term operating leases were approximately \$2.2 billion at December 31, 2012. At a 4.7% discount factor, the present value of these lease obligations was equal to approximately \$1.8 billion at December 31, 2012. Our high level of fixed obligations could impact our ability to obtain additional financing to support additional expansion plans or divert cash flows from operations and expansion plans to service the fixed obligations.

***Our fleet replacement will require a significant increase in our leverage and the related cash outflows.***

We currently have 268 CRJ200s with an average life of 11.2 years, 242 ERJ145s with an average life of 11.0 years and 42 Brasilia turboprops with an average life of 15.4 years. We anticipate that over the next several years, we will continue to replace these aircraft with large regional jets or turboprops. Our fleet replacement strategy will require significant amounts of capital to acquire these large regional jets or turboprops.

There can be no assurance that our operations will generate sufficient cash flow or liquidity to enable us to obtain the necessary aircraft acquisition financing to replace our current fleet, or to make required debt service payments related to our existing obligations. Even if we meet all required debt, lease, and purchase obligations, the size of these long-term obligations could negatively affect our financial condition, results of operations, and the price of our common stock in many ways, including:

- increasing the cost, or limiting the availability of, additional financing for working capital, acquisitions or other purposes;
- limiting the ways in which we can use our cash flow, much of which may have to be used to satisfy debt and lease obligations; and
- adversely affecting our ability to respond to changing business or economic conditions or continue our growth strategy.

If we need additional capital and cannot obtain such capital on acceptable terms, or at all, we may be unable to realize our fleet replacement plans or take advantage of unanticipated opportunities

***We may be limited from expanding our flying within the Delta and United flight systems, and there are constraints on our ability to provide airline services to airlines other than Delta and United.***

Additional growth opportunities within the Delta and United flight systems are limited by various factors. Except as currently contemplated by our existing code-share agreements, we cannot assure that Delta and United will contract with us to fly any additional aircraft. We may not receive additional growth opportunities, or may agree to modifications to our code-share agreements that reduce certain benefits to us in order to obtain additional aircraft, or for other reasons. Given the troubled nature of the airline industry, we believe that some of our competitors may be more inclined to accept reduced margins and less favorable contract terms in order to secure new or additional code-share operations. Even if we are offered growth opportunities by our major partners, those opportunities may involve economic terms or financing commitments that are unacceptable to us. Any one or more of these factors may reduce or eliminate our ability to expand our flight operations with our existing code-share partners. We also cannot provide any assurance that we will be able to obtain the additional ground and maintenance facilities, including gates, and support equipment, to expand our operations. The failure to obtain these facilities and equipment would likely impede our efforts to implement our business strategy and could materially and adversely affect our operating results and our financial condition.

Our business model depends on major airlines, including Delta and United, electing to contract with us instead of operating their own regional jets. Some major airlines own their own regional airlines or operate their own regional jets instead of entering into contracts with regional carriers. We have no guarantee that in the future our code-share partners will choose to enter into contracts with us instead of operating their own regional jets. Our partners are not prohibited from doing so under our code-share agreements. A decision by Delta or United to phase out code-share relationships and instead acquire and operate their own regional jets could have a material adverse effect on our financial condition, results of operations or the price of our common stock.

Additionally, our code-share agreements limit our ability to provide airline services to other airlines in certain major airport hubs of each of Delta and United. Under the SkyWest Airlines Delta Connection Agreement, our growth is contractually restricted in Atlanta, Cincinnati, Orlando and Salt Lake City. Under the ExpressJet Delta Connection Agreement, our growth is restricted in Atlanta, Cincinnati, New York (John F. Kennedy International Airport), Orlando and Salt Lake City. Under the SkyWest Airlines United Express Agreement, growth is restricted in Chicago (O'Hare International Airport), Denver, San Francisco, Seattle/Tacoma and Washington D.C. (Dulles International Airport). Due to the fluctuations in our schedules, which are established primarily by our major partners, there may be times that the number of flights we fly to and from a particular airport may exceed the limitations set forth in one or more of our code-share agreements. The breach of those limitations could constitute a breach of the applicable code-share agreement, which could have a material adverse effect on our operations.

***Economic and industry conditions constantly change, and negative economic conditions in the United States and other countries may create challenges for us that could materially and adversely affect our operations and financial condition.***

Our operations and financial condition are affected by many changing economic and other conditions beyond our control, including, among others:

- disruptions in the credit markets, which have resulted in greater volatility, less liquidity, widening of credit spreads, and decreased availability of financing;
- actual or potential changes in international, national, regional and local economic, business and financial conditions, including recession, inflation, higher interest rates, wars, terrorist attacks or political instability;

- changes in consumer preferences, perceptions, spending patterns or demographic trends;
- changes in the competitive environment due to industry consolidation and other factors;
- actual or potential disruptions to U.S. air traffic control systems;
- outbreaks of diseases that affect travel behavior; and
- weather and natural disasters.

The aggregate effect of any, or some combination, of the foregoing economic and industry conditions on our operations or financial condition is virtually impossible to forecast; however, the occurrence of any or all of such conditions in a significant manner could materially and adversely affect our operations and financial condition.

***We have been adversely affected by increases in fuel prices, and we would be adversely affected by disruptions in the supply of fuel.***

Dependence on foreign imports of crude oil, limited refining capacity and the possibility of changes in government policy on jet fuel production, transportation and marketing make it impossible to predict the future availability of jet fuel. If there are additional outbreaks of hostilities or other conflicts in oil-producing areas or elsewhere, or a reduction in refining capacity (due to weather events, for example), or governmental limits on the production or sale of jet fuel, there could be a reduction in the supply of jet fuel and significant increases in the cost of jet fuel. Major reductions in the availability of jet fuel or significant increases in its cost, or a continuation of current high prices for a significant period of time, would have a material adverse impact on us.

Pursuant to our contract flying arrangements, our major partners have agreed to bear the economic risk of fuel price fluctuations on our contracted flights. We bear the economic risk of fuel price fluctuations on our pro-rate operations. As of December 31, 2012, essentially all of our Brasilia turboprops flown for Delta were flown under pro-rate arrangements, while approximately 60% of our Brasilia turboprops flown in the United system were flown under pro-rate arrangements. As of December 31, 2012, we operated 17 CRJ200s under a pro-rate agreement with United. We also operate nine CRJ200 under a pro-rate agreement with Delta and one CRJ200 under a pro-rate arrangement with US Airways. Our operating and financial results with respect to these pro-rate arrangements can be affected by the price and availability of jet fuel and in the event we are unable to pass on increased fuel prices to our pro-rate customers by increasing fares our financial performance would be adversely impacted.

***The Airline Safety and Pilot Training Improvement Act of 2009 could negatively affect our operations and our financial condition.***

Prompted by the crash of a Colgan aircraft in 2009, near Buffalo, New York, passengers and governmental authorities have raised questions about pilot qualifications, training and fatigue. The Airline Safety and Pilot Training Improvement Act of 2009 (the “Improvement Act”) was enacted in August of 2010. The Improvement Act adds new certification requirements for entry-level commercial pilots, requires additional emergency training, improves availability of pilot records and mandates stricter rules to minimize pilot fatigue.

The Improvement Act also:

- Requires that all airline pilots obtain an Airline Transport Pilot license, which was previously only required for captains.

- Mandates that the FAA set up a new database of pilot records, including records to be provided by airlines and other sources, so that airlines will have access to more information before they hire pilots.
- Requires the FAA to issue new regulations governing the airlines' obligations to submit pilot records and the requirements for airlines to obtain access for information in the database before the database portion of the Improvement Act becomes effective.
- Directs the FAA to rewrite the rules for how long pilots are allowed to work and how much rest they must have before working.

The implementation of the Improvement Act (and associated regulations) may increase our compliance and FAA reporting obligations, have a negative effect on pilot scheduling, work hours or other aspects of our operations, and negatively impact our operations and financial condition.

***Reduced utilization levels of our aircraft under our code-share agreements would adversely impact our financial results.***

The majority of our code-share agreements set forth minimum levels of flight operations which our major partners are required to schedule for our operations and we are required to provide. These minimum flight operating levels are intended to compensate us for reduced operating efficiencies caused by production decreases made by our major partners under our respective code-share agreements. Generally, our major partners have utilized our flight operations at levels which exceed the minimum levels set forth in our code-share agreements, however, in recent years our major partners have reduced our utilization to levels which, at times, have been lower than the levels required by our code-share agreements. If our major partners schedule the utilization of our aircraft below historical levels (including taking into account the stage length and frequency of our scheduled flights), we may not be able to maintain operating efficiencies previously obtained, which would negatively impact our operating results and financial condition. Additionally, our major partners may change routes and frequencies of flights, which can shorten flight trip lengths. Changes in schedules may increase our flight costs, which could exceed the reimbursed rates paid by our major partners. Continued reduced utilization levels of our aircraft or other changes to our schedules under our code-share agreements would adversely impact our financial results.

***There are long-term risks related to supply and demand of regional aircraft associated with our regional airline services strategy.***

Our major airline partners have indicated that their committed supply of regional airline capacity is larger than they desire given current market conditions. Specifically, they have identified an oversupply of 50-seat regional jets under contractual commitments with regional airlines. Delta in particular has reduced both the number of 50-seat regional jets within its network and the number of regional airlines with which it contracts. There are currently more than 300 50-seat aircraft within the Delta Connection system. In addition to reducing the number of 50-seat jets under contract, major airlines have reduced the utilization of regional aircraft, thereby reducing the revenue paid to regional airlines under capacity purchase agreements (See the risk factor titled “*Reduced utilization levels of our aircraft under our code-share agreements would adversely impact our financial results*” for additional details). This decrease has had, and may continue to have, a negative impact on our regional airline services revenue and financial results.

***Declining interest rates could have a negative effect on our financial results.***

Our earnings are affected by changes in interest rates due to the amount of our variable rate long-term debt and the amount of cash and securities we hold. Under our contractual arrangements with our major partners, we are directly reimbursed for interest expense on debt-financed aircraft as a

pass-through cost. The reimbursement of the interest expense is recorded as passenger revenue in our consolidated statements of income. Thus, a decline in interest expense associated with contract aircraft would likely be offset by a reduced aircraft ownership cost passed through to our major partners. Interest expense decreased \$3.0 million, or 3.7%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in interest expense was substantially due to a decrease in interest rates and the majority of this reduction was passed through to our major partners. Interest income decreased \$0.3 million, or 3.7% during the year ended December 31, 2012, compared to the year ended December 31, 2011. Interest income is not a component of our contractual arrangement with our major partners. If interest rates were to decline, our major partners would receive the principal benefit of the interest expense decline, since interest expense is generally passed through to our major partners; however, if declining interest rates reduce our interest income, our financial results will be negatively affected.

***Our insurance costs have increased and further increases in insurance costs or reductions in coverage could have an adverse impact on us.***

We carry insurance for public liability, passenger liability, property damage and all-risk coverage for damage to our aircraft. As a result of terrorist attacks occurring during recent years, aviation insurers significantly reduced the amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events (war-risk coverage). At the same time, these insurers significantly increased the premiums for aviation insurance in general.

The U.S. government has agreed to provide commercial war-risk insurance for U.S.-based airlines through December 31, 2013, covering losses to employees, passengers, third parties and aircraft. If the U.S. government ceases to provide such insurance beyond that date, or reduces the coverage provided by such insurance, we will attempt to purchase insurance coverage, likely with a narrower scope, from commercial insurers at an additional cost. To the extent this coverage is not available at commercially reasonable rates, we would be adversely affected.

While the price of commercial insurance has generally declined since the period immediately after the 2001 terrorist attacks, in the event commercial insurance carriers further reduce the amount of insurance coverage available to us, or significantly increase the cost of obtaining such coverage, we would be adversely affected.

***We could be adversely affected by an outbreak of a disease that affects travel behavior.***

In 2010, there was an outbreak of the H1N1 flu virus which had an adverse impact throughout our network. In 2003, there was an outbreak of Severe Acute Respiratory Syndrome (“SARS”), which had an adverse impact on travel behavior. In addition, in the past there have been concerns about outbreaks or potential outbreaks of other diseases, such as avian flu. Any outbreak of a disease (including a worsening of the outbreak of the H1N1 flu virus) that affects travel behavior could have a material adverse impact on our operating results and financial condition. In addition, outbreaks of disease could result in quarantines of our personnel or an inability to access facilities or our aircraft, which could adversely affect our operations and financial condition.

***Interruptions or disruptions in service at one of our hub airports, due to adverse weather or for any other reason, could have a material adverse impact on our operations.***

We currently operate primarily through hubs in Atlanta, Los Angeles, Houston, Minneapolis, Detroit, San Francisco, Salt Lake City, Chicago, Denver, Houston, Washington, D.C., Newark, Cleveland and the Pacific Northwest. Nearly all of our flights either originate from or fly into one of these hubs. Our revenues depend primarily on our completion of flights and secondarily on service



factors such as timeliness of departure and arrival. Any interruptions or disruptions could, therefore, severely and adversely affect us. Extreme weather can cause flight disruptions, and, during periods of storms or adverse weather, fog, low temperatures, etc., our flights may be canceled or significantly delayed. Hurricanes Katrina and Rita and Superstorm Sandy, in particular, caused severe disruption to air travel in the affected areas and adversely affected airlines operating in the region, including ExpressJet. We operate a significant number of flights to and from airports with particular weather difficulties, including Atlanta, Salt Lake City, Chicago, San Francisco, Newark and Denver. A significant interruption or disruption in service at one of our hubs, due to adverse weather or otherwise, could result in the cancellation or delay of a significant portion of our flights and, as a result, could have a severe adverse impact on our, operations and financial performance.

***We are increasingly dependent on technology, and if our technology fails or we are unable to continue to invest in new technology, our business may be adversely affected.***

We have become increasingly dependent on technology initiatives to reduce costs and to enhance customer service in order to compete in the current business environment. The performance and reliability of our technology are critical to our ability to compete effectively. Technology initiatives will continue to require significant capital investments in order to deliver these expected benefits. If we are unable to make these investments, our business and operations could be negatively affected. In addition, we may face challenges associated with integrating complex technology systems formerly operated by Atlantic Southeast and ExpressJet Delaware. If we are unable to manage these challenges effectively, our business and operations could be negatively affected.

In addition, any internal technological error or failure or large scale external interruption in the technology infrastructure we depend on, such as power, telecommunications or the internet, may disrupt our internal network. Any individual, sustained or repeated failure of technology could impact our customer service and result in increased costs. Like most companies, our technology systems and related data may be vulnerable to a variety of sources of interruption due to events beyond our control, including natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers and other security issues. While we have in place, and continue to invest in, technology security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly to prevent a business disruption and mitigate the resulting adverse financial consequences.

***Our investment in foreign airlines may negatively impact our profitability.***

On September 4, 2008, we announced our intention to acquire a 20% interest in a Brazilian regional airline, Trip Linhas Aereas (“Trip”), for \$30 million. On July 12, 2012, we sold our interest in Trip to Trip Investimentos, Ltda. (“Trip Investimentos”) 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, we also received an option to acquire 15.38% of the ownership in Trip Investimentos. The option has an initial exercise price per share equal to the price paid by Trip Investimentos to acquire our Trip shares. The exercise price escalates annually at a specified rate and we can exercise the option, at our discretion, between the second and fourth anniversaries of our receipt of the final required installment payments from Trip Investimentos. Under the terms of the purchase agreement, Trip Investimentos cannot transfer the Trip shares until all three installment payments have been made. For financial reporting purposes, the restriction on Trip Investimentos’ ability to transfer the Trip shares prevents the transaction from being recognized as a sale. As of December 31, 2012, we had received the first installment payment of \$8.4 million. The initial payment was recorded as an “Other Long-Term Liability” on our consolidated balance sheet. The second installment payment is due July 12, 2013, for an amount of \$16.8 million. The third installment payment is due July 12, 2014, for an amount of

\$16.8 million. There can be no assurance that we will receive the remaining installments payable to us by Trip Investimentos.

On September 29, 2010, we invested \$7 million to acquire a 30% ownership interest in Mekong Aviation Joint Stock Company, an airline operating in Vietnam (“Air Mekong”). During 2011, we invested an additional \$3 million in Air Mekong. We had an investment balance of \$1.7 million in Air Mekong as of December 31, 2012. Our investment in Air Mekong is recorded as an “Other Asset” on our consolidated balance sheet. There is no assurance that Air Mekong will ultimately succeed in its business plan. In addition, we sublease four CRJ900s to Air Mekong. In the event Air Mekong incurs operating losses or files for bankruptcy, our investment may have little or no value and our financial results and condition would be negatively impacted. In addition, we may not be able to sublease or operate the four CRJ900s.

***Our business could be harmed if we lose the services of our key personnel.***

Our business depends upon the efforts of our chief executive officer, Jerry C. Atkin, and our other key management and operating personnel. We may have difficulty replacing management or other key personnel who cease to be employed by us and, therefore, the loss of the services of any of these individuals could harm our business. We do not maintain key-man insurance on any of our executive officers.

## Risks Related to the Airline Industry

*We may be materially affected by uncertainties in the airline industry.*

The airline industry has experienced tremendous challenges in recent years and will likely remain volatile for the foreseeable future. Among other factors, the financial challenges faced by major and regional carriers, including American, United, US Airways, Pinnacle and Mesa, the slowing U.S. economy and continuing hostilities in the Middle East and other regions have significantly affected, and are likely to continue to affect, the U.S. airline industry. These events have resulted in declines and shifts in passenger demand, increased insurance costs, increased government regulations and tightened credit markets, all of which have affected, and will continue to affect, the operations and financial condition of participants in the industry, including us, major carriers (including our major partners), competitors and aircraft manufacturers. These industry developments raise substantial risks and uncertainties, which will affect us, major carriers (including our major partners), competitors and aircraft manufacturers in ways that we are unable to currently predict.

*The airline industry is highly competitive and has undergone a period of consolidation and transition leaving fewer potential code-share partners.*

The airline industry is highly competitive. We not only compete with other regional airlines, some of which are owned by or operated as code-share partners of major airlines, but we also face competition from low-cost carriers and major airlines on many of our routes. Low-cost carriers such as Southwest, JetBlue, US Airways and Frontier among others, operate at many of our hubs, resulting in significant price competition. Additionally, a large number of other carriers operate at our hubs, creating intense competition. Certain of our competitors are larger and have significantly greater financial and other resources than we do. Moreover, federal deregulation of the industry allows competitors to rapidly enter our 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. Increased fare competition could adversely affect our operations and the price of our common stock. The airline industry has undergone substantial consolidation, and it may in the future undergo additional consolidation. Recent examples include the merger between United and Continental in October 2010, Delta and Northwest Airlines, Inc. in November 2008 and America West Airlines and US Airways in September 2005, as well as the merger of Southwest and AirTran Airways, Inc. (“AirTran”) during 2011. We understand that several airlines are currently in discussions related to consolidation in the industry. Other developments include domestic and international code-share alliances between major carriers. Any additional consolidation or significant alliance activity within the airline industry could limit the number of potential partners with whom we could enter into code-share relationships and could have a material adverse effect on our relationships with our code-share partners.

Due, in part, to the dynamic nature of the airline industry, major airlines may also make other strategic changes such as changing or consolidating hub locations. If our major partners were to make changes such as these in their strategy and operations, our operations and financial results could be adversely impacted.

*Terrorist activities or warnings have dramatically impacted the airline industry, and will likely continue to do so.*

The terrorist attacks of September 11, 2001 and their aftermath have negatively impacted the airline industry in general, including our operations. The primary effects experienced by the airline industry include a substantial loss of passenger traffic and revenue. Although, to some degree, airline passenger traffic and revenue have recovered since the September 11<sup>th</sup> attacks, additional terrorist attacks could have a similar or even more pronounced effect. Even if additional terrorist attacks are

not launched against the airline industry, there will be lasting consequences of the attacks, including increased security and insurance costs, increased concerns about future terrorist attacks, increased government regulation and airport delays due to heightened security. Additional terrorist attacks and the fear of such attacks could negatively impact the airline industry, and result in further decreased passenger traffic and yields, increased flight delays or cancellations associated with new government mandates, as well as increased security, fuel and other costs. We cannot provide any assurance that these events will not harm the airline industry generally or our operations or financial condition in particular.

***Fuel costs have adversely affected, and will likely continue to adversely affect, the operations and financial performance of the airline industry.***

The price of aircraft fuel is unpredictable and volatile. Higher fuel prices may lead to higher airfares, which would tend to decrease the passenger load of our code-share partners. Over extended periods, such decreases will likely have an adverse effect on the number of flights we could be scheduled to operate and adversely affect our revenues. Additionally, fuel shortages have been threatened. In addition, we bear the economic risk of fuel price fluctuations on our pro-rate operations. As of December 31, 2012, essentially all of our Brasilia turboprops flown for Delta were flown under pro-rate arrangements, while approximately 60% of our Brasilia turboprops flown in the United system were flown under pro-rate arrangements. As of December 31, 2012, we operated 17 CRJ200s under a pro-rate agreement with United, nine CRJ200 under a pro-rate agreement with Delta and one CRJ200 under a pro-rate arrangement with US Airways. The future cost and availability of fuel to us cannot be predicted, and substantial fuel cost increases or the unavailability of adequate supplies of fuel may have a material adverse effect on our results of operations. During periods of increasing fuel costs, our operating margins have been, and will likely continue to be, adversely affected.

***We are subject to significant governmental regulation.***

All interstate air carriers, including SkyWest Airlines and ExpressJet, are subject to regulation by the DOT, the FAA and 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. We cannot predict whether we will be able to comply with all present and future laws, rules, regulations and certification requirements or that the cost of continued compliance will not have a material adverse effect on our operations. We incur substantial costs in maintaining our current certifications and otherwise complying with the laws, rules and regulations to which we are subject. A decision by the FAA to ground, or require time-consuming inspections of or maintenance on, all or any of our aircraft for any reason may have a material adverse effect on our operations. In addition to state and federal regulation, airports and municipalities enact rules and regulations that affect our operations. From time to time, various airports throughout the country have considered limiting the use of smaller aircraft, such as our aircraft, at such airports. The imposition of any limits on the use of our aircraft at any airport at which we operate could have a material adverse effect on our operations.

***The occurrence of an aviation accident would negatively impact our operations and financial condition.***

An accident or incident involving one of our aircraft could result in significant potential claims of injured passengers and others, as well as repair or replacement of a damaged aircraft and its consequential temporary or permanent loss from service. In the event of an accident, our liability insurance may not be adequate to offset our exposure to potential claims and we may be forced to bear substantial losses from the accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our operational and financial results. Moreover, any aircraft

accident or incident, even if fully insured, could cause a public perception that our operations are less safe or reliable than other airlines.

### **Risks Related to Our Common Stock**

#### ***We can issue additional shares without shareholder approval.***

Our Restated Articles of Incorporation, as amended (the “Restated Articles”), authorize the issuance of up to 120,000,000 shares of common stock, all of which may be issued without any action or approval by our shareholders. As of December 31, 2012, we had 51,432,790 shares outstanding. In addition, as of December 31, 2012, we had equity-based incentive plans under which 2,973,459 shares are reserved for issuance and an employee stock purchase plan under which 1,855,580 shares are reserved for issuance, both of which may dilute the ownership interest of our shareholders. Our Restated Articles also authorize the issuance of up to 5,000,000 shares of preferred stock. Our board of directors has the authority to issue preferred stock with the rights and preferences, and at the price, which it determines. Any shares of preferred stock issued would likely be senior to shares of our common stock in various regards, including dividends, payments upon liquidation and voting. The value of our common stock could be negatively affected by the issuance of any shares of preferred stock.

#### ***The amount of dividends we pay may decrease or we may not pay dividends.***

Historically, we have paid dividends in varying amounts on our common stock. The future payment and amount of cash dividends will depend upon our financial condition and results of operations, loan covenants and other factors deemed relevant by our board of directors. There can be no assurance that we will continue our practice of paying dividends on our common stock or that we will have the financial resources to pay such dividends.

#### ***Provisions of our charter documents and code-share agreements may limit the ability or desire of others to gain control of our company.***

Our ability to issue shares of preferred and common stock without shareholder approval may have the effect of delaying or preventing a change in control and may adversely affect the voting and other rights of the holders of our common stock, even in circumstances where such a change in control would be viewed as desirable by most investors. The provisions of the Utah Control Shares Acquisitions Act may also discourage the acquisition of a significant interest in or control of our company. Additionally, our code-share agreements contain termination and extension trigger provisions related to change in control type transactions that may have the effect of deterring a change in control of our company.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

**None**

## ITEM 2. PROPERTIES

### Flight Equipment

As of December 31, 2012, our fleet consisted of the following types of owned and leased aircraft:

<u>Aircraft Type</u>	<u>Number of Owned Aircraft</u>	<u>Number of Leased Aircraft</u>	<u>Passenger Capacity</u>	<u>Scheduled Flight Range (miles)</u>	<u>Average Cruising Speed (mph)</u>	<u>Average Age (years)</u>
CRJ200s . . . . .	87	181	50	1,500	530	11.2
CRJ700s . . . . .	69	66	70	1,600	530	7.6
CRJ900s . . . . .	11	39	90	1,500	530	5.0
ERJ145s . . . . .	0	242	50	1,500	530	11.0
ERJ135s . . . . .	0	7	37	1,500	530	11.4
Brasilia Turboprops . . . . .	9	33	30	300	300	15.4

The following table outlines the expected size and composition of our combined fleet for the periods indicated. The projected fleet size schedule below assumes aircraft financed under operating leases will be returned to the lessor at the end of each lease and debt-financed aircraft will be retired or sold as the debt matures.

	<u>As of December 31,</u>			
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<i>Expected fleet size</i>				
Total Bombardier Regional Jets . . . . .	441	416	401	372
Total Embraer Regional Jets . . . . .	223	197	157	157
Total Brasilia Turboprops . . . . .	23	13	12	12
Total Combined Fleet . . . . .	687	626	570	541

#### *Bombardier and Embraer Regional Jets*

The Bombardier and Embraer Regional Jets are among the quietest commercial jets currently available and offer many of the amenities of larger commercial jet aircraft, including flight attendant service, as well as a stand-up cabin, overhead and under seat storage, lavatories and in-flight snack and beverage service. The speed of Bombardier and Embraer Regional Jets is comparable to larger aircraft operated by the major airlines, and they have a range of approximately 1,600 miles; however, because of their smaller size and efficient design, the per-flight cost of operating a Bombardier or Embraer Regional Jet is generally less than that of a 120-seat or larger jet aircraft.

#### *Brasilia Turboprops*

The Brasilia turboprops are 30-seat, pressurized aircraft designed to operate more economically over short-haul routes than larger jet aircraft. These factors make it economically feasible for SkyWest Airlines to provide high frequency service in markets with relatively low volumes of passenger traffic. Passenger comfort features of the Brasilia turboprops include stand-up headroom, a lavatory, overhead baggage compartments and flight attendant service. We expect that Delta and United will want us to continue to operate Brasilia turboprops in markets where passenger load and other factors make the operation of a regional jet impractical. As of December 31, 2012, SkyWest Airlines operated 42 Brasilia turboprops out of Los Angeles, San Francisco, Salt Lake City, Seattle/Tacoma and Portland. SkyWest Airlines' Brasilia turboprops are generally used in its California markets, which are characterized by high frequency service on shorter stage lengths.

## Ground Facilities

SkyWest, SkyWest Airlines and ExpressJet own or lease the following principal properties:

### *SkyWest Facilities*

- We own the corporate headquarters facilities of SkyWest and SkyWest Airlines, located in St. George, Utah, which consist of two adjacent buildings of 63,000 and 55,000 square feet, respectively.

### *SkyWest Airlines Facilities*

- SkyWest Airlines owns a 56,600 square foot aircraft maintenance facility in Palm Springs, California.
- SkyWest Airlines leases a 131,300 square foot facility at the Salt Lake International Airport. This facility consists of a 58,400 square-foot aircraft maintenance hangar and a 72,900 square-foot training and office facility. In January 2002, SkyWest Airlines entered into a sale lease-back agreement with the Salt Lake City Department of Airports. SkyWest Airlines is leasing the facility under an operating lease arrangement over a 26-year term.
- SkyWest Airlines leases a 90,000 square foot aircraft maintenance and training facility at the Salt Lake City International Airport. The Salt Lake City facility consists of 40,000 square feet of maintenance facilities and 50,000 square feet of training and other facilities. We originally constructed the Salt Lake City facility and subsequently sold it to and leased it back from the Salt Lake City Airport Authority. SkyWest Airlines is leasing the facility under an operating lease arrangement over a 36-year term.
- SkyWest Airlines owns a 55,000 square-foot maintenance accessory shop and a 5,000 square-foot office facility in Salt Lake City, Utah.
- SkyWest Airlines leases a 90,000 square-foot maintenance hangar and a 15,000 square-foot office facility in Fresno, California.
- SkyWest Airlines leases a 70,000 square-foot maintenance hangar in Tucson, Arizona.
- SkyWest Airlines leases a 70,000 square-foot hangar and office facility in Milwaukee, Wisconsin.
- SkyWest Airlines leases a 28,000 square-foot hangar and office facility in Nashville, Tennessee.
- SkyWest Airlines owns a 57,000 square-foot maintenance facility and a 28,000 square-foot office facility in Chicago, Illinois.
- SkyWest Airlines owns a 55,000 square-foot hangar and a 46,000 square-foot office facility in Colorado Springs, Colorado.

### *ExpressJet Facilities*

- ExpressJet leases an aircraft hangar complex consisting of 203,000 square feet of building space. The complex also contains a 15,000 square-foot ground service equipment facility. The 203,000 square-foot building space consists of a 114,000 square foot aircraft maintenance hangar, 18,000 square-foot training facility, and 71,000 square feet of renovated office space which is utilized to support various operating divisions and ExpressJet's Operational Control Center. The lease agreement for the aircraft hangar complex has a 25-year term and is scheduled to expire on April 30, 2033.

- ExpressJet leases a 20,000 square-foot facility at the Hartsfield-Jackson Atlanta International Airport which serves as ExpressJet's corporate headquarters. The lease agreement for this facility has a seven-year term and is scheduled to expire on July 31, 2018.
- ExpressJet leases a group of warehouse units for the purpose of parts storage in College Park, Georgia. The 14,000 square feet of warehouse space is leased on a month-to-month basis.
- ExpressJet leases an aircraft hangar complex located at the Middle Georgia Regional Airport. The complex includes a 77,000 square-foot aircraft hangar facility and 41,000 square feet of training and office space. The lease agreement has a sixteen-year term and is scheduled to expire on April 1, 2018. ExpressJet has subleased the hangar complex to an unrelated aircraft maintenance provider; however ExpressJet remains obligated for payment and other obligations of the lease under the lease agreement.
- ExpressJet leases an aircraft hangar complex located at the Baton Rouge Metropolitan Airport District. The complex includes a 27,000 square-foot hangar facility and 12,000 square feet of office support space. ExpressJet has the right to occupy the Baton Rouge facility rent-free until 2022.
- ExpressJet leases a 35,000 square-foot hangar facility in Columbia, South Carolina. The lease agreement has a five-year term and is scheduled to expire on June 30, 2015.
- ExpressJet leases 34 gates and other premises of the Central Passenger Terminal Complex located on Concourse C and Concourse D at Hartsfield-Jackson Atlanta International Airport. The lease agreement is scheduled to expire on September, 20, 2017.
- ExpressJet leases a 91,000 square-foot aircraft maintenance facility in Cleveland, Ohio. The lease agreement is scheduled to expire on January 30, 2015.
- ExpressJet leases a 64,000 square-foot aircraft maintenance facility in Richmond, Virginia. The lease agreement is scheduled to expire on January 30, 2014.
- ExpressJet leases a 152,000 square-foot hangar, and a 29,000 square-foot shop facility in Shreveport, Louisiana. The lease agreement for the hangar facility and the lease for the shop facility are on a month-to-month basis.
- ExpressJet leases a 83,000 square-foot hangar, and a 25,000 square-foot shop facility in Knoxville, Tennessee. The lease agreement for the hangar facility is scheduled to expire on November 30, 2020, and the lease for the shop facility is on a month-to-month basis.
- ExpressJet leases a 380,000 square-foot hangar and office support space in Houston, Texas. The lease agreement is scheduled to expire on December 31, 2015.
- ExpressJet leases a 68,000 square-foot facility in Houston, Texas. ExpressJet has subleased the building to an unrelated aircraft maintenance provider; however ExpressJet remains obligated for payment and other obligations of the lease under the lease agreement which is scheduled to expire on October 2, 2016.
- ExpressJet leases a 57,000 square-foot training center and support space in Houston, Texas. The lease agreement is scheduled to expire on December 31, 2027.
- ExpressJet owns three buildings in Saltillo, Mexico consisting of approximately 96,000 square feet of hangar space and 3,000 square feet of administrative space. These buildings are leased to Saltillo Jet Center S. de R.L. de C.V., a subsidiary of ExpressJet, for use in its aircraft painting business.



Our management deems the current facilities of SkyWest, SkyWest Airlines and ExpressJet as being suitable to support existing operations and believes these facilities will be adequate for the foreseeable future.

### **ITEM 3. LEGAL PROCEEDINGS**

We are subject to certain legal actions which we consider routine to our business activities. As of December 31, 2012, our 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 our financial position, liquidity or results of operations. However, the following is a significant outstanding legal matter, which if not resolved consistent with the position we have taken in such matters, would negatively impact our financial results.

#### ***SkyWest Airlines and ExpressJet v. Delta***

During the quarter ended December 31, 2007, Delta notified SkyWest, SkyWest Airlines and Atlantic Southeast (now ExpressJet) 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 certain situations. During the period between the execution of the Delta Connection Agreements in September 2005 and December 2007, SkyWest Airlines and Atlantic Southeast passed through to Delta IROP expenses that were paid pursuant to Delta’s policies, and Delta accepted and reimbursed those expenses. Delta now claims it is obligated to reimburse only a fraction of the IROP expenses. 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. Since December 2007, Delta has continued to withhold payments from the weekly scheduled wire payments to SkyWest Airlines and Atlantic Southeast (now ExpressJet), and has disputed subsequent billings for IROP expenses. On February 1, 2008, SkyWest Airlines and Atlantic Southeast filed a Complaint in the Superior Court for Fulton County, Georgia (“Superior Court”) challenging Delta’s treatment of the matter and seeking recovery of the payments withheld by Delta and any future withholdings related to this issue. Delta filed an Answer to the SkyWest Airlines and Atlantic Southeast Complaint and a Counterclaim against SkyWest Airlines and Atlantic Southeast on March 24, 2008. Delta’s Counterclaim alleged that SkyWest Airlines and Atlantic Southeast breached the Delta Connection Agreements by invoicing Delta for IROP expenses that were paid pursuant to Delta’s policies, and claims only a portion of those expenses may be invoiced to Delta. Since July 1, 2008, we have not recognized revenue related to IROP expense reimbursements withheld by Delta because collection of those reimbursements is the subject of litigation and is not reasonably assured. As of December 31, 2012, we had recognized a cumulative total of \$31.7 million of revenue associated with the funds withheld by Delta.

During 2010, we began preliminary settlement discussions with Delta related to the dispute. Notwithstanding the legal merits of the case, we offered to settle the claim for approximately \$5.9 million less than the cumulative total of revenue recognized related to this matter. Those settlement discussions were not successful; however, as a result of the settlement offer, we wrote off \$5.9 million of related receivables as of December 31, 2010.

After proceedings that included contested motions, document discovery, and depositions, Delta voluntarily dismissed its Counterclaim. Discovery in that action was not complete at the time of dismissal. On February 14, 2011, SkyWest Airlines and Atlantic Southeast voluntarily dismissed their claims in the Superior Court, and filed a new complaint (the “State Court Complaint”) in the Georgia State Court of Fulton County (the “State Court”). The claims continue to include breach of contract, breach of contract based on mutual departure, breach of contract based on voluntary payment, and breach of the duty of good faith and fair dealing. Delta moved for partial dismissal of the State Court

Complaint, which motion was denied in its entirety. Discovery in the State Court lawsuit is not yet complete.

On October 18, 2011, Delta filed a counterclaim (the “Counterclaim”) against SkyWest Airlines and Atlantic Southeast. The Counterclaim contains claims for unjust enrichment and breach of contract related to alleged non-revenue positive space flying by SkyWest and Atlantic Southeast employees for non-Delta related business. Delta’s Counterclaim does not specify an amount of damages, but the Counterclaim alleges, on information and belief, that Delta’s damages exceed \$4.5 million. SkyWest Airlines and Atlantic Southeast filed their reply to the Counterclaim on November 21, 2011, stating the allegations contained in the Counterclaim stand denied by operation of law and asserting SkyWest’s and Atlantic Southeast’s affirmative defenses. An estimated loss is accrued if the loss is probable and reasonably estimable. Because these conditions have not been satisfied, we have not recorded a loss in our consolidated financial statements with respect to the dispute. As of December 31, 2012, a range of reasonably possible loss is not determinable related to the Counterclaim.

As of December 31, 2012, our estimated range of reasonably possible loss related to the dispute was \$0 to \$25.8 million. SkyWest Airlines and ExpressJet continue to vigorously pursue their claims set forth in the State Court Complaint and their defenses against Delta’s Counterclaim.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

The disclosure required by this item is not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Price for Our Common Stock

Our common stock is traded on The Nasdaq Global Select Market under the symbol "SKYW." At February 8, 2013, there were approximately 910 stockholders of record of our common stock. Securities held of record do not include shares held in securities position listings. The following table sets forth the range of high and low closing sales prices for our common stock, during the periods indicated.

<u>Quarter</u>	<u>2012</u>		<u>2011</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First . . . . .	14.05	10.81	17.08	15.05
Second . . . . .	11.04	6.36	16.76	14.39
Third . . . . .	10.87	6.31	15.49	10.95
Fourth . . . . .	12.94	10.36	13.67	10.51

The transfer agent for our common stock is Zions First National Bank, Salt Lake City, Utah.

#### Dividends

During 2012 and 2011, our Board of Directors declared regular quarterly dividends of \$0.04 per share.

#### Securities Authorized for Issuance Under Equity Compensation Plans

The following table contains information regarding our equity compensation plans as of December 31, 2012.

<u>Plan Category</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in the First Column)</u>
<i>Equity compensation plans approved by security holders(1)</i> . . . . .	3,653,859	\$18.44	4,829,039

(1) Consists of our Executive Stock Incentive Plan, our All Share Stock Option Plan, our SkyWest Inc. Long Term Incentive Plan, and our Employee Stock Purchase Plan. See Note 9 to our Consolidated Financial Statements for the fiscal year ended December 31, 2012, included in Item 8 of this Report, for additional information regarding these plans.

#### Issuer Purchases of Equity Securities

Our Board of Directors has adopted a stock repurchase program which authorizes us to repurchase shares of our common stock in the public market, from time to time, at prevailing prices. Our stock repurchase program currently authorizes the repurchase of up to 25,000,000 shares of our

common stock. The following table summarizes our purchases under our stock repurchase program for the three months ended December 31, 2012.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of a Publicly Announced Program(1)</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Program</u>
October 1 - October 31, 2012 . . . . .	34	10.61	34	6,513,692
November 1 - November 30, 2012 . . . . .	—	—	—	6,513,692
December 1 - December 31, 2012 . . . . .	—	—	—	6,513,692
Total . . . . .	<u>34</u>	<u>10.61</u>	<u>34</u>	<u>6,513,692</u>

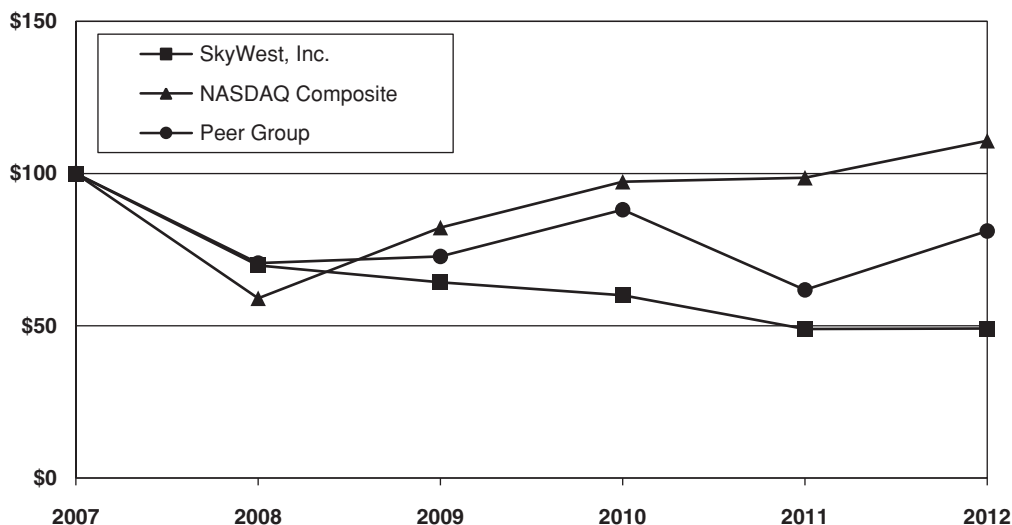
(1) Under resolutions adopted at various dates between February 2007 and August 2012, our Board of Directors authorized the repurchase of up to 25,000,000 shares of our common stock. Purchases are made at management’s discretion based on market conditions and our financial resources. As of December 31, 2012, we had spent approximately \$338.5 million to repurchase approximately 18,486,308 shares of the 25,000,000 shares of common stock designated for repurchase by our Board of Directors. The authorization of our Board of Directors does not have an expiration date. Effective September 14, 2012, our Board of Directors adopted the SkyWest, Inc. 2012 Stock Repurchase Plan (the “Stock Repurchase Plan”), which provides for the repurchase of up to 6,514,266 shares of common stock, from time to time in open market or privately negotiated transactions, as contemplated by Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended. The Stock Repurchase Plan is scheduled to expire on October 15, 2014.

## Stock Performance Graph

The following Performance Graph and related information shall not be deemed “soliciting material” or “filed” with the Securities and Exchange Commission, (the “Commission”), nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (the “Exchange Act”), except to the extent we specifically incorporate it by reference into such filing.

The following graph compares the cumulative total shareholder return on our common stock over the five-year period ended December 31, 2012, with the cumulative total return during such period of the Nasdaq Stock Market (U.S. Companies) and a peer group index composed of regional and major passenger airlines with U.S operations that have equity securities traded on the Nasdaq Stock Market or the New York Stock Exchange, the members of which are identified below (the “Peer Group”) for the same period. The following graph assumes an initial investment of \$100.00 with dividends reinvested. The stock performance shown on the graph below represents historical stock performance and is not necessarily indicative of future stock price performance.

**Comparison of Cumulative Five Year Total Return**



Company Name / Index	INDEXED RETURNS					
	Base Period Dec07	Years Ending				
		Dec08	Dec09	Dec10	Dec11	Dec12
<b>SkyWest, Inc.</b> . . . . .	<b>100</b>	69.82	64.27	60.02	48.94	49.10
<b>NASDAQ Composite</b> . . . . .	<b>100</b>	59.03	82.25	97.32	98.63	110.78
<b>Peer Group</b> . . . . .	<b>100</b>	70.59	72.78	88.12	61.79	81.13

The Peer Group consists of regional and major passenger airlines with U.S operations that have equity securities traded on the Nasdaq Stock Market or the New York Stock Exchange. The members of the Peer Group are: Alaska Air Group, Inc.; Allegiant Travel Co.; AMR Corp/DE; Delta Air Lines, Inc.; Great Lakes Aviation, LTD.; Gulfstream Intl. Group Inc.; Hawaiian Holdings, Inc.; JetBlue Airways, Corp.; Pinnacle Airlines, Corp.; Republic Airways, Holdings Inc.; SkyWest, Inc. Southwest Airlines, Spirit Airlines Inc.; United Continental Holdings, Inc.; and US Airways Group, Inc.

## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial and operating data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our consolidated financial statements and related notes included elsewhere in this Report.

### Selected Consolidated Financial Data (amounts in thousands, except per share data):

	Year Ended December 31,				
	2012	2011	2010(2)	2009	2008
Operating revenues . . . . .	\$3,534,372	\$3,654,923	\$2,765,145	\$2,613,614	\$3,496,249
Operating income . . . . .	165,987	41,105	201,826	212,195	255,231
Net income (loss) . . . . .	51,157	(27,335)	96,350	83,658	112,929
Net income (loss) per common share:					
Basic . . . . .	\$ 1.00	\$ (0.52)	\$ 1.73	\$ 1.50	\$ 1.95
Diluted . . . . .	\$ 0.99	\$ (0.52)	\$ 1.70	1.47	1.93
Weighted average shares:					
Basic . . . . .	51,090	52,201	55,610	55,854	57,790
Diluted . . . . .	51,746	52,201	56,526	56,814	58,633
Total assets . . . . .	4,254,637	\$4,281,908	\$4,456,148	\$4,310,802	\$4,014,291
Current assets . . . . .	1,434,040	1,280,464	1,379,203	1,254,099	1,220,668
Current liabilities . . . . .	591,425	624,148	572,278	449,835	386,604
Long-term debt, net of current maturities . . . . .	1,470,567	1,606,993	1,738,936	1,816,318	1,681,705
Stockholders’ equity . . . . .	1,387,175	1,334,261	1,420,923	1,352,219	1,275,521
Return (loss) on average equity(1) . . .	3.8%	(2.0)%	6.9%	6.4%	9.0%
Cash dividends declared per common share . . . . .	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.13

(1) Calculated by dividing net income (loss) by the average of beginning and ending stockholders’ equity for the year.

(2) On November 12, 2010, we completed the ExpressJet Merger for \$136.5 million in cash. Our 2010 consolidated operating revenues contain 50 days of additional revenue and expenses generated subsequent to the ExpressJet Merger.

### Selected Operating Data

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Block hours . . . . .	2,297,014	2,250,280	1,547,562	1,363,257	1,376,815
Departures . . . . .	1,435,512	1,390,523	1,001,766	870,761	872,288
Passengers carried . . . . .	58,803,690	55,836,271	40,411,089	34,544,772	33,461,819
Revenue passenger miles (000) . . . . .	30,088,278	29,109,039	20,227,220	17,448,958	17,101,910
Available seat miles (000) . . . . .	37,278,554	36,698,859	25,503,845	22,142,650	22,020,250
Revenue per available seat mile . . . . .	9.5¢	10.0¢	10.8¢	11.8¢	15.9¢
Cost per available seat mile . . . . .	9.2¢	10.1¢	10.4¢	11.2¢	15.2¢
Average passenger trip length . . . . .	512	521	501	505	511
Number of operating aircraft at end of year . . . . .	738	732	704	449	442

The following terms used in this section and elsewhere in this Report have the meanings indicated below:

“Revenue passenger miles” represents the number of miles flown by revenue passengers.

“Available seat miles” represents the number of seats available for passengers multiplied by the number of miles those seats are flown.

“Revenue per available seat mile” represents passenger revenue divided by available seat miles.

“Cost per available seat mile” represents operating expenses plus interest divided by available seat miles.

“Number of operating aircraft at end of year” excludes aircraft leased to un-affiliated and affiliated entities.

## ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis presents factors that had a material effect on our results of operations during the years ended December 31, 2012, 2011 and 2010. Also discussed is our financial position as of December 31, 2012 and 2011. You should read this discussion in conjunction with our consolidated financial statements, including the notes thereto, appearing elsewhere in this Report or incorporated herein by reference. This discussion and analysis contains forward-looking statements. Please refer to the sections of this Report entitled “Cautionary Statement Concerning Forward-looking Statements” and “Item 1A. Risk Factors” for discussion of some of the uncertainties, risks and assumptions associated with these statements.*

### Overview

Through SkyWest Airlines and ExpressJet, we operate the largest regional airline in the United States. As of December 31, 2012, SkyWest Airlines and ExpressJet offered scheduled passenger and air freight service with approximately 4,000 total daily departures to destinations in the United States, Canada, Mexico and the Caribbean. As of December 31, 2012, we operated a combined fleet of 744 aircraft consisting of the following:

	CRJ200	ERJ145	ERJ135	CRJ700	CRJ900	EMB120	Total
United . . . . .	92	242	7	70	—	34	445
Delta . . . . .	147	—	—	60	46	8	261
US Airways . . . . .	15	—	—	—	—	—	15
American . . . . .	12	—	—	—	—	—	12
Alaska . . . . .	—	—	—	5	—	—	5
Subleased to an un-affiliated entity . . . . .	2	—	—	—	—	—	2
Subleased to an affiliated entity . . . . .	—	—	—	—	4	—	4
Total . . . . .	268	242	7	135	50	42	744

For the year ended December 31, 2012, approximately 64.8% of our aggregate capacity was operated for United, approximately 32.2% was operated for Delta, approximately 1.4% was operated for Alaska, approximately 1.4% was operated for US Airways and approximately 0.2% was operated for American.

Under a fixed-fee flying arrangement, the major airline generally pays the regional airline a fixed-fee for each departure, with additional incentives based on completion of flights, on-time performance and baggage handling performance. In addition, the major and regional airline often enter into an arrangement pursuant to which the major airline bears the risk of changes in the price of fuel

and other such costs that are passed through to the major airline partner. Regional airlines benefit from a fixed-fee arrangement because they are sheltered from most of the elements that cause volatility in airline financial performance, including variations in ticket prices, passenger loads and fuel prices. However, regional airlines in fixed-fee arrangements do not benefit from positive trends in ticket prices, passenger loads or fuel prices and, because the major airline absorbs most of the costs associated with the regional airline flight, the margin between the fixed-fees for a flight and the expected per-flight costs tends to be smaller than the margins associated with revenue-sharing arrangements.

Under our fixed-fee arrangements, two compensation components have a significant impact on comparability of revenue and operating expense for the periods presented. One item is the reimbursement of fuel expense, which is a directly-reimbursed expense under all of our fixed-fee arrangements. Our major partners directly reimburse us for fuel expense incurred under each respective fixed fee contract and we record such reimbursement as passenger revenue. Thus, the price volatility of fuel and the volume of fuel expensed under our fixed-fee arrangements will impact our fuel expense and our passenger revenue equally, with no impact on our operating income.

The second item is the compensation we receive for engine maintenance under our fixed-fee arrangements. Under our United, American, US Airways and Alaska flying contracts, a portion of our compensation is based upon fixed hourly rates, which is intended to compensate us for engine maintenance costs (“Fixed-Rate Engine Contracts”). Under the compensation structure for our Delta Connection and United CPA flying contracts, our major partner directly reimburses us for engine maintenance expense when the expense is incurred (“Directly-Reimbursed Engine Contracts”). We use the direct-expense method of accounting for our CRJ200 regional jet aircraft engine overhaul costs and, accordingly, we recognize engine maintenance expense on our CRJ200 engines on an as-incurred basis. Under the direct-expense method, the maintenance liability is recorded when the maintenance services are performed (“CRJ200 Engine Overhaul Expense”).

Because we use the direct-expense method of accounting for our CRJ200 engine expense, and because we recognize revenue using the applicable fixed hourly rates under our Fixed-Rate Engine Contracts, the number of engine maintenance events and related expense we incur each reporting period under the Fixed-Rate Engine Contracts has a direct impact on the comparability of our operating income for the presented reporting periods. The CRJ200 Engine Overhaul Expense incurred under the Fixed-Rate Engine Contracts decreased \$22.4 million during the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in CRJ200 Engine Overhaul Expense was primarily due to a reduction in the number of scheduled engine maintenance events during the year ended December 31, 2012.

Because we recognize revenue when we incur engine maintenance expense on engines operating under our Directly-Reimbursed Engine Contracts, the number of engine events and related expense we incur each reporting period does not have a direct impact on the comparability of our operating income for the presented reporting periods.

We have an agreement with a third-party vendor to provide long-term engine maintenance covering scheduled and unscheduled repairs for engines on our CRJ700s operating under our Fixed-Rate Engine Contracts (“Power by the Hour Agreement”). Under the terms of the Power by the Hour Agreement, we are obligated to pay a set dollar amount per engine hour flown on a monthly basis and the vendor assumes the obligation to repair the engines at no additional cost to us, subject to certain specified exclusions. Thus, under the Power by the Hour Agreement, we expense the engine maintenance costs as flight hours are incurred on the engines and using the contractual rate set forth in the agreement. Because we record engine maintenance expense based on the fixed hourly rate pursuant to the Power by the Hour Agreement on our CRJ700s operating under our Fixed-Rate Engine Contracts, and because we recognize revenue using the applicable fixed hourly rates under our Fixed-Rate Engine Contracts, the number of engine events and related expense we incur each reporting



period does not have a direct impact on the comparability of our operating income for the presented reporting periods. The table below summarizes how we are compensated by our major partners under our flying contracts for engine expense and the method we use to recognize the corresponding expense.

<u>Flying Contract</u>	<u>Compensation of Engine Expense</u>	<u>Expense Recognition</u>
SkyWest Delta Connection	Directly-Reimbursed Engine Contracts	Direct Expense Method
ExpressJet Delta Connection	Directly-Reimbursed Engine Contracts	Direct Expense Method
SkyWest United Express (CRJ200)	Fixed-Rate Engine Contracts	Direct Expense Method
SkyWest United Express (CRJ700)	Fixed-Rate Engine Contracts	Power by the Hour Agreement
SkyWest United Express (EMB120)	Fixed-Rate Engine Contracts	Deferral Method
ExpressJet United Express (CRJ200)	Fixed-Rate Engine Contracts	Direct Expense Method
ExpressJet United Express (ERJ145)	Fixed-Rate Engine Contracts	Power by the Hour Agreement
ExpressJet United CPA	Directly-Reimbursed Engine Contracts	Power by the Hour Agreement
Alaska Agreement	Fixed-Rate Engine Contracts	Power by the Hour Agreement
American Eagle Agreement (CRJ200)	Fixed-Rate Engine Contracts	Direct Expense Method
US Airways Express (CRJ200)	Fixed-Rate Engine Contracts	Direct Expense Method

Historically, multiple contractual relationships have enabled us to reduce reliance on any single major airline code and to enhance and stabilize operating results through a mix of contract flying and our controlled or “pro-rate” flying. For the year ended December 31, 2012, contract flying revenue and pro-rate revenue represented approximately 91% and 9%, respectively, of our total passenger revenues. On contract routes, the major airline partner controls scheduling, ticketing, pricing and seat inventories and we are compensated by the major airline partner at contracted rates based on completed block hours, flight departures and other operating measures.

### **Financial Highlights**

We had revenues of \$3.5 billion for the year ended December 31, 2012, a 3.3% decrease, compared to revenues of \$3.7 billion for the year ended December 31, 2011. We had a net income of \$51.2 million, or \$0.99 per diluted share, for the year ended December 31, 2012, compared to a net loss of \$27.3 million or \$0.52 per diluted share, for the year ended December 31, 2011.

The significant items affecting our financial performance during the year ended December 31, 2012 are outlined below:

Under certain of our flying contracts, certain expenses are subject to direct reimbursement from our major partners and we record such reimbursements as passenger revenue, including fuel and certain engine maintenance expenses. Our fuel expense and directly-reimbursed engine expense decreased by \$162.9 million and \$13.9 million, respectively, during the year ended December 31, 2012, from the year ended December 31, 2011, due primarily to United purchasing an increased volume of fuel directly from vendors on flights we operated under our United Express Agreements and due to a reduction in the number of engine events from the prior year. Excluding the impact of the decrease in direct fuel and engine maintenance expense and associated reimbursements, our passenger revenues increased \$59.5 million for year ended December 31, 2012 compared to the year ended December 31, 2011, which was primarily due to an increase in block-hour production, receipt of higher incentive payments and favorable compensation negotiations with our major partners.

Because we use the direct-expense method of accounting for our CRJ200 engines and because we recognize revenue using the applicable fixed hourly rates under our Fixed-Rate Engine Contracts, the number of engine maintenance events and related expense we incur each reporting period operating under the Fixed-Rate Engine Contracts has a direct impact on the comparability of our operating income for the presented reporting periods. The CRJ200 Engine Overhaul Expense incurred under the Fixed-Rate Engine Contracts decreased \$22.4 million during the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in CRJ200 Engine Overhaul Expense

was primarily due to a reduction in the number of scheduled engine maintenance events during the year ended December 31, 2012.

Aircraft maintenance expense, excluding reimbursed engine overhauls and engine overhauls for our CRJ200s under our Fixed-Rate Engine Contracts, decreased \$16.8 million, or 3.6%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in aircraft maintenance expense, excluding engine overhaul costs, for the year ended December 31, 2012, compared to the year ended December 31, 2011, was principally due to fewer scheduled maintenance events and certain cost reduction initiatives undertaken during the year ended December 31, 2012.

Additionally, we experienced a \$10.4 million reduction in other operating expenses, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in other operating expenses was primarily due to the reduction in property tax expense resulting from refunds received during the year ended December 31, 2012, a reduction in simulator training expense and a reduction in legal and consulting expenses.

The items identified above were the principal factors that contributed to the significant improvement in our financial results during the year ended December 31, 2012, compared to the year ended December 31, 2011.

During 2012, we reached an agreement with Delta to add 34 additional used dual-class Bombardier regional jet aircraft in exchange for the early termination of 66 CRJ200 aircraft under our Delta Connection Agreements. The additional dual-class aircraft were previously operated for Delta by other regional carriers. We anticipate the 34 additional dual-class aircraft will be subleased from Delta for a nominal amount. The 34 additional aircraft consist of five CRJ700s and 29 CRJ900s. As of December 31, 2012, we had taken delivery of 15 of the additional CRJ900s and five of the additional CRJ700s. We anticipate that the remaining aircraft will be delivered by June 2013. We anticipate that all 66 CRJ200 aircraft will be removed from the Delta Connection Agreements by December 31, 2015. Of the 66 CRJ200s scheduled to be removed, 41 CRJ200s are subleased from Delta for a nominal amount, which are scheduled to be returned to Delta without obligation to us.

During 2012, we signed the American Agreements, which provide for us to operate 23 CRJ200s. The aircraft flown for American have been removed from our SkyWest Airlines and ExpressJet Delta Connection Agreements. We started our operations under the American Agreements on November 14, 2012, with 12 aircraft that are being flown out of Los Angeles International Airport by SkyWest Airlines. The other 11 aircraft were placed into service by ExpressJet on February 14, 2013 and are operated out of Dallas/Fort Worth International Airport.

Total available seat miles ("ASMs") for the year ended December 31, 2012 increased 1.6%, compared to the year ended December 31, 2011. During the year ended December 31, 2012, we generated 37.3 billion ASMs, compared to 36.7 billion ASMs during the year ended December 31, 2011.

### **Critical Accounting Policies**

Our significant accounting policies are summarized in Note 1 to our consolidated financial statements for the year ended December 31, 2012, included in Item 8 of this Report. Critical accounting policies are those policies that are most important to the preparation of our consolidated financial statements and require management's subjective and complex judgments due to the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies relate to revenue recognition, aircraft maintenance, aircraft leases, impairment of long-lived assets and intangibles, stock-based compensation expense and fair value as discussed below. The application of these accounting policies involves the exercise of judgment and the use of assumptions as

to future uncertainties and, as a result, actual results will differ, and could differ materially from such estimates.

#### *Revenue Recognition*

Passenger and ground handling revenues are recognized when service is provided. Under our contract and pro-rate flying agreements with our code-share partners, revenue is considered earned when the flight is completed. Our agreements with our code-share partners contain certain provisions pursuant to which the parties could terminate the respective agreement, subject to certain rights of the other party, if certain performance criteria are not maintained. Our revenues could be impacted by a number of factors, including changes to the applicable code-share agreements, contract modifications resulting from contract renegotiations and our ability to earn incentive payments contemplated under applicable agreements. In the event contracted rates are not finalized at a quarterly or annual financial statement date, we record that period's revenues based on the lower of the prior period's approved rates adjusted for the current contract negotiations and our estimate of rates that will be implemented. Also, in the event we have a reimbursement dispute with a major partner at a quarterly or annual financial statement date, we evaluate the dispute under established revenue recognition criteria and, provided the revenue recognition criteria have been met, we recognize revenue for that period based on our estimate of the resolution of the dispute. Accordingly, we are required to exercise judgment and use assumptions in the application of our revenue recognition policy.

#### *Maintenance*

We use the direct-expense method of accounting for our regional jet aircraft engine overhaul costs. Under this method, the maintenance liability is not recorded until the maintenance services are performed. We use the "deferral method" of accounting for our Brasilia turboprop engine overhauls, which provides for engine overhaul costs to be capitalized and depreciated to the next estimated overhaul event or to the remaining useful life, whichever is shorter. For leased aircraft, we are subject to lease return provisions that require a minimum portion of the "life" of an overhaul be remaining on the engine at the lease return date. With respect to engine overhauls related to leased Brasilia turboprops to be returned, we adjust the estimated useful lives of the final engine overhauls based on the respective lease return dates. With respect to SkyWest Airlines, a third-party vendor provides our long-term engine services covering the scheduled and unscheduled repairs for engines on our CRJ700s operated under our Fixed-Rate Engine Contracts. Under the terms of the vendor agreement, we pay a set dollar amount per engine hour flown on a monthly basis and the third-party vendor assumes the obligation to repair the engines at no additional cost to us, subject to certain specified exclusions. Thus, under the third-party vendor agreement, we expense the engine maintenance costs as flight hours are incurred on the engines and using the contractual rate set forth in the agreement.

#### *Aircraft Leases*

The majority of SkyWest Airlines' aircraft are leased from third parties, while ExpressJet's aircraft flying for Delta are primarily debt-financed on a long-term basis, and the majority of ExpressJet's aircraft flying for United are leased from United for a nominal amount. In order to determine the proper classification of our leased aircraft as either operating leases or capital leases, we must make certain estimates at the inception of the lease relating to the economic useful life and the fair value of an asset as well as select an appropriate discount rate to be used in discounting future lease payments. These estimates are utilized by management in making computations as required by existing accounting standards that determine whether the lease is classified as an operating lease or a capital lease. All of our aircraft leases have been classified as operating leases, which results in rental payments being charged to expense over the terms of the related leases. Additionally, operating leases are not reflected

in our consolidated balance sheet and accordingly, neither a lease asset nor an obligation for future lease payments is reflected in our consolidated balance sheets.

#### *Impairment of Long-Lived Assets*

As of December 31, 2012, we had approximately \$2.7 billion of property and equipment and related assets. Additionally, as of December 31, 2012, we had approximately \$17.2 million in intangible assets. In accounting for these long-lived and intangible assets, we make estimates about the expected useful lives of the assets, the expected residual values of certain of these assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. We recorded an intangible of approximately \$33.7 million relating to the acquisition of Atlantic Southeast in September 2005. The intangible is being amortized over fifteen years under the straight-line method. As of December 31, 2012, we had recorded \$16.5 million in accumulated amortization expense. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the long-lived assets, a significant change in the condition of the long-lived assets and operating cash flow losses associated with the use of the long-lived assets.

When considering whether or not impairment of long-lived assets exists, we group similar assets together at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and compare the undiscounted cash flows for each asset group to the net carrying amount of the assets supporting the asset group. Asset groupings are done at the fleet or contract level. Based on the results of the evaluations performed as of December 31, 2012, our management concluded no impairment of long-lived assets was necessary as of December 31, 2012.

#### *Stock-Based Compensation Expense*

We estimate the fair value of stock options as of the grant date using the Black-Scholes option pricing model. We use historical data to estimate option exercises and employee termination in the option pricing model. The expected term of options granted is derived from the output of the option pricing model and represents the period of time that options granted are expected to be outstanding. The expected volatilities are based on the historical volatility of our common stock and other factors.

#### *Fair value*

We hold certain assets that are required to be measured at fair value in accordance with United States GAAP. We 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 our 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.

We utilize several valuation techniques in order to assess the fair value of our financial assets and liabilities. Our cash and cash equivalents primarily utilize quoted prices in active markets for identical assets or liabilities.

We have valued non-auction rate marketable securities using quoted prices in active markets for identical assets or liabilities. If a quoted price is not available, we utilize broker quotes in a non-active market for valuation of these securities. For auction-rate security instruments, quoted prices in active markets are no longer available. As a result, we have estimated the fair values of these securities utilizing a discounted cash flow model.

## Results of Operations

### Our Business Segments

For the year ended December 31, 2012, we had two reportable segments which are the basis of our internal financial reporting: SkyWest Airlines and ExpressJet.

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Percent</u>
Operating Revenues:				
SkyWest Airlines operating revenue . . . . .	\$1,930,149	\$2,002,830	\$ (72,681)	(3.6)%
ExpressJet operating revenues . . . . .	1,593,527	1,640,837	(47,310)	(2.9)%
Other operating revenues . . . . .	10,696	11,256	(560)	(5.0)%
Total Operating Revenues . . . . .	<u>\$3,534,372</u>	<u>\$3,654,923</u>	<u>\$(120,551)</u>	<u>(3.3)%</u>
Airline Expenses:				
SkyWest airlines expense . . . . .	\$1,824,084	\$1,944,816	\$(120,732)	(6.2)%
ExpressJet airlines expense . . . . .	1,611,982	1,739,623	(127,641)	(7.3)%
Other airline expense . . . . .	9,699	9,762	(63)	(0.6)%
Total Airline Expense(1) . . . . .	<u>\$3,445,765</u>	<u>\$3,694,201</u>	<u>\$(248,436)</u>	<u>(6.7)%</u>
Segment profit (loss):				
SkyWest Airlines segment profit . . . . .	\$ 106,065	\$ 58,014	\$ 48,051	82.8%
ExpressJet segment (loss) . . . . .	(18,455)	(98,786)	80,331	(81.3)%
Other profit . . . . .	997	1,494	(497)	(33.3)%
Total Segment Profit (Loss) . . . . .	<u>\$ 88,607</u>	<u>\$ (39,278)</u>	<u>\$ 127,885</u>	<u>(325.6)%</u>
Interest Income . . . . .	7,928	8,236	(308)	(3.7)%
Purchase Accounting Gain (adjustment) . . . . .	—	(5,711)	5,711	100.0%
Other . . . . .	(10,639)	(13,417)	2,778	(20.7)%
Consolidated Income (Loss) Before Taxes . . . . .	<u>\$ 85,896</u>	<u>\$ (50,170)</u>	<u>\$ 136,066</u>	<u>(271.2)%</u>

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

*SkyWest Airlines Segment Profit.* SkyWest Airlines segment profit increased \$48.1 million, or 82.8%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The increase in SkyWest Airline's profit was due primarily to the following factors:

- CRJ200 engine overhaul expense incurred under the SkyWest Airlines Fixed-Rate Engine Contracts decreased \$22.6 million. The decrease in CRJ200 engine overhaul expense was primarily due to a reduction in the number of scheduled engine maintenance events.
- Non-pass-through operating revenue increased by \$46.2 million. The increase in non-pass through operating revenue, was primarily due to an increase in block hour production, receipt of higher incentive payments and favorable compensation negotiations with our major partners.
- SkyWest Airlines salaries, wages and employee benefits increased \$24.4 million primarily due to increased block hour production.

*ExpressJet Segment Loss.* ExpressJet segment loss decreased \$80.3 million, or 81.3%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in ExpressJet's loss was due primarily to the following factors:

- Non-pass-through operating revenue increased by \$33.2 million. The increase in non-pass-through operating revenue, was primarily due to an increase in block hour production, our receipt of higher incentive payments and favorable compensation negotiations with our major partners.
- ExpressJet salaries, wages and employee benefits decreased \$7.8 million primarily due to integration benefits and aircraft scheduling inefficiencies experienced in 2011 that were not replicated during 2012.
- Aircraft maintenance expense, excluding reimbursed engine overhauls, decreased \$19.4 million primarily due to a reduction in scheduled maintenance events and more efficient maintenance planning.
- Other expenses, primarily consisting of property taxes, hull and liability insurance, crew simulator training and crew hotel costs, decreased \$5.6 million primarily due to a reduction in new hire training from 2011.
- Non-aircraft depreciation and amortization expense decreased \$5.0 million primarily due to certain fixed assets becoming fully depreciated in 2012

## 2012 Compared to 2011

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

	Year Ended December 31,		
	2012	2011	% Change
Revenue passenger miles (000) . . . . .	30,088,278	29,109,039	3.4%
Available seat miles ("ASMs") (000) . . . . .	37,278,554	36,698,859	1.6%
Block hours . . . . .	2,297,014	2,250,280	2.1%
Departures . . . . .	1,435,512	1,390,523	3.2%
Passengers carried . . . . .	58,803,690	55,836,271	5.3%
Passenger load factor . . . . .	80.7%	79.3%	1.4pts
Revenue per available seat mile . . . . .	9.5¢	10.0¢	(5.0)%
Cost per available seat mile . . . . .	9.2¢	10.1¢	(8.9)%
Fuel cost per available seat mile . . . . .	1.1¢	1.6¢	(31.3)%
Average passenger trip length (miles) . . . . .	512	521	(1.7)%

*Revenues.* Operating revenues decreased \$120.6 million, or 3.3%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. We are reimbursed for our actual fuel costs by our major partners under our contract flying arrangements. For financial reporting purposes, we record these reimbursements as operating revenue. Under the Directly-Reimbursed Engine Contracts, we are reimbursed for our engine overhaul expenses as incurred. We also record those engine overhaul reimbursements as operating revenue. The following table summarizes the

amount of fuel and engine overhaul reimbursements included in our passenger revenues for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2012	2011	\$ Change	% Change
Passenger revenues . . . . .	\$3,467,546	\$3,584,777	\$(117,231)	(3.3)%
Less: Fuel reimbursement from major partners . . . . .	329,748	492,674	(162,926)	(33.1)%
Less: Engine overhaul reimbursement from major partners . . . . .	159,220	173,072	(13,852)	(8.0)%
Passenger revenue excluding fuel and engine overhaul reimbursements . . . . .	\$2,978,578	\$2,919,031	\$ 59,547	2.0%

*Passenger revenues.* Passenger revenues decreased \$117.2 million, or 3.3%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. Our passenger revenues, excluding fuel and engine overhaul reimbursements from major partners, increased \$59.5 million, or 2.0%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The increase in passenger revenues, excluding fuel and engine overhaul reimbursements, was primarily due to an increase in block hours of 2.1% during the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase in block hours was due primarily to the increase in total number of aircraft in operation, Block hour production is a significant revenue driver in our flying contracts with our major partners.

Individual expense components attributable to our operations are expressed in the following table on the basis of cents per ASM. (dollar amounts in thousands).

	For the year ended December 31,					
	2012 Amount	2011 Amount	\$ Change Amount	% Change Percent	2012 Cents Per ASM	2011 Cents Per ASM
Aircraft fuel . . . . .	\$ 426,387	\$ 592,871	\$(166,484)	(28.1)%	1.1	1.6
Salaries, wages and benefits . . . . .	1,171,689	1,155,051	16,638	1.4%	3.1	3.1
Aircraft maintenance, materials and repairs . . . . .	659,869	712,926	(53,057)	(7.4)%	1.8	1.9
Aircraft rentals . . . . .	333,637	346,526	(12,889)	(3.7)%	0.9	0.9
Depreciation and amortization . . . . .	251,958	254,182	(2,224)	(0.9)%	0.7	0.7
Station rentals and landing fees . . . . .	169,855	174,838	(4,983)	(2.9)%	0.5	0.5
Ground handling services . . . . .	125,148	131,462	(6,314)	(4.8)%	0.3	0.4
Acquisition-related costs . . . . .	—	5,770	(5,770)	NM	—	0.1
Other . . . . .	229,842	240,192	(10,350)	(4.3)%	0.6	0.7
Total operating expenses . . . . .	3,368,385	3,613,818	(245,433)	(6.8)%	9.0	9.9
Interest expense . . . . .	77,380	80,383	(3,003)	(3.7)%	0.2	0.2
Total airline expenses . . . . .	\$3,445,765	\$3,694,201	(248,436)	(6.7)%	9.2	10.1

*Fuel.* Fuel costs decreased \$166.5 million, or 28.1%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The average cost per gallon of fuel increased to \$3.59 during the year ended December 31, 2012, from \$3.48 during the year ended December 31, 2011. Effective July 1, 2012, United began purchasing the majority of the fuel for flights we operated under our United Express contracts. Thus, the decrease in our fuel expense was primarily due to an increase in the volume of gallons of fuel our major partners purchased on flights we operated under our flying

contracts. The following table summarizes the gallons of fuel we purchased directly, and the change in fuel price per gallon on our fuel expense, for the periods indicated:

(in thousands, except per gallon amounts)	For the year ended December,		
	2012	2011	% Change
Fuel gallons purchased . . . . .	118,765	170,332	(30.3)%
Average price per gallon . . . . .	\$ 3.59	\$ 3.48	3.2%
Fuel expense . . . . .	\$426,387	\$592,871	(28.1)%

*Salaries Wages and Employee Benefits.* Salaries, wages and employee benefits increased \$16.6 million, or 1.4%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The average number of full-time equivalent employees increased 0.9% to 18,590 for the year ended December 31, 2012, from 18,418 for the year ended December 31, 2011. The increase in the average number of full-time equivalent employees and resulting increase in labor costs for the year ended December 31, 2012, compared to the year ended December 31, 2011, was primarily due to an increase in block hours of 2.1% during the year ended December 31, 2012, compared to the year ended December 31, 2011.

*Aircraft maintenance, materials and repairs.* Aircraft maintenance expense decreased \$53.1 million, or 7.4%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The following table summarizes the amount of engine overhauls and engine overhaul reimbursements included in our aircraft maintenance expense for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2012	2011	\$ Change	% Change
Aircraft maintenance, materials and repairs . . . . .	\$659,869	\$712,926	\$(53,057)	(7.4)%
Less: Engine overhaul reimbursement from major partners	159,220	173,072	(13,852)	(8.0)%
Less: CRJ200 engine overhauls reimbursed at fixed hourly rate . . . . .	55,183	77,582	(22,399)	(28.9)%
Other aircraft maintenance, materials and repairs . . . . .	\$445,466	\$462,272	\$(16,806)	(3.6)%

Other aircraft maintenance, materials and repairs, decreased \$16.8 million, or 3.6%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in aircraft maintenance expense excluding engine overhaul costs for the year ended December 31, 2012, compared to the year ended December 31, 2011, was primarily due to fewer scheduled maintenance events and our implementation of cost-reduction initiatives.

We recognize engine maintenance expense on our CRJ200 engines on an as-incurred basis as maintenance expense. Under our Fixed-Rate Engine Contracts, we recognize revenue at fixed hourly rates for mature engine maintenance on regional jet engines. Accordingly, the timing of engine maintenance events associated with aircraft under the Fixed-Rate Engine Contracts can have a significant impact on our financial results. During the year ended December 31, 2012, our CRJ200 engine expense under our Fixed-Rate Engine Contracts decreased \$22.4 million compared to the year ended December 31, 2011. The decrease in CRJ200 engine overhauls reimbursed under our Fixed-Rate Engine Contracts was principally due to fewer scheduled engine maintenance events. We expect a reduction in the number of scheduled engine maintenance events on our CRJ200s during 2013.

Under our Directly-Reimbursed Engine Contracts, we are reimbursed for engine overhaul costs by our major partner at the time the maintenance event occurs. Such reimbursements are reflected as passenger revenue in our consolidated statements of comprehensive income (loss).



*Aircraft rentals.* Aircraft rentals decreased \$12.9 million, or 3.7%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease was primarily due to aircraft lease renewals at lower rates.

*Depreciation and amortization.* Depreciation and amortization expense decreased \$2.2 million, or 0.9%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in depreciation expense was primarily due to certain rotatable assets being fully depreciated during 2012 and a lower volume of capital expenditures.

*Station rentals and landing fees.* Station rentals and landing fees expense decreased \$5.0 million, or 2.9%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in station rentals and landing fees expense was primarily due to our major partners paying for certain station rents and landing fees directly to the applicable airports.

*Ground handling service.* Ground handling service expense decreased \$6.3 million, or 4.8%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in ground handling service expense was primarily due to a reduction in outsourced ground handling services resulting from the termination of SkyWest Airlines' AirTran code share agreement during the year ended December 31, 2011.

*Acquisition-related costs.* During the year ended December 31, 2011, we incurred \$5.8 million of direct severance, legal and advisor fees associated with Atlantic Southeast's acquisition of ExpressJet Delaware in November 2010. We did not incur comparable expense during the year ended December 31, 2012.

*Other operating expenses.* Other expenses, primarily consisting of property taxes, hull and liability insurance, crew simulator training and crew hotel costs, decreased \$10.4 million, or 4.3%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in other operating expenses was primarily due to the reduction in property tax expense resulting from refunds received during the year ended December 31, 2012, a reduction in simulator training expense and a reduction in legal and consulting expenses.

*Total airline expenses.* Total airline expenses (consisting of total operating and interest expenses) decreased \$248.4 million, or 6.7%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. We are reimbursed for our actual fuel costs by our major partners under our contract flying arrangements. We record the amount of those reimbursements as revenue. Under our Directly-Reimbursed Engine Contracts, we are reimbursed for our engine overhaul expense, which we record as revenue. The following table summarizes the amount of fuel and engine overhaul expenses which are included in our total airline expenses for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2012	2011	\$ Change	% Change
Total airline expense . . . . .	\$3,445,765	\$3,694,201	\$(248,436)	(6.7)%
Less: Fuel expense . . . . .	426,387	592,871	(166,484)	(28.1)%
Less: Engine overhauls Directly-Reimbursed Engine Contracts . . . . .	159,220	173,072	(13,852)	(8.0)%
Less: CRJ200 engine overhauls reimbursed at fixed hourly rate . . . . .	55,183	77,582	(22,399)	(28.9)%
Total airline expense excluding fuel and engine overhauls and CRJ200 engine overhauls reimbursed at fixed hourly rate . . . . .	\$2,804,975	\$2,850,676	\$ (45,701)	(1.6)%

Excluding fuel and engine overhaul costs and CRJ200 engine overhauls reimbursed at fixed hourly rates, our total airline expenses decreased \$45.7 million, or 1.6%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The percentage decrease in total airline expenses, excluding fuel and engine overhauls, was different than the percentage increase in passenger revenues, excluding fuel and engine overhaul reimbursements from major partners, due primarily to the factors described above.

*Summary of other income (expense) items:*

*Other expenses, net.* Other expenses, net decreased \$2.8 million during the year ended December 31, 2012, compared to the year ended December 31, 2011. Other expenses primarily consist of earnings and losses from our investments in TRIP and Air Mekong, which we account for under the equity method of accounting. The decrease in other expenses was due primarily to our recognition of our portion of the losses incurred by TRIP and Air Mekong during the applicable periods.

*Adjustment to Purchase Accounting Gain.* In connection with the preparation of ExpressJet's 2010 tax return, an adjustment to the ExpressJet acquisition accounting was identified that resulted in an increase to the acquired deferred tax liabilities of \$5.7 million, which was reflected on the consolidated statement of comprehensive income (loss) under the caption "Purchase accounting gain (adjustment)" for the year ended December 31, 2011. We did not incur comparable expenses during the year ended December 31, 2012.

*Income Taxes Expense.* Our effective tax rate for the years ended December 31, 2012 and 2011 was higher than the federal statutory rate of 35%, primarily due to state income taxes and expenses we incurred with limited tax deductibility relative to our pre-tax income for the year. Additionally, in conjunction with the preparation of the ExpressJet's 2010 income tax return during the year ended December 31, 2011, we revised our estimate of the 2010 ExpressJet post-acquisition tax loss recorded as a deferred tax asset as of December 31, 2010, which resulted in a \$7.2 million benefit .

*Net Income (loss).* Primarily due to factors described above, we had net income of \$51.2 million, or \$0.99 per diluted share, for the year ended December 31, 2012, compared to net loss of \$(27.3) million, or \$(0.52) per diluted share, for the year ended December 31, 2011.

## **Our Business Segments**

For the year ended December 31, 2012, we had two reportable segments which are the basis of our internal financial reporting: SkyWest Airlines and ExpressJet (which reflects the combined operations of Atlantic Southeast and ExpressJet Delaware). On December 31, 2011, we completed the ExpressJet Combination, which ended ExpressJet Delaware's existence as a separate entity. On November 12, 2010, we completed the ExpressJet Merger. Our 2010 operating revenues, airline expenses and segment

profit contain 50 days of ExpressJet Delaware operating results. Therefore, the 2010 amounts represent Atlantic Southeast's operating results and 50 days of ExpressJet Delaware's operating results.

	<u>2011</u>	<u>2010</u>	<u>\$ Change</u>	<u>% Change</u>
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Percent</u>
Operating Revenues:				
SkyWest Airlines operating revenue . . . . .	\$2,002,830	\$1,904,472	\$ 98,358	5.2%
ExpressJet operating revenues . . . . .	1,640,837	855,095	785,742	91.9%
Other operating revenues . . . . .	11,256	5,578	5,678	101.8%
Total Operating Revenues . . . . .	<u>\$3,654,923</u>	<u>\$2,765,145</u>	<u>\$ 889,778</u>	<u>32.2%</u>
Airline Expenses:				
SkyWest airlines expense . . . . .	\$1,944,816	\$1,813,406	\$ 131,410	7.2%
ExpressJet airlines expense . . . . .	1,739,623	832,043	907,580	109.1%
Other airline expense . . . . .	9,762	4,387	5,375	122.5%
Total Airline Expense(1) . . . . .	<u>\$3,694,201</u>	<u>\$2,649,836</u>	<u>\$1,044,365</u>	<u>39.4%</u>
Segment profit (loss):				
SkyWest Airlines segment profit . . . . .	\$ 58,014	\$ 91,066	\$ (33,052)	(36.3)%
ExpressJet segment profit (loss) . . . . .	(98,786)	23,052	(121,838)	(528.5)%
Other profit . . . . .	1,494	1,191	303	25.4%
Total Segment Profit (Loss) . . . . .	<u>\$ (39,278)</u>	<u>\$ 115,309</u>	<u>\$ (154,587)</u>	<u>(134.1)%</u>
Interest Income . . . . .	8,236	14,376	(6,140)	(42.7)%
Purchase Accounting Gain (Adjustment) . . . . .	(5,711)	15,586	(21,297)	(136.6)%
Other . . . . .	(13,417)	630	(14,047)	(2229.7)%
Consolidated Income (Loss) Before Taxes . . . . .	<u>\$ (50,170)</u>	<u>\$ 145,901</u>	<u>\$ (196,071)</u>	<u>(134.4)%</u>

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

*SkyWest Airlines Segment Profit.* SkyWest Airlines segment profit decreased \$33.1 million, or 36.3%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The decrease in SkyWest Airlines' profit was due primarily to aircraft maintenance expense, excluding reimbursed engine overhauls, which increased \$27.6 million during the year ended December 31, 2011, compared to the year ended December 31, 2010.

*ExpressJet Segment Profit(Loss).* ExpressJet segment loss was \$98.8 million during the year ended December 31, 2011, compared to a segment profit of \$23.1 million for the year ended December 31, 2010. The decrease in ExpressJet's profit was due to the following factors:

- On November 12, 2010, the Company acquired ExpressJet Delaware. ExpressJet Delaware incurred a segment loss of \$45.5 million during the year ended December 31, 2011, primarily due to integration inefficiencies and duplicate cost structures during 2011.
- ExpressJet's CRJ aircraft maintenance expense, excluding reimbursed engine overhauls, increased \$26.5 million, during the year ended December 31, 2011, compared to the year ended December 31, 2010.
- ExpressJet's CRJ non-pass through operating revenue decreased primarily due to the implementation of the second lowest rate provision in the ExpressJet Delta Connection Agreement that was agreed upon during the fourth quarter of 2010.

## 2011 Compared to 2010

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

	Year Ended December 31,		
	2011	2010	% Change
Revenue passenger miles (000) . . . . .	29,109,039	20,227,220	43.9%
Available seat miles (“ASMs”) (000) . . . . .	36,698,859	25,503,845	43.9%
Block hours . . . . .	2,250,280	1,547,562	45.4%
Departures . . . . .	1,390,523	1,001,766	38.8%
Passengers carried . . . . .	55,836,271	40,411,089	38.2%
Passenger load factor . . . . .	79.3%	79.3%	0.0 pts
Revenue per available seat mile . . . . .	10.0¢	10.8¢	(7.4)%
Cost per available seat mile . . . . .	10.1¢	10.4¢	(2.9)%
Fuel cost per available seat mile . . . . .	1.6¢	1.3¢	23.1%
Average passenger trip length (miles) . . . . .	521	501	4.0%

*Revenues.* Operating revenues increased \$889.8 million, or 32.2%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. We are reimbursed for our actual fuel costs by our major partners under our contract flying arrangements. For financial reporting purposes, we record these reimbursements as operating revenue. Under the Directly-Reimbursed Engine Contracts, we are reimbursed for our engine overhaul expenses as incurred. We also record those engine overhaul reimbursements as operating revenue. The following table summarizes the amount of fuel and engine overhaul reimbursements included in our passenger revenues for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2011	2010	\$ Change	% Change
Passenger revenues . . . . .	\$3,584,777	\$2,724,276	\$860,501	31.6%
Less: Fuel reimbursement from major partners . . . . .	492,674	258,523	234,151	90.6%
Less: Engine overhaul reimbursement from major partners . . . . .	173,072	106,241	66,831	62.9%
Passenger revenue excluding fuel and engine overhaul reimbursements . . . . .	\$2,919,031	\$2,359,512	\$559,519	23.7%

*Passenger revenues.* Passenger revenues increased \$860.5 million, or 31.6%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The increase in passenger revenues was primarily due to the expansion of our operations following the completion of the ExpressJet Merger. Our passenger revenues, excluding fuel and engine overhaul reimbursements from major partners, increased \$559.5 million, or 23.7%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The increase in passenger revenues, excluding fuel and engine overhaul reimbursements, was primarily due to an increase in block hours of 45.4% during the year ended December 31, 2011, compared to the year ended December 31, 2010. The block hour increase was primarily due to the expansion of our operations following the completion of the ExpressJet Merger. The increase in passenger revenues, excluding fuel and engine overhaul reimbursements, was less than the increase in block hours primarily due to differences between the United Express Agreement and our other code-share agreements. Under the United Express Agreement, United pays for more costs directly (such as station rents and aircraft ownership) and as such, there are no associated reimbursements recognized as revenue on costs paid directly by United. Under our other code-share agreements, the majority of those costs are paid by SkyWest and ExpressJet and the reimbursements received from their major partners are included in revenue. As such we do not expect the ExpressJet operations to increase revenue at the same rate as the projected increase in block hours.

In addition, 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 rates 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 second-lowest rate provision and agreed on 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 of all carriers within the Delta Connection Program through December 31, 2015. As a result of the negotiated adjustment of the contractual rates under the Delta Connection Agreements, our passenger revenues for the year ended December 31, 2011 were approximately \$21.7 million lower than they would have been under the rates that existed prior to the adjustment. Additionally, SkyWest Airlines and Atlantic Southeast finalized certain contractual rates from September 8, 2008 through December 31, 2010 with Delta. As a result, we recorded \$10.3 million in additional revenue as a result of the finalization of contractual rates during the quarter ended December 31, 2010. Under the terms of the SkyWest Airlines and ExpressJet Delta Connection Agreements, Delta has agreed to compensate SkyWest Airlines and ExpressJet for initiatives that directly result in pass through cost savings. Delta agreed to share such savings with SkyWest Airlines and ExpressJet on an equal basis for a twelve-month period. During the three months ended December 31, 2010, Delta paid, and SkyWest Airlines and Atlantic Southeast recognized, approximately \$6.9 million in cost savings revenue. We did not receive similar payments during the year ended December 31, 2011. In addition, under our ExpressJet Delta Connection Agreement and our SkyWest Airlines and ExpressJet United Express Agreements we are paid an incentive compensation upon the achievement of certain performance criteria. Our passenger revenues for the year ended December 31, 2011 were \$18.9 million lower, compared to the year ended December 31, 2010, due primarily to our receipt of lower incentive payments.

*Ground handling and other.* Total ground handling and other revenues increased \$29.3 million, or 71.6%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. Revenue attributed to ground handling services for our aircraft is reflected in our consolidated statements of comprehensive income (loss) under the heading "Passenger revenues" and revenue attributed to handling third-party aircraft is reflected in our consolidated statements of comprehensive income (loss) under the heading "Ground handling and other." The increase in ground handling and other revenues was primarily related to the expansion of our operations following the completion of the ExpressJet Merger and aircraft rental revenue received from other airlines. During the year ended December 31, 2010, we obtained leases for four CRJ900s and subleased those aircraft to Air Mekong.

Individual expense components attributable to our operations are expressed in the following table on the basis of cents per ASM. ASM is a common metric used in the airline industry to measure an airline's passenger capacity. ASMs reflect both the number of aircraft in an airline's fleet and the seat capacity for the aircraft in the fleet. As the size of our fleet is the underlying driver of our operating costs, the primary basis for our presentation of the following information on a cost per ASM basis is to

discuss significant changes in our costs not proportionate to the relative changes in our fleet size (dollar amounts in thousands).

	For the year ended December 31,					
	2011	2010	\$ Change	% Change	2011	2010
	Amount	Amount	Amount	Percent	Cents Per ASM	Cents Per ASM
Aircraft fuel . . . . .	\$ 592,871	\$ 340,074	\$ 252,797	74.3%	1.6	1.3
Salaries, wages and benefits . . . . .	1,155,051	764,933	390,118	51.0%	3.1	3.0
Aircraft maintenance, materials and repairs . . . . .	712,926	487,466	225,460	46.3%	1.9	1.9
Aircraft rentals . . . . .	346,526	311,909	34,617	11.1%	0.9	1.2
Depreciation and amortization . . . . .	254,182	236,499	17,683	7.5%	0.7	0.9
Station rentals and landing fees . . . . .	174,838	129,537	45,301	35.0%	0.5	0.5
Ground handling services . . . . .	131,462	110,649	20,813	18.8%	0.4	0.4
Acquisition related costs . . . . .	5,770	8,815	(3,045)	(34.5)	0.1	0.1
Other . . . . .	240,192	173,437	66,755	38.5%	0.7	0.7
Total operating expenses . . . . .	3,613,818	2,563,319	1,050,499	41.0%	9.9	10.0
Interest . . . . .	80,383	86,517	(6,134)	(7.1)%	0.2	0.4
Total airline expenses . . . . .	<u>\$3,694,201</u>	<u>\$2,649,836</u>	<u>1,044,365</u>	<u>39.4%</u>	<u>10.1</u>	<u>10.4</u>

*Fuel.* Fuel costs increased \$252.8 million, or 74.3%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The average cost per gallon of fuel increased to \$3.48 per gallon during the year ended December 31, 2011, from \$2.74 during the year ended December 31, 2010. The amount fuel costs incurred under our revenue-sharing arrangements increased \$18.7 million during the year ended December 31, 2011, compared to the year ended December 31, 2010. The following table summarizes the gallons of fuel we purchased directly, and the change in fuel price per gallon on our fuel expense, for the periods indicated:

(in thousands, except per gallon amounts)	For the year ended December,		
	2011	2010	% Change
Fuel gallons purchased . . . . .	170,332	124,094	37.3%
Average price per gallon . . . . .	\$ 3.48	\$ 2.74	27.0%
Fuel expense . . . . .	\$592,871	\$340,074	74.3%

*Salaries, wages and benefits.* Salaries, wages and benefits increased \$390.1 million, or 51.0%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The average number of full-time equivalent employees increased 37.8% to 18,418 for the year ended December 31, 2011, from 13,363 for the year ended December 31, 2010, due primarily to the expansion of our operations following the completion of the ExpressJet Merger.

*Aircraft maintenance, materials and repairs.* Aircraft maintenance, materials and repair costs increased \$225.5 million, or 46.3%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The following table summarizes the amount of engine overhauls and engine

overhaul reimbursements included in our aircraft maintenance expense for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2011	2010	\$ Change	% Change
Aircraft maintenance, materials and repairs . . . . .	\$712,926	\$487,466	\$225,460	46.3%
Less: Engine overhaul reimbursed from major partners . . .	173,072	106,241	66,831	62.9%
Less: CRJ200 engine overhauls reimbursed at fixed hourly rate . . . . .	77,582	75,706	1,876	2.5%
Other aircraft maintenance, materials and repairs . . . . .	\$462,272	\$305,519	\$156,753	51.3%

Other aircraft maintenance, materials and repairs increased \$156.8 million, or 51.3%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The increase in maintenance expense, excluding engine overhaul costs, was principally due to the expansion of our operations following the completion of the ExpressJet Merger, higher than expected maintenance costs on scheduled events due to our aging fleet and replacement of aircraft parts and repairs in advance of our schedule.

We recognize engine maintenance expense on our CRJ200 regional jet engines on an as-incurred basis as maintenance expense. Under our Fixed-Rate Engine Contracts, we recognize revenue at fixed hourly rates for mature engine maintenance on regional jet engines. Accordingly, the timing of engine maintenance events associated with aircraft under Fixed-Rate Engine Contracts can have a significant impact on our financial results. During the year ended December 31, 2011, our CRJ200 engine expense under our Fixed-Rate Engine Contracts increased \$1.9 million compared to the year ended December 31, 2010. The increase in CRJ200 engine overhauls reimbursed under our Fixed-Rate Engine Contracts was principally due to scheduled engine maintenance events.

Under our Directly-Reimbursed Engine Contracts, we are reimbursed for engine overhaul costs by our major partners at the time the maintenance event occurs. Such reimbursements are reflected as passenger revenue in our consolidated statements of comprehensive income (loss).

*Aircraft rentals.* Aircraft rental expense increased \$34.6 million, or 11.1%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The increase was primarily due expansion of our operations following the completion of the ExpressJet Merger. Approximately, \$28.8 million of the additional aircraft rental expense was attributable to aircraft operated under the ExpressJet United Express Agreement.

*Depreciation and amortization.* Depreciation and amortization expense increased \$17.7 million, or 7.5%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The increase in depreciation expense was primarily due to the expansion of our operations following the completion of the ExpressJet Merger.

*Station rentals and landing fees.* Station rentals and landing fees expense increased \$45.3 million, or 35.0%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The increase in station rentals and landing fees expense was primarily due to the expansion of our operations following the completion of the ExpressJet Merger. Without the expansion of the ExpressJet Delaware operations, station rentals and landing fees would have decreased, primarily due to our major partners paying for certain station rents and landing fees directly to the applicable airports.

*Ground handling service.* Ground handling service expense increased \$20.8 million, or 18.8%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The increase in ground handling service expense was primarily due to the expansion of our operations following the completion of the ExpressJet Merger.

*Acquisition-related costs.* During the year ended December 31, 2011, we incurred \$5.8 million of direct severance, legal and advisor fees associated with the ExpressJet Merger and integration related costs, including advisory fees to assist Atlantic Southeast and ExpressJet in their efforts to operate under a single operating certificate.

*Other expenses.* Other expenses, primarily consisting of property taxes, hull and liability insurance, crew simulator training and crew hotel costs, increased \$66.8 million, or 38.5%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The increase in other expenses was primarily due to the expansion of our operations following the completion of the ExpressJet Merger.

*Interest.* Interest expense decreased \$6.1 million, or 7.1%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The decrease in interest expense was primarily due to a decrease in long-term debt. At December 31, 2011, we had \$1,815.4 million of long-term debt, compared to \$1,898.0 million of debt as of December 31, 2010.

*Total Airline Expenses.* Total airline expenses (consisting of total operating and interest expenses) increased \$1,044.4 million, or 39.4%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. We are reimbursed for our actual fuel costs by our major partners under our contract flying arrangements. We record the amount of those reimbursements as revenue. Under the Directly-Reimbursed Engine Contract and the United CPA, we are reimbursed for our engine overhaul expense, which we record as revenue. The following table summarizes the amount of fuel and engine overhaul expenses which are included in our total airline expenses for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2011	2010	\$ Change	% Change
Total airline expense . . . . .	\$3,694,201	\$2,649,836	\$1,044,365	39.4%
Less: Fuel expense . . . . .	592,871	340,074	252,797	74.3%
Less: Engine overhaul reimbursement from major partners . . . . .	173,072	106,241	66,831	62.9%
Less: CRJ200 engine overhauls reimbursed at fixed hourly rate . . . . .	77,582	75,706	1,876	2.5%
Total airline expense excluding fuel and engine overhauls and CRJ200 engine overhauls reimbursed at fixed hourly rate . . . . .	\$2,850,676	\$2,127,815	\$ 722,861	34.0%

Excluding fuel and engine overhaul costs and CRJ200 engine overhauls reimbursed at fixed hourly rates, our total airline expenses increased \$722.9 million, or 34.0%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The percentage increase in total airline expenses, excluding fuel and engine overhauls, was more than the percentage increase in passenger revenues, excluding fuel and engine overhaul reimbursements from major partners due primarily to the factors described above.

*Interest Income.* Interest income decreased \$6.1 million, or 42.7%, during the year ended December 31, 2011, compared to the year ended December 31, 2010. The decrease in interest income was due primarily to the retirement of a secured term loan that United repaid on August 11, 2010, which had an interest rate of 11%.

*Other, net.* Other expenses, net, increased \$14.0 million during the year ended December 31, 2011, compared to the year ended December 31, 2010. Other expenses primarily consist of earnings and losses from our investments in TRIP and Air Mekong, which we account for under the equity



method of accounting. The increase in other expense was due primarily to our recognition of our portion of the losses incurred by Trip and Air Mekong.

*Purchase Accounting Gain (Adjustment).* In connection with our preparation of the 2010 tax return, our management identified an adjustment to the ExpressJet acquisition accounting that resulted in an increase to the acquired deferred tax liabilities of \$5.7 million. The adjustment is reflected on our consolidated statement of operations for the year ended December 31, 2011 under the caption “Purchase accounting gain (adjustment).”

*Net Income (loss).* Primarily due to factors described above, we incurred a net loss of \$27.3 million, or \$0.52 per diluted share, for the year ended December 31, 2011, compared to net income of \$96.4 million, or \$1.70 per diluted share, for the year ended December 31, 2010.

## Liquidity and Capital Resources

### Sources and Uses of Cash

*Cash Position and Liquidity.* The following table provides a summary of the net cash provided by (used in) our operating, investing and financing activities for the years ended December 31, 2012 and 2011, and our total cash and marketable securities position as of December 31, 2012 and December 31, 2011 (in thousands).

	For the year ended December 31,			
	2012	2011	\$ Change	% Change
Net cash provided by operating activities . . . . .	\$ 288,824	\$ 162,126	\$126,698	78.1%
Net cash used in investing activities . . . . .	(108,360)	(11,553)	(96,807)	837.9%
Net cash used in financing activities . . . . .	(176,218)	(133,385)	(42,833)	32.1%
	<b>December 31,</b>	<b>December 31,</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>2012</b>	<b>2011</b>		
Cash and cash equivalents . . . . .	\$133,772	\$129,526	\$ 4,246	3.3%
Restricted cash . . . . .	19,553	19,434	119	0.6%
Marketable securities . . . . .	556,117	497,552	58,565	11.8%
Total . . . . .	<u>\$709,442</u>	<u>\$646,512</u>	<u>\$62,930</u>	<u>9.7%</u>

### Cash Flows from Operating Activities.

Net cash provided by our operating activities increased \$126.7 million or 78.1%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The increase was primarily due to an increase in our pre-tax income during the year ended December 31, 2012, compared to our pre-tax loss during the year ended December 31, 2011. During the year ended December 31, 2012, we had a pre-tax income of \$85.9 million compared to a pre-tax loss of \$50.2 million for the year ended December 31, 2011. The remainder of the increase was due primarily to changes in our working capital accounts.

### Cash Flows from Investing Activities.

Net cash used in our investing activities increased \$96.8 million or 837.9%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The increase was primarily due to an increase in the net purchases of marketable securities during the year ended December 31, 2012, compared to our net sales of marketable securities during the year ended December 31, 2011. During the year ended December 31, 2012, we had net purchases of marketable securities of \$58.5 million compared to net sales of marketable securities of \$173.6 million for the year ended December 31, 2011.

During the year ended December 31, 2012, we did not make any deposits on aircraft, compared to \$13.5 million of deposits on aircraft that we made during the year ended December 31, 2011. In addition, the acquisition of aircraft and rotatable spare parts decreased by \$101.7 million as compared to the year ended December 31, 2011.

***Cash Flows from Financing Activities.***

Net cash used in our financing activities increased \$42.8 million or 32.1%, during the year ended December 31, 2012, compared to the year ended December 31, 2011. The increase was primarily related to an increase in principal payments on long-term debt of \$59.2 million. This increase was partially offset by a decrease in the amount we spent to repurchase outstanding shares of common stock. During the year ended December 31, 2012, we spent \$0.9 million to repurchase shares of common stock, compared to \$60.7 million for stock repurchases during the year ended December 31, 2011. In addition, the proceeds from the issuance of long-term debt during the year ended December 31, 2012 decreased by \$31.6 million as compared to the year ended December 31, 2011.

***Liquidity and Capital Resources***

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

At December 31, 2012, our total capital mix was 48.5% equity and 51.5% long-term debt, compared to 45.4% equity and 54.6% long-term debt at December 31, 2011.

As of December 31, 2012 and 2011, SkyWest Airlines had a \$25 million line of credit. As of December 31, 2012 and 2011, SkyWest Airlines had no amount outstanding under the facility. The facility is scheduled to expire on March 31, 2013 and has a fixed interest rate of 4.0%.

As of December 31, 2012, we had \$75.1 million in letters of credit and surety bonds outstanding with various banks and surety institutions.

As of December 31, 2012 and 2011, we classified \$19.6 million and \$19.4 million as restricted cash, respectively, related to our workers compensation policies.

## Significant Commitments and Obligations

### General

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

	<u>Total</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Thereafter</u>
Operating lease payments for aircraft and facility obligations . . . . .	\$2,201,187	\$387,999	\$360,797	\$309,378	\$239,989	\$182,291	\$ 720,733
Interest commitments(A) . . . .	436,841	71,739	65,147	58,205	50,953	43,627	147,170
Principal maturities on long-term debt . . . . .	<u>1,642,022</u>	<u>171,454</u>	<u>177,390</u>	<u>184,510</u>	<u>188,240</u>	<u>161,735</u>	<u>758,693</u>
Total commitments and obligations . . . . .	<u>\$4,280,050</u>	<u>\$631,192</u>	<u>\$603,334</u>	<u>\$552,093</u>	<u>\$479,182</u>	<u>\$387,653</u>	<u>\$1,626,596</u>

(A) At December 31, 2012, we had variable rate notes representing 31.7% of our total long-term debt. Actual interest commitments will change based on the actual variable interest.

### Purchase Commitments and Options

We have not historically funded a substantial portion of our aircraft acquisitions with working capital. Rather, we have generally funded our aircraft acquisitions through a combination of operating leases and long-term debt financing. At the time of each aircraft acquisition, we evaluate the financing alternatives available to us, and select one or more of these methods to fund the acquisition. In the event that alternative financing cannot be arranged at the time of delivery, Bombardier has typically financed our aircraft acquisitions until more permanent arrangements can be made. Subsequent to this initial acquisition of an aircraft, we may also refinance the aircraft or convert one form of financing to another (e.g., replacing debt financing with leveraged lease financing).

At present, we intend to fund our acquisition of any additional aircraft through a combination of operating leases and debt financing, consistent with our historical practices. Based on current market conditions and discussions with prospective leasing organizations and financial institutions, we currently believe that we will be able to obtain financing for our committed acquisitions, as well as additional aircraft, without materially reducing the amount of working capital available for our operating activities. Nonetheless, recent disruptions in the credit markets have resulted in greater volatility, decreased liquidity and limited availability of capital, and there is no assurance that we will be able to obtain necessary funding or that, if we are able to obtain necessary capital, the corresponding terms will be favorable or acceptable to us.

### Aircraft Lease and Facility Obligations

We also have significant long-term lease obligations, primarily relating to our aircraft fleet. At December 31, 2012, we had 568 aircraft under lease with remaining terms ranging from one to 13 years. Future minimum lease payments due under all long-term operating leases were approximately \$2.2 billion at December 31, 2012. Assuming a 4.7% discount rate, which is the average rate used to approximate the implicit rates within the applicable aircraft leases, the present value of these lease obligations would have been equal to approximately \$1.8 billion at December 31, 2012.

### *Long-term Debt Obligations*

As of December 31, 2012, we had \$1.6 billion of long-term debt obligations related to the acquisition of CRJ200, CRJ700 and CRJ900 aircraft. The average effective interest rate on the debt related to the CRJ aircraft was approximately 4.5% at December 31, 2012.

### *Guarantees*

We have guaranteed the obligations of SkyWest Airlines under the SkyWest Airlines Delta Connection Agreement and the obligations of ExpressJet under the ExpressJet Delta Connection Agreement. We have also guaranteed the obligations of ExpressJet under the United CPA.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Aircraft Fuel**

In the past, we have not experienced difficulties with fuel availability and we currently expect to be able to obtain fuel at prevailing prices in quantities sufficient to meet our future needs. Pursuant to our contract flying arrangements, United, Delta, Alaska, American and US Airways have agreed to bear the economic risk of fuel price fluctuations on our contracted flights. We bear the economic risk of fuel price fluctuations on our pro-rate operations. For the year ended December 31, 2012, approximately 3% of our ASMs were flown under pro-rate arrangements. The average price per gallon of aircraft fuel increased 3.2% to \$3.59 for the year ended December 31, 2012, from \$3.48 for the year ended December 31, 2011. For illustrative purposes only, we have estimated the impact of the market risk of fuel on our pro-rate operations using a hypothetical increase of 25% in the price per gallon we purchase. Based on this hypothetical assumption, we would have incurred an additional \$24.3 million in fuel expense for the year ended December 31, 2012.

### **Interest Rates**

Our earnings are affected by changes in interest rates due to the amounts of variable rate long-term debt and the amount of cash and securities held. The interest rates applicable to variable rate notes may rise and increase the amount of interest expense. We would also receive higher amounts of interest income on cash and securities held at the time; however, the market value of our available-for-sale securities would likely decline. At December 31, 2012, we had variable rate notes representing 31.7% of our total long-term debt compared to 33.0% of our long-term debt at December 31, 2011. For illustrative purposes only, we have estimated the impact of market risk using a hypothetical increase in interest rates of one percentage point for both variable rate long-term debt and cash and securities. Based on this hypothetical assumption, we would have incurred an additional \$5.5 million in interest expense and received \$6.5 million in additional interest income for the year ended December 31, 2012, and we would have incurred an additional \$7.1 million in interest expense and received \$6.4 million in additional interest income for the year ended December 31, 2011. However, under our contractual arrangement with our major partners, the majority of the increase in interest expense would be passed through and recorded as passenger revenue in our consolidated statements of comprehensive income (loss). If interest rates were to decline, our major partners would receive the principal benefit of the decline, since interest expense is generally passed through to our major partners, resulting in a reduction to passenger revenue in our consolidated statement of comprehensive income (loss).

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

**Auction Rate Securities**

We have investments in auction rate securities, which are classified as available for sale securities and reflected at fair value. As of December 31, 2012, we had investments in auction rate securities valued at a total of \$3.8 million which were classified as Other assets on our consolidated balance sheet. For a more detailed discussion on auction rate securities, including our methodology for estimating their fair value, see Note 8 to our consolidated financial statements appearing in Item 8 of this Report.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information set forth below should be read together with the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” appearing elsewhere herein.

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
SkyWest, Inc.

We have audited the accompanying consolidated balance sheets of SkyWest, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SkyWest, Inc. and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), SkyWest, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah  
February 15, 2013

**SKYWEST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

**ASSETS**

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents . . . . .	\$ 133,772	\$ 129,526
Marketable securities . . . . .	556,117	497,552
Restricted cash . . . . .	19,553	19,434
Income tax receivable . . . . .	—	1,568
Receivables, net . . . . .	130,102	130,510
Inventories, net . . . . .	113,581	115,211
Prepaid aircraft rents . . . . .	325,999	285,737
Deferred tax assets . . . . .	124,320	69,519
Other current assets . . . . .	30,596	31,407
Total current assets . . . . .	<u>1,434,040</u>	<u>1,280,464</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Aircraft and rotatable spares . . . . .	3,997,926	3,973,027
Buildings and ground equipment . . . . .	274,085	291,294
	<u>4,272,011</u>	<u>4,264,321</u>
Less-accumulated depreciation and amortization . . . . .	(1,561,015)	(1,380,846)
Total property and equipment, net . . . . .	<u>2,710,996</u>	<u>2,883,475</u>
<b>OTHER ASSETS</b>		
Intangible assets, net . . . . .	17,248	19,497
Other assets . . . . .	92,353	98,472
Total other assets . . . . .	<u>109,601</u>	<u>117,969</u>
Total assets . . . . .	<u><u>4,254,637</u></u>	<u><u>4,281,908</u></u>

See accompanying notes to consolidated financial statements.

**SKYWEST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (Continued)**  
(Dollars in thousands)  
**LIABILITIES AND STOCKHOLDERS' EQUITY**

	December 31, 2012	December 31, 2011
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt . . . . .	\$ 171,454	\$ 208,398
Accounts payable . . . . .	222,671	220,784
Accrued salaries, wages and benefits . . . . .	121,352	112,987
Accrued aircraft rents . . . . .	12,745	22,285
Taxes other than income taxes . . . . .	22,353	21,186
Income tax payable . . . . .	1,255	—
Other current liabilities . . . . .	39,595	38,508
Total current liabilities . . . . .	591,425	624,148
<b>OTHER LONG TERM LIABILITIES . . . . .</b>	<b>57,422</b>	<b>50,194</b>
<b>LONG TERM DEBT, net of current maturities . . . . .</b>	<b>1,470,568</b>	<b>1,606,993</b>
<b>DEFERRED INCOME TAXES PAYABLE . . . . .</b>	<b>657,620</b>	<b>567,874</b>
<b>DEFERRED AIRCRAFT CREDITS . . . . .</b>	<b>90,427</b>	<b>98,438</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 6)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, 5,000,000 shares authorized; none issued . . . . .	—	—
Common stock, no par value, 120,000,000 shares authorized; 76,713,154 and 75,833,696 shares issued, respectively . . . . .	609,763	598,985
Retained earnings . . . . .	1,147,117	1,104,144
Treasury stock, at cost, 25,280,364 and 25,221,481 shares, respectively . . . .	(371,211)	(370,309)
Accumulated other comprehensive income (Note 1) . . . . .	1,506	1,441
Total stockholders' equity . . . . .	1,387,175	1,334,261
Total liabilities and stockholders' equity . . . . .	4,254,637	4,281,908

See accompanying notes to consolidated financial statements.



**SKYWEST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(In thousands, except per share amounts)

	Year Ended December 31,		
	2012	2011	2010
<b>OPERATING REVENUES:</b>			
Passenger . . . . .	\$3,467,546	\$3,584,777	\$2,724,276
Ground handling and other . . . . .	66,826	70,146	40,869
Total operating revenues . . . . .	<u>3,534,372</u>	<u>3,654,923</u>	<u>2,765,145</u>
<b>OPERATING EXPENSES:</b>			
Salaries, wages and benefits . . . . .	1,171,689	1,155,051	764,933
Aircraft maintenance, materials and repairs . . . . .	659,869	712,926	487,466
Aircraft fuel . . . . .	426,387	592,871	340,074
Aircraft rentals . . . . .	333,637	346,526	311,909
Depreciation and amortization . . . . .	251,958	254,182	236,499
Station rentals and landing fees . . . . .	169,855	174,838	129,537
Ground handling services . . . . .	125,148	131,462	110,649
Acquisition related costs . . . . .	—	5,770	8,815
Other, net . . . . .	229,842	240,192	173,437
Total operating expenses . . . . .	<u>3,368,385</u>	<u>3,613,818</u>	<u>2,563,319</u>
OPERATING INCOME . . . . .	<u>165,987</u>	<u>41,105</u>	<u>201,826</u>
<b>OTHER INCOME (EXPENSE):</b>			
Interest income . . . . .	7,928	8,236	14,376
Interest expense . . . . .	(77,380)	(80,383)	(86,517)
Purchase accounting gain (adjustment) . . . . .	—	(5,711)	15,586
Other, net . . . . .	(10,639)	(13,417)	630
Total other expense, net . . . . .	<u>(80,091)</u>	<u>(91,275)</u>	<u>(55,925)</u>
INCOME (LOSS) BEFORE INCOME TAXES . . . . .	85,896	(50,170)	145,901
PROVISION (BENEFIT) FOR INCOME TAXES . . . . .	34,739	(22,835)	49,551
NET INCOME (LOSS) . . . . .	<u>\$ 51,157</u>	<u>\$ (27,335)</u>	<u>\$ 96,350</u>
BASIC EARNINGS (LOSS) PER SHARE . . . . .	<u>\$ 1.00</u>	<u>\$ (0.52)</u>	<u>\$ 1.73</u>
DILUTED EARNINGS (LOSS) PER SHARE . . . . .	<u>\$ 0.99</u>	<u>\$ (0.52)</u>	<u>\$ 1.70</u>
Weighted average common shares:			
Basic . . . . .	51,090	52,201	55,610
Diluted . . . . .	51,746	52,201	56,526
<b>COMPREHENSIVE INCOME (LOSS):</b>			
Net income (loss) . . . . .	\$ 51,157	\$ (27,335)	\$ 96,350
Proportionate share of other companies foreign currency translation adjustment, net of taxes . . . . .	(251)	(295)	637
Net unrealized appreciation (depreciation) on marketable securities, net of taxes . . . . .	316	534	(745)
TOTAL COMPREHENSIVE INCOME (LOSS) . . . . .	<u>\$ 51,222</u>	<u>\$ (27,096)</u>	<u>\$ 96,242</u>

See accompanying notes to consolidated financial statements.

**SKYWEST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In thousands)

	Common Stock		Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount		Shares	Amount		
Balance at December 31, 2009	74,627	\$578,153	\$1,052,375	(19,018)	\$(279,619)	\$1,310	\$1,352,219
Net income	—	—	96,350	—	—	—	96,350
Proportionate share of other companies foreign currency translation adjustment, net of tax of \$390	—	—	—	—	—	637	637
Net unrealized depreciation on marketable securities net of tax of \$457	—	—	—	—	—	(745)	(745)
Exercise of common stock options and issuance of restricted stock	261	83	—	—	—	—	83
Sale of common stock under employee stock purchase plan	357	4,824	—	—	—	—	4,824
Stock based compensation expense related to the issuance of stock options and restricted stock	—	6,428	—	—	—	—	6,428
Tax benefit from exercise of common stock options	—	122	—	—	—	—	122
Treasury stock purchases	—	—	—	(2,054)	(30,009)	—	(30,009)
Cash dividends declared (\$0.16 per share)	—	—	(8,986)	—	—	—	(8,986)
Balance at December 31, 2010	<u>75,245</u>	<u>589,610</u>	<u>1,139,739</u>	<u>(21,072)</u>	<u>(309,628)</u>	<u>1,202</u>	<u>1,420,923</u>
Net loss	—	—	(27,335)	—	—	—	(27,335)
Proportionate share of other companies foreign currency translation adjustment, net of tax of \$180	—	—	—	—	—	(295)	(295)
Net unrealized appreciation on marketable securities net of tax of \$327	—	—	—	—	—	534	534
Exercise of common stock options and issuance of restricted stock	289	70	—	—	—	—	70
Sale of common stock under employee stock purchase plan	300	4,372	—	—	—	—	4,372
Stock based compensation expense related to the issuance of stock options and restricted stock	—	5,365	—	—	—	—	5,365
Tax deficiency from exercise of common stock options	—	(432)	—	—	—	—	(432)
Treasury stock purchases	—	—	—	(4,149)	(60,681)	—	(60,681)
Cash dividends declared (\$0.16 per share)	—	—	(8,260)	—	—	—	(8,260)
Balance at December 31, 2011	<u>75,834</u>	<u>598,985</u>	<u>1,104,144</u>	<u>(25,221)</u>	<u>(370,309)</u>	<u>1,441</u>	<u>1,334,261</u>
Net income	—	—	51,157	—	—	—	51,157
Proportionate share of other companies foreign currency translation adjustment, net of tax of \$154	—	—	—	—	—	(251)	(251)
Net unrealized appreciation on marketable securities, net of tax of \$194	—	—	—	—	—	316	316
Exercise of common stock options and issuance of restricted stock	392	1,879	—	—	—	—	1,879
Sale of common stock under employee stock purchase plan	487	4,068	—	—	—	—	4,068
Stock based compensation expense related to the issuance of stock options and restricted stock	—	4,693	—	—	—	—	4,693
Tax benefit from exercise of common stock options	—	138	—	—	—	—	138
Treasury stock purchases	—	—	—	(59)	(902)	—	(902)
Cash dividends declared (\$0.16 per share)	—	—	(8,184)	—	—	—	(8,184)
Balance at December 31, 2012	<u>76,713</u>	<u>609,763</u>	<u>1,147,117</u>	<u>(25,280)</u>	<u>(371,211)</u>	<u>1,506</u>	<u>1,387,175</u>

See accompanying notes to consolidated financial statements.

**SKYWEST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Year Ended December 31,		
	2012	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss) . . . . .	\$ 51,157	\$ (27,335)	\$ 96,350
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization . . . . .	251,958	254,182	236,499
Stock based compensation expense . . . . .	4,693	5,365	6,428
Loss (gain) on sale of property and equipment . . . . .	621	(29)	(16)
Undistributed losses (earnings) of other companies . . . . .	10,199	13,273	(635)
Capitalized Brasilia engine overhauls . . . . .	(25,742)	(17,792)	(19,050)
Purchase accounting gain (adjustment) . . . . .	—	5,711	(15,586)
Net increase (decrease) in deferred income taxes . . . . .	34,800	(21,537)	58,525
Changes in operating assets and liabilities:			
Decrease (increase) in restricted cash . . . . .	(119)	2,341	4,971
Decrease (increase) in receivables . . . . .	408	(10,665)	2,818
Decrease in income tax receivable . . . . .	1,568	1,788	9,746
Decrease (increase) in inventories . . . . .	1,630	(8,639)	(2,071)
Increase in other current assets and prepaid aircraft rents . . . . .	(39,451)	(28,668)	(19,532)
Decrease in deferred aircraft credits . . . . .	(7,112)	(8,586)	(8,756)
Increase (decrease) in accounts payable and accrued aircraft rents . . . . .	(7,653)	10,161	6,289
Increase (decrease) in other current liabilities . . . . .	11,867	(7,444)	(8,891)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES . . . . .</b>	<b>288,824</b>	<b>162,126</b>	<b>347,089</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of marketable securities . . . . .	(736,330)	(683,396)	(1,073,479)
Sales of marketable securities . . . . .	677,798	857,031	1,047,553
Purchase of ExpressJet, net of cash acquired . . . . .	—	—	(54,018)
Payments received on note receivable from United Air Lines . . . . .	—	—	79,333
Proceeds from the sale of property and equipment . . . . .	15,265	193	147
Proceeds from installment payment of equity shares of TRIP . . . . .	8,064	—	—
Acquisition of property and equipment:			
Aircraft and rotatable spare parts . . . . .	(57,277)	(158,942)	(141,474)
Deposits on aircraft . . . . .	—	(13,500)	(400)
Buildings and ground equipment . . . . .	(7,662)	(13,756)	(9,391)
Decrease (increase) in other assets . . . . .	(8,218)	817	(25,647)
<b>NET CASH USED IN INVESTING ACTIVITIES . . . . .</b>	<b>(108,360)</b>	<b>(11,553)</b>	<b>(177,376)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of long-term debt . . . . .	44,900	76,454	81,698
Principal payments on long-term debt . . . . .	(218,270)	(159,038)	(185,632)
Return of deposits on aircraft and rotatable spare parts . . . . .	—	13,900	4,247
Net proceeds from issuance of common stock . . . . .	6,231	4,446	4,907
Purchase of treasury stock . . . . .	(902)	(60,681)	(30,009)
Payment of cash dividends . . . . .	(8,177)	(8,466)	(9,000)
<b>NET CASH USED IN FINANCING ACTIVITIES . . . . .</b>	<b>(176,218)</b>	<b>(133,385)</b>	<b>(133,789)</b>
Increase in cash and cash equivalents . . . . .	4,246	17,188	35,924
Cash and cash equivalents at beginning of year . . . . .	129,526	112,338	76,414
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR . . . . .</b>	<b>133,772</b>	<b>129,526</b>	<b>112,338</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid (received) during the year for:			
Interest, net of capitalized amounts . . . . .	\$ 78,407	\$ 81,187	\$ 85,931
Income taxes . . . . .	\$ (1,354)	\$ (2,198)	\$ (16,895)

See accompanying notes to consolidated financial statements.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**(1) Nature of Operations and Summary of Significant Accounting Policies**

SkyWest, Inc. (the “Company”), through its subsidiaries, SkyWest Airlines, Inc. (“SkyWest Airlines”) and ExpressJet Airlines, Inc. (“ExpressJet”) operates the largest regional airline in the United States. As of December 31, 2012, SkyWest and ExpressJet offered scheduled passenger and air freight service with approximately 4,000 total daily departures to different destinations in the United States, Canada, Mexico and the Caribbean. Additionally, the Company provides ground handling services for other airlines throughout its system. As of December 31, 2012, the Company had a combined fleet of 744 aircraft consisting of the following:

	CRJ200	ERJ145	ERJ135	CRJ700	CRJ900	EMB120	Total
United . . . . .	92	242	7	70	—	34	445
Delta . . . . .	147	—	—	60	46	8	261
US Airways . . . . .	15	—	—	—	—	—	15
American . . . . .	12	—	—	—	—	—	12
Alaska . . . . .	—	—	—	5	—	—	5
Subleased to an un-affiliated entity . . . . .	2	—	—	—	—	—	2
Subleased to an affiliated entity . . . . .	—	—	—	—	4	—	4
Total . . . . .	268	242	7	135	50	42	744

For the year ended December 31, 2012, approximately 64.8% of the Company’s aggregate capacity was operated for United, approximately 32.2% was operated for Delta approximately 1.4% was operated for Alaska, approximately 1.4% was operated for US Airways and approximately 0.2% was operated for American.

SkyWest Airlines has been a code-share partner with Delta in Salt Lake City and United in Los Angeles since 1987 and 1997, respectively. In 1998, SkyWest Airlines expanded its relationship with United to provide service in Portland, Seattle/Tacoma, San Francisco and additional Los Angeles markets. In 2004, SkyWest Airlines expanded its United Express operations to provide service in Chicago. In May 2011, SkyWest Airlines entered into a capacity purchase agreement with Alaska. In November 2011, SkyWest Airlines entered into a code share agreement with US Airways. In September, 2012, SkyWest Airlines and ExpressJet entered into code share agreements (the “American Agreements”) with American Airlines, Inc. (“American”). As of December 31, 2012, SkyWest Airlines operated as a Delta Connection carrier in Salt Lake City and Minneapolis, a United Express carrier in Los Angeles, San Francisco, Denver, Houston, Chicago and the Pacific Northwest, an Alaska carrier in Seattle/ Tacoma and Portland, a US Airways carrier in Phoenix and an American carrier in Los Angeles.

On November 17, 2011, the Company’s wholly-owned subsidiaries, Atlantic Southeast Airlines, Inc. and ExpressJet Airlines, Inc., consolidated their operations under a single operating certificate, and on December 31, 2011, Atlantic Southeast Airlines, Inc. and ExpressJet Airlines, Inc. were merged, with the surviving corporation named ExpressJet Airlines, Inc. (the “ExpressJet Combination”). In the following Notes to 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

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

Atlantic Southeast and ExpressJet Delaware, for periods subsequent to the ExpressJet Combination. At the time of the ExpressJet Combination, Atlantic Southeast had been a code-share partner with Delta in Atlanta since 1984 and a code-share partner with United since February 2010. As of December 31, 2012, ExpressJet operated as a Delta Connection carrier in Atlanta and Detroit and a United Express carrier in Chicago (O'Hare), Washington, D.C. (Dulles International Airport), Cleveland, Newark, Houston and Denver.

***Basis of Presentation***

The Company's consolidated financial statements include the accounts of SkyWest, Inc. and its subsidiaries, including SkyWest Airlines and ExpressJet, with all inter-company transactions and balances having been eliminated.

In preparing the accompanying consolidated financial statements, the Company has reviewed, as determined necessary by the Company's management, events that have occurred after December 31, 2012, up until the filing of the Company's annual report with the U.S. Securities and Exchange Commission.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 could differ from those estimates.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company classified \$19.6 million and \$19.4 million of cash as restricted cash as required by the Company's workers' compensation policy and classified it accordingly in the consolidated balance sheets as of December 31, 2012 and 2011, respectively.

***Marketable Securities***

The Company's investments in marketable debt and equity securities are deemed by management to be available for sale and are reported at fair market value with the net unrealized appreciation (depreciation) reported as a component of accumulated other comprehensive income in stockholders' equity. At the time of sale, any realized appreciation or depreciation, calculated by the specific

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

identification method, is recognized in other income and expense. The Company's position in marketable securities as of December 31, 2012 and 2011 was as follows (in thousands):

<u>Investment Types</u>	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Commercial paper . . . . .	\$ 3,510	\$ 3,514	\$ 4,555	\$ 4,557
Bond and bond funds . . . . .	555,603	556,133	496,170	496,310
Asset backed securities . . . . .	296	314	456	478
	<u>559,409</u>	<u>559,961</u>	<u>501,181</u>	<u>501,345</u>
Unrealized appreciation . . . . .	552	—	164	—
Total . . . . .	<u>\$559,961</u>	<u>\$559,961</u>	<u>\$501,345</u>	<u>\$501,345</u>

Marketable securities had the following maturities as of December 31, 2012 (in thousands):

<u>Maturities</u>	<u>Amount</u>
Year 2013 . . . . .	\$327,942
Years 2014 through 2017 . . . . .	160,116
Years 2018 through 2022 . . . . .	4,060
Thereafter . . . . .	67,843

As of December 31, 2012, the Company had classified \$556.1 million of marketable securities as short-term since it has the intent to maintain a liquid portfolio and the ability to redeem the securities within one year. The Company has classified approximately \$3.8 million of investments as non-current and has identified them as "Other assets" in the Company's consolidated balance sheet as of December 31, 2012 (see Note 7).

***Inventories***

Inventories include expendable parts, fuel and supplies and are valued at cost (FIFO basis) less an allowance for obsolescence based on historical results and management's expectations of future operations. Expendable inventory parts are charged to expense as used. An obsolescence allowance for flight equipment expendable parts is accrued based on estimated lives of the corresponding fleet types and salvage values. The inventory allowance as of December 31, 2012 and 2011 was \$9.2 million and \$8.2 million, respectively. These allowances are based on management estimates, which are subject to change.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

***Property and Equipment***

Property and equipment are stated at cost and depreciated over their useful lives to their estimated residual values using the straight-line method as follows:

<u>Assets</u>	<u>Depreciable Life</u>	<u>Residual Value</u>
Aircraft and rotatable spares . . . . .	10 - 18 years	0 - 30%
Ground equipment . . . . .	5 - 10 years	0%
Office equipment . . . . .	5 - 7 years	0%
Leasehold improvements . . . . .	15 years or life of the lease	0%
Buildings . . . . .	20 - 39.5 years	0%

***Impairment of Long Lived Assets***

As of December 31, 2012, the Company had approximately \$2.7 billion of property and equipment and related assets. Additionally, as of December 31, 2012, the Company had approximately \$17.2 million in intangible assets. In accounting for these long-lived and intangible assets, the Company makes estimates about the expected useful lives of the assets, the expected residual values of certain of these assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. On September 7, 2005, the Company completed the acquisition of all of the issued and outstanding capital stock of Atlantic Southeast and recorded an intangible asset of approximately \$33.7 million relating to the acquisition. The intangible asset is being amortized over fifteen years under the straight-line method. As of December 31, 2012 and 2011, the Company had \$16.5 million and \$14.3 million in accumulated amortization expense, respectively. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the long-lived assets, a significant change in the condition of the long-lived assets and operating cash flow losses associated with the use of the long-lived assets. On a periodic basis, the Company evaluates whether impairment indicators are present. When considering whether or not impairment of long-lived assets exists, we group similar assets together at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and compare the undiscounted cash flows for each asset group to the net carrying amount of the assets supporting the asset group. Asset groupings are done at the fleet or contract level. No impairments of long-lived assets were recognized during 2012, 2011, or 2010.

***Capitalized Interest***

Interest is capitalized on aircraft purchase deposits as a portion of the cost of the asset and is depreciated over the estimated useful life of the asset. During the years ended December 31, 2012, 2011 and 2010, the Company capitalized interest costs of approximately \$0, \$0, and \$5,000, respectively.

***Maintenance***

The Company operates under an FAA-approved continuous inspection and maintenance program. The Company uses the direct expense method of accounting for its regional jet engine overhauls wherein the expense is recorded when the overhaul event occurs. The Company has an engine services agreement with a third party vendor to provide long-term engine services covering the scheduled and

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

unscheduled repairs for certain of its Bombardier CRJ700 Regional Jets (“CRJ700s”) and Embraer S.A. (“Embraer”) ERJ145 regional jet (“ERJ 145”) aircraft. Under the terms of the agreement, the Company pays a set dollar amount per engine hour flown on a monthly basis and the third party vendor will assume the responsibility to repair the engines at no additional cost to the Company, subject to certain specified exclusions. Maintenance costs under these contracts are recognized when the engine hour is flown pursuant to the terms of the contract. The Company uses the “deferral method” of accounting for its Embraer Brasilia EMB-120 turboprop aircraft (“Brasilia turboprop”) engine overhauls wherein the overhaul costs are capitalized and depreciated to the next estimated overhaul event. The costs of maintenance for airframe and avionics components, landing gear and normal recurring maintenance are expensed as incurred. For leased aircraft, the Company is subject to lease return provisions that require a minimum portion of the “life” of an overhaul be remaining on the engine at the lease return date. For Brasilia turboprop engine overhauls related to leased aircraft to be returned, the Company adjusts the estimated useful lives of the final engine overhauls based on the shorter of the remaining useful life or the respective lease return dates.

***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, United, US Airways, American and 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 agreements.

***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 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.



**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

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 by other regional carriers for Delta in exchange for the early termination of 66 Bombardier CRJ200 regional jet aircraft ("CRJ200s") under the SkyWest Airlines and ExpressJet Delta Connection Agreements. The Company anticipates the 34 additional dual-class aircraft will be subleased from Delta for a nominal amount. The 34 additional dual-class aircraft consist of 29 Bombardier CRJ900 regional jet aircraft ("CRJ900s") and five CRJ700s. As of December 31, 2012, the Company had taken delivery of 15 CRJ900s and five CRJ700s. The Company anticipates that the remaining dual-class aircraft to be provided by Delta will be delivered by June 2013. The Company anticipates that all 66 CRJ200 aircraft will be removed from 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, which 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

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

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 6 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 Bombardier 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 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 Airlines, Inc., to which United became a party pursuant to its merger with Continental Airlines, Inc. in 2010 (the “United CPA”). Pursuant to the United CPA, whereby ExpressJet Delaware agreed to provide regional airline service in the United flight system. Under the terms of the United CPA, to which ExpressJet succeeded as a party through the ExpressJet Combination, ExpressJet operates 227 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

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

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 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 and recognizes revenue accordingly.

*American Agreement*

In September 2012, SkyWest Airlines and ExpressJet each entered into a Capacity Purchase Agreement with American (the "American Agreements"), which set forth the terms and conditions governing SkyWest Airlines' and ExpressJet's prospective American Eagle operations. 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 Agreement have been removed from flying contracts SkyWest Airlines and ExpressJet had with another major partner. The term of each 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 will be reimbursed for fuel and other costs. The American Agreements also provide for SkyWest Airlines and ExpressJet to receive incentive compensation upon the achievement of certain performance criteria, but also impose financial penalties if SkyWest Airlines or ExpressJet fails to achieve minimum performance criteria. The incentives are defined in the American Agreements as being measured and determined on a quarterly basis. The Company anticipates that at the end of each quarter, it will calculate the incentives achieved during the quarter from the American Agreements and recognize revenue accordingly.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

***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, Alaska, American or US Airways, 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.

Under the Company's code-share agreements with Delta, United, Alaska, US Airways and American, the compensation structure generally consists of a combination of agreed-upon rates for operating flights and direct reimbursement for other certain costs associated with operating the aircraft. A portion of the Company's contract flying compensation is designed to reimburse the Company for certain aircraft ownership costs. The Company has concluded that a component of its revenue under these agreements is rental income, inasmuch as the agreements identify the "right of use" of a specific type and number of aircraft over a stated period of time. The amounts deemed to be rental income under the agreements for the years ended December 31, 2012, 2011 and 2010 were \$506.7 million, \$521.3 million and \$492.7 million, respectively. These amounts were recorded as passenger revenue on the Company's consolidated statements of operations. The Company has not separately stated aircraft rental income and aircraft rental expense in the consolidated statement of comprehensive income (loss) since the use of the aircraft is not a separate activity of the total service provided and there is not a separate profitability measurement for the deemed rental activity of the aircraft.

***Deferred Aircraft Credits***

The Company accounts for incentives provided by aircraft manufacturers as deferred credits. The deferred credits related to leased aircraft are amortized on a straight-line basis as a reduction to rent expense over the lease term. Credits related to owned aircraft reduce the purchase price of the aircraft, which has the effect of amortizing the credits on a straight-line basis as a reduction in depreciation expense over the life of the related aircraft. The incentives are credits that may be used to purchase spare parts and pay for training and other expenses.

***Income Taxes***

The Company recognizes a liability or asset for the deferred tax consequences of all temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years when the reported amounts of the assets and liabilities are recovered or settled.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

*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 years ended December 31, 2012, 2011 and 2010, 3,889,000, 4,323,000 and 4,183,000 shares reserved for issuance upon the exercise of outstanding options were excluded from the computation of Diluted EPS respectively, as their inclusion would be anti-dilutive.

The calculation of the weighted average number of common shares outstanding for Basic EPS and Diluted EPS are as follows for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	Year Ended December 31,		
	2012	2011	2010
<b>Numerator:</b>			
Net Income (Loss) . . . . .	\$51,157	\$(27,335)	\$96,350
<b>Denominator:</b>			
Denominator for basic earnings per-share weighted average shares . . . . .	51,090	52,201	55,610
Dilution due to stock options and restricted stock . . .	656	—	916
Denominator for diluted earnings per-share weighted average shares . . . . .	51,746	52,201	56,526
Basic earnings (loss) per-share . . . . .	\$ 1.00	\$ (0.52)	\$ 1.73
Diluted earnings (loss) per-share . . . . .	\$ 0.99	\$ (0.52)	\$ 1.70

*Comprehensive Income (Loss)*

Comprehensive income (loss) includes charges and credits to stockholders’ equity that are not the result of transactions with the Company’s shareholders. Also, comprehensive income (loss) consisted of net income (loss) plus changes in unrealized appreciation (depreciation) on marketable securities and unrealized gain (loss) on foreign currency translation adjustment related to the Company’s equity investment in Trip Linhas Aereas, a regional airline operating in Brazil (“Trip”) and Mekong Aviation

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

Joint Stock Company, an airline operating in Vietnam (“Air Mekong”) (see note 8), net of tax, for the periods indicated (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Net Income (Loss)</b> . . . . .	51,157	\$(27,335)	\$96,350
Proportionate share of other companies foreign currency translation adjustment, net of tax . . . . .	(251)	(295)	637
Unrealized appreciation (depreciation) on marketable securities, net of tax . . . . .	316	534	(745)
<b>Comprehensive income (loss)</b> . . . . .	<u>\$51,222</u>	<u>\$(27,096)</u>	<u>\$96,242</u>

***Fair Value of Financial Instruments***

The carrying amounts reported in the consolidated balance sheets for receivables and accounts payable approximate fair values because of the immediate or short-term maturity of these financial instruments. Marketable securities are reported at fair value based on market quoted prices in the consolidated balance sheets. However, due to recent events in credit markets, the auction events for some of these instruments held by the Company failed during the year ended December 31, 2012. Therefore, quoted prices in active markets are no longer available and the Company has estimated the fair values of these securities utilizing a discounted cash flow analysis as of December 31, 2012. These analyses consider, among other items, the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the expectation of the next time the security is expected to have a successful auction. The fair value of the Company’s long-term debt is estimated based on current rates offered to the Company for similar debt and approximates \$1,744.2 million as of December 31, 2012, as compared to the carrying amount of \$1,642.0 million as of December 31, 2011. The Company’s fair value of long-term debt as of December 31, 2011 was \$1,952.5 million as compared to the carrying amount of \$1,815.4 million as of December 31, 2011.

***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 conducted by its two subsidiaries, SkyWest Airlines and ExpressJet. Information pertaining to the Company’s reportable segments is presented in Note 2, *Segment Reporting*.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(2) 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 conducted by its two subsidiaries, SkyWest Airlines and ExpressJet. On December 31, 2011, ExpressJet Delaware and Atlantic Southeast merged through the ExpressJet Combination. As a result of the ExpressJet Combination, ExpressJet became a reportable segment. Prior year amounts have been revised to conform to the current year segment presentation. The results of operation of ExpressJet Delaware and Atlantic Southeast for periods prior to the ExpressJet Combination are combined under the ExpressJet segment. 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 years ended December 31, 2012, 2011 and 2010 (in thousands).

	<b>Year ended December 31, 2012</b>			
	<b>SkyWest Airlines</b>	<b>ExpressJet</b>	<b>Other</b>	<b>Consolidated</b>
Operating revenues . . . . .	1,930,149	1,593,527	10,696	3,534,372
Operating expense . . . . .	1,774,876	1,588,400	5,109	3,368,385
Depreciation and amortization expense . . . . .	153,915	98,043	—	251,958
Interest expense . . . . .	49,208	23,582	4,590	77,380
Segment profit (loss)(1) . . . . .	106,065	(18,455)	997	88,607
Identifiable intangible assets, other than goodwill . . .	—	17,248	—	17,248
Total assets . . . . .	2,633,369	1,621,268	—	4,254,637
Capital expenditures (including non—cash) . . . . .	53,656	20,204	—	73,860
	<b>Year ended December 31, 2011</b>			
	<b>SkyWest Airlines</b>	<b>ExpressJet</b>	<b>Other</b>	<b>Consolidated</b>
Operating revenues . . . . .	2,002,830	1,640,837	11,256	3,654,923
Operating expense (income) . . . . .	1,893,909	1,714,481	5,428	3,613,818
Depreciation and amortization expense . . . . .	147,520	106,662	—	254,182
Interest expense . . . . .	50,907	25,142	4,334	80,383
Segment profit(1) . . . . .	58,014	(98,786)	1,494	(39,278)
Identifiable intangible assets, other than goodwill . . .	—	19,497	—	19,497
Total assets . . . . .	2,595,901	1,686,007	—	4,281,908
Capital expenditures (including non—cash) . . . . .	166,998	32,758	—	199,756

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(2) Segment Reporting (Continued)**

	Year ended December 31, 2010			
	SkyWest Airlines	ExpressJet	Other	Consolidated
Operating revenues . . . . .	1,904,472	855,095	5,578	2,765,145
Operating expense (income) . . . . .	1,759,784	804,110	(575)	2,563,319
Depreciation and amortization expense . . . . .	144,002	92,497	—	236,499
Interest expense . . . . .	53,622	27,933	4,962	86,517
Segment profit(1) . . . . .	91,066	23,052	1,191	115,309
Identifiable intangible assets, other than goodwill . . . . .	—	21,747	—	21,747
Total assets . . . . .	2,587,371	1,859,138	—	4,446,509
Capital expenditures (including non—cash) . . . . .	158,787	22,290	—	181,077

(1) Segment profit is operating income less interest expense

**(3) Long-term Debt**

Long-term debt consisted of the following as of December 31, 2012 and 2011 (in thousands):

	December 31, 2012	December 31, 2011
Notes payable to banks, due in semi-annual installments, variable interest based on LIBOR, or with interest rates ranging from 1.34% to 2.55% through 2013 to 2020, secured by aircraft . . . . .	\$ 273,515	\$ 364,741
Notes payable to a financing company, due in semi-annual installments, variable interest based on LIBOR, or with interest rates ranging from 0.70% to 2.36% through 2013 to 2021, secured by aircraft . . . . .	434,716	477,241
Notes payable to banks, due in semi-annual installments plus interest at 6.06% to 7.18% through 2021, secured by aircraft . . . . .	168,937	193,197
Notes payable to a financing company, due in semi-annual installments plus interest at 5.78% to 6.23% through 2019, secured by aircraft . . . . .	39,548	53,803
Notes payable to banks, due in monthly installments plus interest of 3.15% to 8.18% through 2025, secured by aircraft . . . . .	665,867	706,463
Notes payable to banks, due in semi-annual installments, plus interest at 6.05% through 2020, secured by aircraft . . . . .	17,872	19,946
Notes payable to a bank, due in monthly installments interest based on LIBOR plus interest at 2.00% to 4.00% through 2016, secured by aircraft . . . . .	41,567	—
Long-term debt . . . . .	<u>1,642,022</u>	<u>1,815,391</u>
Less current maturities . . . . .	<u>(171,454)</u>	<u>(208,398)</u>
Long-term debt, net of current maturities . . . . .	<u>1,470,568</u>	<u>1,606,993</u>

As of December 31, 2012, the Company had \$1.6 billion of long-term debt obligations related to the acquisition of CRJ200, CRJ700 and CRJ900 aircraft. The average effective interest rate on the debt related to the CRJ aircraft was approximately 4.5% at December 31, 2012.



**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(3) Long-term Debt (Continued)**

The aggregate amounts of principal maturities of long-term debt as of December 31, 2012 were as follows (in thousands):

2013 .....	\$ 171,454
2014 .....	177,390
2015 .....	184,510
2016 .....	188,240
2017 .....	161,735
Thereafter .....	758,693
	<u>\$1,642,022</u>

As of December 31, 2012 and 2011, SkyWest Airlines had a \$25 million line of credit. As of December 31, 2012 and 2011, SkyWest Airlines had no amount outstanding under the facility. The facility expires on March 31, 2013 and has a fixed interest rate of 4.0%.

As of December 31, 2012, the Company had \$75.1 million in letters of credit and surety bonds outstanding with various banks and surety institutions.

As of December 31, 2012, the Company was in compliance with all debt covenants.

**(4) Note Receivable**

On October 16, 2009, SkyWest Airlines agreed to defer certain amounts otherwise payable to SkyWest Airlines under the existing United Express Agreement for a maximum period of 30 days. The maximum deferral amount is \$49 million and any amounts deferred accrue a deferral fee of 8%, payable weekly. As of December 31, 2012 and 2011, \$49 million was deferred for 30 days. United's right to defer such payments continues through October 16, 2019, subject to certain conditions. As of December 31, 2012, the Company had classified \$49.0 million as current and has identified the deferred amount as "Receivables, net" in its consolidated balance sheet.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(5) Income Taxes**

The provision for income taxes includes the following components (in thousands):

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current tax provision (benefit):			
Federal .....	\$ —	\$ —	\$(1,600)
State .....	441	396	451
	<u>441</u>	<u>396</u>	<u>(1,149)</u>
Deferred tax provision (benefit):			
Federal .....	31,791	(21,533)	46,994
State .....	2,507	(1,698)	3,706
	<u>34,298</u>	<u>(23,231)</u>	<u>50,700</u>
Provision (benefit) for income taxes .....	<u>34,739</u>	<u>(22,835)</u>	<u>49,551</u>

The following is a reconciliation between the statutory Federal income tax rate of 35% and the effective rate which is derived by dividing the provision (benefit) for income taxes by income (loss) before for income taxes (in thousands):

	<u>Year ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Computed “expected” provision (benefit) for income taxes at the statutory rates .....	\$32,983	\$(14,683)	\$52,888
Increase (decrease) in income taxes resulting from:			
Purchase accounting (gain) adjustment .....	—	1,999	(5,455)
State income tax provision (benefit), net of Federal income tax benefit .....	2,220	(1,810)	3,485
Valuation allowance changes affecting the provision for income taxes .....	1,614	—	—
Other, net .....	<u>(2,078)</u>	<u>(8,341)</u>	<u>(1,367)</u>
Provision (benefit) for income taxes .....	<u>34,739</u>	<u>(22,835)</u>	<u>49,551</u>

For the year ended December 31, 2012, the Company recorded a \$1.6 million valuation allowance against certain deferred tax assets associated with capital losses with a limited carryforward period. The Company anticipates the carryforward period will lapse prior to utilization of the deferred tax assets.

For the year ended December 31, 2011 in conjunction with preparing the 2010 income tax return, the Company revised its estimate of the 2010 ExpressJet post-acquisition tax losses recorded as a deferred tax asset as of December 31, 2010. The change in estimate resulted in a tax benefit of \$7.2 million, which is reflected in “Other, net” in the reconciliation above.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(5) Income Taxes (Continued)**

The significant components of the net deferred tax assets and liabilities are as follows (in thousands):

	<u>As of December 31,</u>	
	<u>2012</u>	<u>2011</u>
Deferred tax assets:		
Intangible Asset . . . . .	\$ 37,031	\$ 37,404
Accrued benefits . . . . .	40,469	35,460
Net operating loss carryforward . . . . .	118,448	128,134
AMT credit carryforward . . . . .	15,882	15,882
Deferred aircraft credits . . . . .	48,124	49,867
Accrued reserves and other . . . . .	<u>31,846</u>	<u>24,538</u>
Total deferred tax assets . . . . .	<u>291,800</u>	<u>291,285</u>
Valuation allowance . . . . .	<u>(1,614)</u>	<u>—</u>
Deferred tax liabilities:		
Accelerated depreciation . . . . .	<u>(823,487)</u>	<u>(789,641)</u>
Total deferred tax liabilities . . . . .	<u>(823,487)</u>	<u>(789,641)</u>
Net deferred tax liability . . . . .	<u>(533,301)</u>	<u>\$(498,356)</u>

The Company's deferred tax liabilities were primarily generated through an accelerated bonus depreciation on newly purchased aircraft and support equipment in accordance with IRS Section 168(k) in combination with shorter depreciable tax lives.

The Company's valuation allowance is related to certain deferred tax assets with a limited carry-forward period. The Company does not anticipate utilizing these deferred tax assets prior to the lapse of the carry-forward period.

At December 31, 2012, the Company had federal net operating losses of approximately \$272.0 million and state net operating losses of approximately \$736.5 million, which will start to expire in 2026 and 2016, respectively. As of December 31, 2012, the Company also had an alternative minimum tax credit of approximately \$15.9 million which does not expire.

In conjunction with the ExpressJet Merger, the Company acquired non-amortizable intangible tax assets and other tax assets that are not anticipated to provide a tax benefit until 2025 or later due to statutory limitations. Because of the uncertainty associated with the realization of those tax assets, the Company has a full valuation allowance of approximately \$73.0 million on such tax assets as of December 31, 2012 and 2011. The Company also has a valuation allowance against deferred tax assets of approximately \$1 million for net operating losses in states with short carry-forward periods. The deferred tax assets in the table above are shown net of these valuation allowance.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(6) Commitments and Contingencies**

*Lease Obligations*

The Company leases 568 aircraft, as well as airport facilities, office space, and various other property and equipment under non-cancelable operating leases which are generally on a long-term net rent basis where the Company pays taxes, maintenance, insurance and certain other operating expenses applicable to the leased property. The following table summarizes future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2012 (in thousands):

<u>Year ending December 31,</u>	
2013 .....	\$ 387,999
2014 .....	360,797
2015 .....	309,378
2016 .....	239,989
2017 .....	182,291
Thereafter .....	<u>720,733</u>
	<u>\$2,201,187</u>

The majority of the Company's leased aircraft are owned and leased through trusts whose sole purpose is to purchase, finance and lease these aircraft to the Company; therefore, they meet the criteria of a variable interest entity. However, since these are single owner trusts in which the Company does not participate, the Company is not considered at risk for losses and is not considered the primary beneficiary. As a result, based on the current rules, the Company is not required to consolidate any of these trusts or any other entities in applying the accounting guidance. The Company's management believes that the Company's maximum exposure under these leases is the remaining lease payments.

Total rental expense for non-cancelable aircraft operating leases was approximately \$333.6 million, \$346.5 million and \$311.9 million for the years ended December 31, 2012, 2011 and 2010, respectively. The minimum rental expense for airport station rents was approximately \$43.5 million, \$42.6 million and \$43.5 million for the years ended December 31, 2012, 2011 and 2010, respectively.

The Company's leveraged lease agreements typically obligate the Company to indemnify the equity/owner participant against liabilities that may arise due to changes in benefits from tax ownership of the respective leased aircraft. The terms of these contracts range up to 17 years. The Company did not accrue any liability relating to the indemnification to the equity/owner participant because of management's assessment that the probability of this occurring is remote.

*Self-insurance*

The Company self-insures a portion of its potential losses from claims related to workers' compensation, environmental issues, property damage, medical insurance for employees and general liability. Losses are accrued based on an estimate of the ultimate aggregate liability for claims incurred, using standard industry practices and the Company's actual experience. Actual results could differ from these estimates.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(6) Commitments and Contingencies (Continued)**

*Legal Matters*

The Company is subject to certain legal actions which it considers routine to its business activities. As of December 31, 2012, management believes, 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 IROP expenses paid by SkyWest Airlines and Atlantic Southeast to their passengers and vendors under certain situations. During the period between the execution of the Delta Connection Agreements in September 2005 and December 2007, SkyWest Airlines and Atlantic Southeast passed through to Delta IROP expenses that were paid pursuant to Delta's policies, and Delta accepted and reimbursed those expenses. Delta now claims it is obligated to reimburse only a fraction of those IROP expenses. 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. Since December 2007, Delta has continued to withhold payments from the weekly scheduled wire payments to SkyWest Airlines and Atlantic Southeast (now ExpressJet), and has disputed subsequent billings for IROP expenses. On February 1, 2008, SkyWest Airlines and Atlantic Southeast filed a Complaint in the Superior Court for Fulton County, Georgia ("Superior Court") challenging Delta's treatment of the matter and seeking recovery of the payments withheld by Delta and any future withholdings related to this issue. Delta filed an Answer to the SkyWest Airlines and Atlantic Southeast Complaint and a Counterclaim against SkyWest Airlines and Atlantic Southeast on March 24, 2008. Delta's Counterclaim alleged that SkyWest Airlines and Atlantic Southeast breached the Delta Connection Agreements by invoicing Delta for IROP expenses that were paid pursuant to Delta's policies, and claims only a portion of those expenses may be invoiced to Delta. Since July 1, 2008, the Company has not recognized revenue related to IROP expense reimbursements withheld by Delta because collection of those reimbursements is the subject of litigation and is not reasonably assured. As of December 31, 2012, the Company had recognized a cumulative total of \$31.7 million of revenue associated with the funds withheld by Delta.

During 2010, the Company and Delta began preliminary settlement discussions related to the IROP dispute. Notwithstanding the legal merits of the case, the Company offered to settle the claim for approximately \$5.9 million less than the cumulative total of revenue recognized related to this matter. Those settlement discussions were not successful; however, as a result of the settlement offer, the Company wrote off \$5.9 million of related receivables as of December 31, 2010.

After proceedings that included contested motions, document discovery, and depositions, Delta voluntarily dismissed its Counterclaim. Discovery in that action was not complete at the time of dismissal. On February 14, 2011, SkyWest Airlines and Atlantic Southeast voluntarily dismissed their claims in the Superior Court, and filed a new complaint (the "State Court Complaint") in the Georgia State Court of Fulton County (the "State Court"). The claims continue to include breach of contract,

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(6) Commitments and Contingencies (Continued)**

breach of contract based on mutual departure, breach of contract based on voluntary payment, and breach of the duty of good faith and fair dealing. Delta moved for partial dismissal of the State Court Complaint, which motion was denied in its entirety. Discovery in the State Court lawsuit is not yet complete.

On October 18, 2011, Delta filed a counterclaim (the "Counterclaim") against SkyWest Airlines and Atlantic Southeast. The Counterclaim contains claims for unjust enrichment and breach of contract related to alleged non-revenue positive space flying by SkyWest and Atlantic Southeast employees for non-Delta related business. Delta's Counterclaim does not specify an amount of damages, but the Counterclaim alleges, on information and belief, that Delta's damages exceed \$4.5 million. SkyWest and Atlantic Southeast filed their reply to the Counterclaim on November 21, 2011, stating the allegations contained in the Counterclaim stand denied by operation of law and asserting SkyWest's and Atlantic Southeast's affirmative defenses. An estimated loss is accrued if the loss is probable and reasonably estimable. Because these conditions have not been satisfied, the Company has not recorded a loss in its consolidated financial statements with respect to the dispute. As of December 31, 2012, a range of reasonably possible loss is not determinable related to this Counterclaim.

As of December 31, 2012, the Company's estimated range of reasonably possible loss related to the dispute was \$0 to \$25.8 million. SkyWest Airlines and ExpressJet continue to vigorously pursue their claims set forth in the State Court Complaint and their defenses against Delta's Counterclaim.

***Concentration Risk and Significant Customers***

The Company requires no collateral from its major partners or customers but monitors the financial condition of its major partners. The Company maintains an allowance for doubtful accounts receivable based upon expected collectability of all accounts receivable. The Company's allowance for doubtful accounts totaled \$94,000 and \$240,000 as of December 31, 2012 and 2011, respectively. For the years ended December 31, 2012, 2011 and 2010, the Company's contractual relationships with Delta and United combined accounted for approximately 94.8%, 97.6% and 94.7%, respectively of the Company's total revenues.

***Employees Under Collective Bargaining Agreements***

As of December 31, 2012, the Company had 18,145 full-time equivalent employees. Approximately 42% of these employees were represented by unions, including the following employee groups. Notwithstanding the completion of the ExpressJet Combination, ExpressJet's employee groups continue to be represented by those unions who provided representation prior to the ExpressJet Combination.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(6) Commitments and Contingencies (Continued)**

Accordingly, the following table refers to ExpressJet's employee groups based upon their union affiliations prior to the ExpressJet Combination.

<u>Employee Group</u>	<u>Approximate Number of Active Employees Represented</u>	<u>Representatives</u>	<u>Status of Agreement</u>
Atlantic Southeast Pilots . . . . .	1,620	Air Line Pilots Association International	Amendable
Atlantic Southeast Flight Attendants . . . . .	940	International Association of Machinists and Aerospace Workers	Amendable
Atlantic Southeast Flight Controllers . . . . .	70	Transport Workers Union of America	Amendable
Atlantic Southeast Mechanics . . . . .	420	International Brotherhood of Teamsters	Amendable
Atlantic Southeast Stock Clerks . . . . .	70	International Brotherhood of Teamsters	Amendable
ExpressJet Delaware Pilots . . . . .	2,560	Air Line Pilots Association International	Amendable
ExpressJet Delaware Flight Attendants . . . . .	1,200	International Association of Machinists and Aerospace Workers	Amendable
ExpressJet Delaware Mechanics . . . . .	670	International Brotherhood of Teamsters	Amendable
ExpressJet Delaware Dispatchers . . . . .	80	Transport Workers Union of America	Amendable
ExpressJet Delaware Stock Clerks . . . . .	75	International Brotherhood of Teamsters	Amendable

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(7) Fair Value Measurements**

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 December 31, 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):

	<b>Fair Value Measurements as of December 31, 2012</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Marketable Securities				
Bonds . . . . .	\$552,289	\$ —	\$552,289	\$ —
Commercial paper . . . . .	3,514	—	3,514	—
Asset backed securities . . . . .	314	—	314	—
	<u>556,117</u>	<u>—</u>	<u>556,117</u>	<u>—</u>
Cash, Cash Equivalents and Restricted Cash . . . . .	153,325	153,325	—	—
Other Assets(a) . . . . .	3,844	—	—	3,844
Total Assets Measured at Fair Value . . . . .	<u>\$713,286</u>	<u>\$153,325</u>	<u>\$556,117</u>	<u>\$3,844</u>



**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(7) Fair Value Measurements (Continued)**

	Fair Value Measurements as of December 31, 2011			
	Total	Level 1	Level 2	Level 3
Marketable Securities				
Bonds . . . . .	\$492,517	\$ —	\$492,517	\$ —
Commercial paper . . . . .	4,557	—	4,557	—
Asset backed securities . . . . .	478	—	478	—
	<u>497,552</u>	<u>—</u>	<u>497,552</u>	<u>—</u>
Cash, Cash Equivalents and Restricted Cash . . . . .	148,960	148,960	—	—
Other Assets(a) . . . . .	3,793	—	—	3,793
Total Assets Measured at Fair Value . . . . .	<u>\$650,305</u>	<u>\$148,960</u>	<u>\$497,552</u>	<u>\$3,793</u>

(a) Auction rate securities included in “Other assets” in the 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 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.

No significant transfers between Level 1, Level 2 and Level 3 occurred during the year ended December 31, 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 December 31, 2012 (in thousands):

**Fair Value Measurements Using Significant Unobservable Inputs**

**(Level 3)**

	<b>Auction Rate Securities</b>
Balance at January 1, 2012 . . . . .	\$3,793
Total realized and unrealized gains or (losses)	
Included in earnings . . . . .	—
Included in other comprehensive income . . . . .	51
Transferred out . . . . .	—
Settlements . . . . .	—
Balance at December 31, 2012 . . . . .	<u>\$3,844</u>

**(8) Investment in Other Companies**

In September 2008, the Company entered into an agreement to acquire a 20% interest in TRIP. As of December 31, 2012, the Company’s investment balance in TRIP was \$19.1 million.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(8) Investment in Other Companies (Continued)**

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 ("Trip Investimentos"). The Company has also recorded the fair value of the option. The option has an initial exercise price per share equal to the price paid by Trip Investimentos to acquire the TRIP shares from the Company. The exercise price escalates annually at a specified rate and the Company can exercise the option, at its discretion, between the second and fourth anniversaries of the Company's receipt of the final required installment payments from Trip Investimentos. Under the terms of the agreement, Trip Investimentos cannot transfer the TRIP shares until the three installment payments have been made. The restriction on Trip Investimentos' ability to transfer the TRIP shares prevents the transaction from being recognized as a sale. As a result, the Company will account for the transaction as a sale once all three installment payments have been made. The Company has no continuing involvement with the TRIP shares. As of December 31, 2012, the Company had received the first installment payment of \$8.1 million. This payment was recorded as an "Other Long-Term Liability" on the Company's consolidated balance sheet. The second installment payment is due July 12, 2013, for an amount of \$16.8 million. The third installment payment is due July 12, 2014 for an amount of \$16.8 million. The future installment payments and the option to purchase 15.38% of Trip Investimentos represent variable interests in TRIP Investimentos, which is a variable interest entity. The Company has no equity interest and no control over Trip Investimentos, and therefore the Company does not consolidate Trip Investimentos.

On September 29, 2010, the Company invested \$7 million for a 30% ownership interest in Air Mekong. During 2011, the Company invested an additional \$3 million in Air Mekong. As of December 31, 2012, the Company's investment balance in Air Mekong was \$1.7 million.

The Company's investments in TRIP and Air Mekong have been recorded as "Other Assets" on the Company's consolidated balance sheet. The Company's ownership interest in Air Mekong decreased to 17% as a result of additional financing received by Air Mekong. As a result, for purposes of generally accepted accounting principles, the Company no longer has significant influence over the operations of Air Mekong. Beginning October 1, 2012, the Company ceased to account for its investment in Air Mekong under the equity method and, subsequent to that date, has accounted for its investment in Air Mekong under the cost method. The Company's portion of the losses incurred by TRIP and Air Mekong for the year ended December 31, 2012 and 2011 was \$10.2 million (pre-tax), and \$13.3 million (pre-tax), respectively. In connection with the sale of its investment in TRIP on July 12, 2012, the Company relinquished its board seat and voting rights and for purposes of generally accepted accounting principles, no longer has significant influence over the operations of TRIP. As a result, the Company ceased to account for its investment in TRIP under the equity method beginning on July 12, 2012 and, subsequent to that date, has accounted for its investment in TRIP under the cost method.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(9) Capital Transactions**

*Preferred Stock*

The Company is authorized to issue 5,000,000 shares of preferred stock in one or more series without shareholder approval. No shares of preferred stock are presently outstanding. The Company's Board of Directors is authorized, without any further action by the shareholders of the Company, to (i) divide the preferred stock into series; (ii) designate each such series; (iii) fix and determine dividend rights; (iv) determine the price, terms and conditions on which shares of preferred stock may be redeemed; (v) determine the amount payable to holders of preferred stock in the event of voluntary or involuntary liquidation; (vi) determine any sinking fund provisions; and (vii) establish any conversion privileges.

*Stock Compensation*

On May 4, 2010, the Company's shareholders approved the adoption of the SkyWest Inc. 2010 Long-Term Incentive Plan, which provides for the issuance of up to 5,150,000 shares of common stock to the Company's directors, employees, consultants and advisors (the "2010 Incentive Plan"). The 2010 Incentive Plan provides for awards in the form of options to acquire shares of common stock, stock appreciation rights, restricted stock grants and performance awards. The 2010 Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") who is authorized to designate option grants as either incentive or non-statutory. Incentive stock options are granted at not less than 100% of the market value of the underlying common stock on the date of grant. Non-statutory stock options are granted at a price as determined by the Compensation Committee.

In prior years, the Company adopted three stock option plans: the Executive Stock Incentive Plan (the "Executive Plan"), the 2001 Allshare Stock Option Plan (the "Allshare Plan") and SkyWest Inc. Long-Term Incentive Plan (the "2006 Incentive Plan"). However, as of December 31, 2012, options to purchase 3,031,825 shares of the Company's common stock remained outstanding under the Executive Plan, the Allshare Plan and the 2006 Incentive Plan. There are no additional shares of common stock available for issuance under these plans.

The fair value of stock options awarded under the Company's stock option plans has been estimated as of the grant date using the Black-Scholes option pricing model. The Company uses historical data to estimate option exercises and employee termination in the option pricing model. The expected term of options granted is derived from the output of the option pricing model and represents the period of time that options granted are expected to be outstanding. The expected volatilities are based on the historical volatility of the Company's traded stock and other factors. During the year ended December 31, 2012, the Company granted 200,115 stock options to employees under the 2010

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(9) Capital Transactions (Continued)**

Incentive Plan. The following table shows the assumptions used and weighted average fair value for grants in the years ended December 31, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Expected annual dividend rate . . . . .	1.23%	1.04%	1.10%
Risk-free interest rate . . . . .	0.81%	2.08%	1.88%
Average expected life (years) . . . . .	5.6	5.8	4.6
Expected volatility of common stock . . . . .	0.409	0.404	0.402
Forfeiture rate . . . . .	0.0%	0.0%	0.0%
Weighted average fair value of option grants . . . . .	\$ 4.43	\$ 5.74	\$ 4.78

The Company recorded share-based compensation expense only for those options that are expected to vest. The estimated fair value of the stock options is amortized over the vesting period of the respective stock option grants.

During the year ended December 31, 2012, the Company granted 290,265 shares of restricted stock to the Company's employees under the 2010 Incentive Plan. The restricted stock has a three-year vesting period, during which the recipient must remain employed with the Company or its subsidiaries. The weighted average fair value of the restricted stock on the date of grants made during the year ended December 31, 2012 was \$13.06 per share. Additionally, the Company granted 27,874 fully-vested shares of common stock to the Company's directors with a weighted average grant-date fair value of \$13.06. The following table summarizes the restricted stock activity as of December 31, 2012, 2011 and 2010:

	<u>Number of Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Non-vested shares outstanding at December 31, 2009 . . .	686,586	\$23.13
Granted . . . . .	248,384	14.49
Vested . . . . .	(256,285)	25.51
Cancelled . . . . .	(19,422)	21.68
Non-vested shares outstanding at December 31, 2010 . . .	659,263	18.97
Granted . . . . .	249,502	15.51
Vested . . . . .	(238,848)	25.80
Cancelled . . . . .	(58,315)	15.71
Non-vested shares outstanding at December 31, 2011 . . .	611,602	15.08
Granted . . . . .	318,139	13.04
Vested . . . . .	(212,841)	14.95
Cancelled . . . . .	(18,015)	14.20
Non-vested shares outstanding at December 31, 2012 . . .	698,885	14.21

During the year ended December 31, 2012, 2011 and 2010, the Company recorded equity-based compensation expense of \$4.7 million, \$5.4 million and \$6.4 million, respectively.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(9) Capital Transactions (Continued)**

As of December 31, 2012, the Company had \$4.9 million of total unrecognized compensation cost related to non-vested stock options and non-vested restricted stock grants. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. The Company expects to recognize this cost over a weighted average period of 1.7 years.

Options are exercisable for a period as defined by the Compensation Committee on the date granted; however, no stock option will be exercisable before six months have elapsed from the date it is granted and no incentive stock option shall be exercisable after ten years from the date of grant. The following table summarizes the stock option activity for all of the Company's plans for the years ended December 31, 2012, 2011 and 2010:

	2012				2011		2010	
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$'000)	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year . . . . .	4,176,673	\$19.26	2.7 years	\$—	4,586,979	\$19.96	4,740,695	\$20.37
Granted . . . . .	200,115	13.06			327,617	15.45	320,458	14.49
Exercised . . . . .	(179,204)	10.57			(5,941)	10.57	(4,821)	10.57
Cancelled . . . . .	(543,725)	25.35			(731,982)	24.73	(469,353)	20.46
Outstanding at end of year . . . . .	<u>3,653,859</u>	18.44	2.3 years	—	<u>4,176,673</u>	19.26	<u>4,586,979</u>	19.96
Exercisable at December 31, 2012 . . . .	3,031,825	19.28	1.8 years	—				
Exercisable at December 31, 2011 . . . .	3,310,143	20.35	2.1 years	—				

The total intrinsic value of options to acquire shares of the Company's common stock that were exercised during the years ended December 31, 2012, 2011 and 2010 was \$191,000, \$31,000 and \$19,000, respectively.

The following table summarizes the status of the Company's non-vested stock options as of December 31, 2012:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Non-vested shares at beginning of year . . . . .	866,530	\$4.82
Granted . . . . .	200,115	4.43
Vested . . . . .	(444,611)	4.42
Cancelled . . . . .	—	—
Non-vested shares at end of year . . . . .	<u>622,034</u>	<u>\$4.99</u>

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(9) Capital Transactions (Continued)**

The following table summarizes information about the Company's stock options outstanding at December 31, 2012:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$10 to \$15 . . . . .	1,167,959	3.9 years	\$14.38	545,925	\$14.42
\$16 to \$21 . . . . .	1,649,742	1.8 years	17.71	1,649,742	17.71
\$22 to \$28 . . . . .	836,158	1.3 years	25.56	836,158	25.56
\$10 to \$28 . . . . .	3,653,859	2.3 years	18.44	3,031,825	19.28

**Taxes**

A portion of the Company's granted options qualify as incentive stock options ("ISOs") for income tax purposes. As such, a tax benefit is not recorded at the time the compensation cost related to the options is recorded for book purposes due to the fact that an ISO does not ordinarily result in a tax benefit unless there is a disqualifying disposition. Stock option grants of non-qualified options result in the creation of a deferred tax asset, which is a temporary difference, until the time that the option is exercised. Due to the treatment of incentive stock options for tax purposes, the Company's effective tax rate from year to year is subject to variability.

**(10) Retirement Plans and Employee Stock Purchase Plans**

***SkyWest Retirement Plan***

The Company sponsors the SkyWest, Inc. Employees' Retirement Plan (the "SkyWest Plan"). Employees who have completed 90 days of service and are at least 18 years of age are eligible for participation in the SkyWest Plan. Employees may elect to make contributions to the SkyWest Plan. The Company matches 100% of such contributions up to 2%, 4% or 6% of the individual participant's compensation, based upon length of service. Additionally, a discretionary contribution may be made by the Company. The Company's combined contributions to the SkyWest Plan were \$16.0 million, \$14.4 million and \$13.3 million for the years ended December 31, 2012, 2011 and 2010, respectively.

***ExpressJet and Atlantic Southeast Retirement Plan***

ExpressJet (formerly Atlantic Southeast) sponsors the Atlantic Southeast Airlines, Inc. Investment Savings Plan (the "Atlantic Southeast Plan"). Employees who have completed 90 days of service and are 18 years of age are eligible for participation in the Atlantic Southeast Plan. Employees may elect to make contributions to the Atlantic; however, ExpressJet limits the amount of company match at 6% of each participant's total compensation, except for those with ten or more years of service whose company match is limited to 8% of total compensation. Additionally, ExpressJet matches the individual participant's contributions from 20% to 75%, depending on the length of the participant's service. Additionally, participants are 100% vested in their elective deferrals and rollover amounts and from 10% to 100% vested in company matching contributions based on length of service.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(10) Retirement Plans and Employee Stock Purchase Plans (Continued)**

Effective December 31, 2002, ExpressJet Delaware adopted the ExpressJet Airlines, Inc. 401(k) Savings Plan (the “ExpressJet Retirement Plan”). Substantially all of ExpressJet Delaware’s domestic employees were covered by this plan at the time of the ExpressJet Combination. Effective January 1, 2009, the ExpressJet Retirement Plan was amended such that certain matches have been reduced or eliminated depending on the terms of the collective bargaining unit or work group, as applicable.

ExpressJet’s contribution to the Atlantic Southeast and the ExpressJet Retirement Plans was \$26.4 million, \$25.1 million and \$5.8 million for the years ended December 31, 2012, 2011 and 2010, respectively.

ExpressJet Delaware also provided medical bridge coverage for employees between the ages of 60 to 65, with at least ten years of service who have retired from the Company. In December 2007, the Fair Treatment for Experienced Pilots Act (H.R. 4343) was enacted. This law increased the mandatory retirement age of commercial pilots from 60 to 65. As a result of this legislation, ExpressJet is no longer required to provide medical bridge coverage to its pilots between the ages of 60 to 65. In 2008, ExpressJet Delaware’s practice of providing medical bridge coverage for non-pilot employees was frozen, and does not permit non-pilot employees retiring on or after January 1, 2009 to participate in such coverage.

***Employee Stock Purchase Plans***

In May 2009, the Company’s Board of Directors approved the SkyWest, Inc. 2009 Employee Stock Purchase Plan (the “2009 Stock Purchase Plan”). All employees who have completed 90 days of employment with the Company or one of its subsidiaries are eligible to participate, except employees who own five percent or more of the Company’s common stock. The 2009 Stock Purchase Plan enables employees to purchase shares of the Company’s common stock at a 5% discount, through payroll deductions. Employees can contribute up to 15% of their base pay, not to exceed \$21,250 each calendar year, for the purchase of shares. Shares are purchased semi-annually at a 5% discount based on the end of the period price. Employees can terminate their participation in the 2009 Stock Purchase Plan at anytime upon written notice.

The following table summarizes purchases made under the 2009 Employee Stock Purchase Plans during the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,		
	2012	2011	2010
Number of shares purchased . . . . .	487,451	300,177	356,777
Average price of shares purchased . . . . .	\$ 8.35	\$ 14.56	\$ 13.52

The 2009 Stock Purchase Plan is a non-compensatory plan under the accounting guidance. Therefore, no compensation expense was recorded for the years ended December 31, 2012, 2011 and 2010.

**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(11) Stock Repurchase**

The Company's Board of Directors has authorized the repurchase of up to 25,000,000 shares of the Company's common stock in the public market. During the years ended December 31, 2012 and 2011, the Company repurchased 0.1 million and 4.1 million shares of common stock for approximately \$0.9 million and \$60.7 million, respectively at a weighted average price per share of \$15.32 and \$14.62, respectively. Effective September 14, 2012, the Company's Board of Directors adopted the SkyWest, Inc. 2012 Stock Repurchase Plan (the "Stock Repurchase Plan"), which provides for the repurchase of up to 6,514,266 shares of common stock, from time to time in open market or privately negotiated transactions, as contemplated by Rule 10b5-1 promulgated under the Exchange Act, as amended. The Stock Repurchase Plan expires on October 15, 2014.

**(12) Related-Party Transactions**

The Company's President, Chairman of the Board and Chief Executive Officer, serves on the Board of Directors of Zions Bancorporation ("Zions"). The Company maintains a line of credit (see Note 3) and certain bank accounts with Zions. Zions is an equity participant in leveraged leases on three CRJ200, two CRJ700 and five Brasilia turboprop aircraft operated by the Company's subsidiaries. Zions also refinanced six CRJ200 and two CRJ700 aircraft in 2012 for terms of three to four years, becoming the debtor on these aircraft. Zions also serves as the Company's transfer agent. The Company's cash balance in the accounts held at Zions as of December 31, 2012 and 2011 was \$56.4 million and \$51.8 million, respectively.

**(13) Quarterly Financial Data (Unaudited)**

Unaudited summarized financial data by quarter for 2012 and 2011 is as follows (in thousands, except per share data):

	Year Ended December 31, 2012				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues . . . . .	\$921,173	\$937,214	\$865,259	\$810,726	\$3,534,372
Operating income . . . . .	20,457	46,806	54,974	43,750	165,987
Net income (loss) . . . . .	(682)	16,960	20,933	13,946	51,157
Net income (loss) per common share:					
Basic . . . . .	(0.01)	0.33	0.41	0.27	1.00
Diluted . . . . .	(0.01)	0.33	0.40	0.27	0.99
Weighted average common shares:					
Basic: . . . . .	50,881	50,944	51,241	51,296	51,090
Diluted: . . . . .	50,881	51,789	52,153	52,161	51,746



**SKYWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2012**

**(13) Quarterly Financial Data (Unaudited) (Continued)**

	Year Ended December 31, 2011				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues .....	\$865,951	\$933,697	\$955,425	\$899,850	\$3,654,923
Operating income .....	227	19,040	26,827	(4,989)	41,105
Net income (loss) .....	(11,063)	1,579	116	(17,967)	(27,335)
Net income (loss) per common share:					
Basic .....	(0.21)	0.03	0.00	(0.35)	(0.52)
Diluted .....	(0.21)	0.03	0.00	(0.35)	(0.52)
Weighted average common shares:					
Basic: .....	53,844	52,698	51,570	50,691	52,201
Diluted: .....	53,844	53,371	52,315	50,691	52,201

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

Our management, including our Chief Executive Officer and Chief Accounting Officer, performed an evaluation of our disclosure controls and procedures, which have been designed to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission rules and forms. Our Chief Accounting Officer performs functions that are substantially similar to the functions of a chief financial officer with respect to the oversight of our disclosure controls and procedures. Our management, including our Chief Executive Officer and Chief Accounting Officer, concluded that, as of December 31, 2012, those controls and procedures were effective to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Accounting Officer, as appropriate to allow timely decisions regarding required disclosure.

### **Changes in Internal Control**

During the three months ended December 31, 2012, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Management's Annual Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2012 using the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on that evaluation, management believes that our internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of our internal control over financial reporting as of December 31, 2012, has been audited by Ernst & Young LLP (“Ernst & Young”), the independent registered public accounting firm who also has audited our Consolidated Financial Statements included in this Report. Ernst & Young’s report on our internal control over financial reporting appears on the following page.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
SkyWest, Inc.

We have audited SkyWest, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). SkyWest, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, SkyWest, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of SkyWest, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 of SkyWest, Inc. and subsidiaries and our report dated February 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah  
February 15, 2013

## ITEM 9B. OTHER INFORMATION

None.

## PART III

Items 10, 11, 12, 13 and 14 in Part III of this Report are incorporated herein by reference to our definitive proxy statement for our 2013 Annual Meeting of Shareholders scheduled for May 7, 2013. We intend to file our definitive proxy statement with the SEC not later than 120 days after December 31, 2012, pursuant to Regulation 14A of the Exchange Act.

	<u>Headings in Proxy Statement</u>
<b>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</b>	“Election of Directors,” “Executive Officers,” “Corporate Governance,” “Meetings and Committees of the Board” and “Section 16(a) Beneficial Reporting Compliance”
<b>ITEM 11. EXECUTIVE COMPENSATION</b>	“Corporate Governance,” “Meetings and Committees of the Board,” “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Executive Compensation,” “Director Compensation” and “Director Summary Compensation Table”
<b>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</b>	“Security Ownership of Certain Beneficial Owners”
<b>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</b>	“Certain Relationships and Related Transactions”
<b>ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES</b>	“Audit and Finance Committee Disclosure” and “Fees Paid to Independent Registered Public Accounting Firm”

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed:

1. Financial Statements: Reports of Independent Auditors, Consolidated Balance Sheets as of December 31, 2012 and 2011, Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2012, 2011 and 2010, Consolidated Statements of Cash Flows for the year ended December 31, 2012, 2011 and 2010, Consolidated Statements of Stockholders' Equity for the years ended December 31, 2012, 2011 and 2010 and Notes to Consolidated Financial Statements.
2. Financial Statement Schedule. The following consolidated financial statement schedule of our company is included in this Item 15.
  - Report of independent auditors on financial statement schedule
  - Schedule II—Valuation and qualifying accounts

All other schedules for which provision is made in the applicable accounting regulations of the Commission are not required under the related instructions or are not applicable, and therefore have been omitted.

(b) Exhibits

Number	Exhibit	Incorporated by Reference
3.1	Restated Articles of Incorporation	(1)
3.2	Amended and Restated Bylaws	(14)
4.1	Specimen of Common Stock Certificate	(2)
10.1	Amended and Restated Delta Connection Agreement, dated as of September 8, 2005, between SkyWest Airlines, Inc. and Delta Air Lines, Inc.	(3)
10.2	Second Amended and Restated Delta Connection Agreement, dated as of September 8, 2005, between Atlantic Southeast Airlines, Inc. and Delta Air Lines, Inc.	(3)
10.3	United Express Agreement dated September 9, 2003, between United Air Lines, Inc., and SkyWest Airlines, Inc.	(4)
10.4	Stock Option Agreement dated January 28, 1987 between Delta Air Lines, Inc. and SkyWest, Inc.	(5)
10.5	Lease Agreement dated December 1, 1989 between Salt Lake City Corporation and SkyWest Airlines, Inc.	(6)
10.6(a)	Master Purchase Agreement between Bombardier and SkyWest Airlines, Inc.	(7)
10.6(b)	Supplement to Master Purchase Agreement between Bombardier, and SkyWest Airlines, Inc.	(4)
10.7	SkyWest, Inc. Amended and Combined Incentive and Non-Statutory Stock Option Plan	(8)
10.8	SkyWest Inc. 2007 Employee Stock Purchase Plan	(9)
10.8(a)	First Amendment to SkyWest, Inc. 2007 Employee Stock Purchase Plan	(11)
10.9	SkyWest Inc. Executive Stock Incentive Plan	(10)
10.10	SkyWest Inc. Allshare Stock Option Plan	(10)
10.12	SkyWest, Inc. 2002 Deferred Compensation Plan, as amended and restated effective January 1, 2010	(11)
10.12(a)	First Amendment to the Restated SkyWest, Inc. 2002 Deferred Compensation Plan	(11)
10.13	SkyWest, Inc. 2007 Long-Term Incentive Plan	(11)
10.13(a)	First Amendment to the SkyWest, Inc. 2007 Long-Term Incentive Plan	(11)
10.13(b)	Second Amendment to the SkyWest, Inc. 2007 Long-Term Incentive Plan	(11)

Number	Exhibit	Incorporated by Reference
10.14	SkyWest, Inc. 2009 Employee Stock Purchase Plan	(11)
10.15	Capacity Purchase Agreement, dated November 12, 2010, by and among ExpressJet Airlines, Inc. and Continental Airlines, Inc.	(12)
10.16	Aircraft Purchase Agreement between Mitsubishi Aircraft Corporation and SkyWest Inc.	(13)
21.1	Subsidiaries of the Registrant	(14)
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification of Chief Executive Officer	Filed herewith
31.2	Certification of Chief Financial Officer	Filed herewith
32.1	Certification of Chief Executive Officer	Filed herewith
32.2	Certification of Chief Financial Officer	Filed herewith
101.INS**	XBRL Instance Document	
101.SCH**	XBRL Taxonomy Extension Schema Document	
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document	
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document	
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document	

\*\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statement of Comprehensive Income (Loss) for the years ended December 31, 2012, December 31, 2011 and December 31, 2010, (ii) the Consolidated Balance Sheet at December 31, 2012 and December 31, 2011, and (iii) the Consolidated Statement of Cash Flows for the years ended December 31, 2012, December 31, 2011 and December 31, 2010

- (1) Incorporated by reference to the exhibits to a Registration Statement on Form S-3, File No. 333-129832
- (2) Incorporated by reference to a Registration Statement on Form S-3, File No. 333-42508
- (3) Incorporated by reference to Registrant's Form 8-K/A filed on February 12, 2007
- (4) Incorporated by reference to exhibits to Registrant's Form 10-Q filed on December 31, 2003
- (5) Incorporated by reference to the exhibits to Registrant's Forms 8-K filed on January 21, 1998 and February 11, 1998
- (6) Incorporated by reference to the exhibits to Registrant's Form 10-Q filed for the quarter ended December 31, 1986
- (7) Incorporated by reference to the exhibits to Registrant's Form 10-Q filed on February 13, 2003

- (8) Incorporated by reference to the exhibits to a Registration Statement on Form S-8, Filed No. 33-41285
- (9) Incorporated by reference to the exhibits to a Registration Statement on Form S-8, File No, 333-130848
- (10) Incorporated by reference to the exhibits to Registrant's Form 10-Q filed on July 28, 2000
- (11) Incorporated by reference to the exhibits to Registrant's Form 10-K filed on February 25, 2010
- (12) Incorporated by reference to the exhibits to Registrant's Form 8-K filed on November 18, 2010, as amended
- (13) Incorporated by reference to the exhibits to Registrant's Form 8-K filed on December 13, 2012, as amended
- (14) Incorporated by reference to the exhibits to Registrant's Form 10-K filed on February 24, 2012

### **Report of Independent Registered Public Accounting Firm**

We have audited the consolidated financial statements of SkyWest, Inc. and subsidiaries (the “Company”) as of December 31, 2012 and 2011, and for each of the three years in the period ended December 31, 2012, and have issued our report thereon dated February 15, 2013 (included elsewhere in this Form 10-K). Our audits also included the financial statement schedule listed in Item 15(a) of this Form 10-K. This schedule is the responsibility of the Company’s management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Salt Lake City, Utah

February 15, 2013



**SKYWEST, INC. AND SUBSIDIARIES**  
**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**  
**For the Years Ended December 31, 2012, 2011 and 2010**  
**(Dollars in thousands)**

<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance at End of Year</u>
Year Ended December 31, 2012:				
Allowance for inventory obsolescence . . . . .	\$8,248	941	—	\$9,189
Allowance for doubtful accounts receivable . . . . .	240	—	(146)	94
	<u>8,488</u>	<u>941</u>	<u>(146)</u>	<u>9,283</u>
Year Ended December 31, 2011:				
Allowance for inventory obsolescence . . . . .	\$7,541	\$ 707	—	\$8,248
Allowance for doubtful accounts receivable . . . . .	47	193	—	240
	<u>7,588</u>	<u>900</u>	<u>—</u>	<u>8,488</u>
Year Ended December 31, 2010:				
Allowance for inventory obsolescence . . . . .	\$6,615	\$ 926	—	\$7,541
Allowance for doubtful accounts receivable . . . . .	47	5,892	(5,892)	47
	<u>\$6,662</u>	<u>6,818</u>	<u>(5,892)</u>	<u>7,588</u>



<u>Name</u>	<u>Capacities</u>	<u>Date</u>
<u>/s/ ROBERT G. SARVER</u> Robert G. Sarver	Director	February 15, 2013
<u>/s/ MARGARET S. BILLSON</u> Margaret S. Billson	Director	February 15, 2013
<u>/s/ HENRY J. EYRING</u> Henry J. Eyring	Director	February 15, 2013
<u>/s/ JAMES L. WELCH</u> James L. Welch	Director	February 15, 2013



**SkyWest, Inc.**  
**444 South River Road • St. George, UT 84790**  
**March 19, 2013**

Dear Shareholder:

You are invited to attend the Annual Meeting of Shareholders of SkyWest, Inc. scheduled to be held at 11:00 a.m., Tuesday, May 7, 2013, at our headquarters located at 444 South River Road, St. George, Utah, 84790.

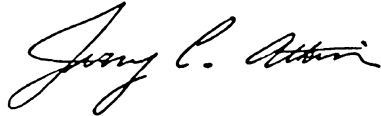
The accompanying Notice of Annual Meeting of Shareholders and Proxy Statement describe the items to be considered and acted upon by the shareholders.

Your vote is very important. Whether you plan to attend the Annual Meeting or not, we urge you to vote your shares as soon as possible. This will ensure representation of your shares at the Annual Meeting if you are unable to attend.

We are pleased to make these proxy materials available over the Internet, which we believe increases the efficiency and reduces the expense of our annual meeting process. As a result, we are mailing to shareholders a Notice of Internet Availability of Proxy Materials (the "Notice") instead of paper copies of these proxy materials and our 2012 Annual Report. The Notice contains instructions on how to access those documents over the Internet or request that a full set of printed materials be sent to you. The Notice also gives instructions on how to vote your shares.

We look forward to seeing you at the Annual Meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry C. Atkin". The signature is written in a cursive style with a large initial "J".

Jerry C. Atkin  
*Chairman and Chief Executive Officer*

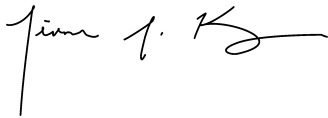


**SkyWest, Inc.**  
444 South River Road • St. George, UT 84790

**NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS OF SKYWEST, INC.**

- Date:** Tuesday, May 7, 2013
- Time:** 11:00 a.m., Mountain Daylight Time (MDT)
- Place:** SkyWest, Inc. Headquarters  
444 South River Road  
St. George, Utah 84790
- Purposes:**
1. To elect eight directors of SkyWest, Inc. (the “Company”), to serve until the next Annual Meeting of the Company’s shareholders;
  2. To conduct an advisory vote on a non-binding resolution to approve the compensation of the Company’s named executive officers;
  3. To ratify the appointment of Ernst & Young, LLP to serve as the Company’s independent registered public accounting firm (independent auditors) for the year ending December 31, 2013; and
  4. To transact such other business that may properly come before the Annual Meeting and any adjournment thereof.
- Who Can Vote:** Shareholders at the close of business on March 4, 2013.
- How You Can Vote:** Shareholders may vote at the Annual Meeting, or in advance over the Internet, by telephone, or by mail.

By authorization of the Board of Directors



Michael J. Kraupp  
*Chief Financial Officer and Treasurer*

March 19, 2013





**Proxy Statement for the  
Annual Meeting of Shareholders of  
SKYWEST, INC.**

**To Be Held on Tuesday, May 7, 2013**

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**PROXY STATEMENT  
FOR THE ANNUAL MEETING OF SHAREHOLDERS  
OF  
SKYWEST, INC.  
TUESDAY, MAY 7, 2013**

**OVERVIEW**

**Solicitation**

This Proxy Statement, the accompanying Notice of Annual Meeting, proxy card and the Annual Report to Shareholders of SkyWest, Inc. (the “*Company*” or “*SkyWest*”) are being mailed on or about March 19, 2013. The Board of Directors of the Company (the “*Board*”) is soliciting your proxy to vote your shares at the Annual Meeting of the Company’s Shareholders to be held on May 7, 2013 (the “*Meeting*”). The Board is soliciting your proxy in an effort to give all shareholders of record the opportunity to vote on matters that will be presented at the Meeting. This Proxy Statement provides information to assist you in voting your shares.

**What is a proxy?**

A proxy is your legal designation of another person to vote on your behalf. You are giving the individuals appointed by the Board as proxies (Jerry C. Atkin and Michael J. Kraupp) the authority to vote your shares in the manner you indicate.

**Why did I receive more than one notice?**

You may receive multiple notices if you hold your shares in different ways (e.g., joint tenancy, trusts, and custodial accounts) or in multiple accounts. If your shares are held by a broker (i.e., in “street name”), you will receive your notice or other voting information from your broker. In any case, you should vote for each notice you receive.

**Voting Information**

**Who is qualified to vote?**

You are qualified to receive notice of and to vote at the Meeting if you owned shares of common stock of SkyWest (the “*Common Stock*”) at the close of business on the record date of Monday, March 4, 2013.

**How many shares of Common Stock may vote at the Meeting?**

As of March 4, 2013, there were 51,877,298 shares of Common Stock outstanding and entitled to vote. Each share of Common Stock is entitled to one vote on each matter presented at the Meeting.

**What is the difference between a “shareholder of record” and a “street name” holder?**

If your shares are registered directly in your name with Zion’s First National Bank, the Company’s transfer agent, you are a “shareholder of record.” If your shares are held in the name of a brokerage, bank, trust or other nominee as a custodian, you are a “street name” holder.

**How can I vote at the Meeting?**

You may vote in person by attending the Meeting. You may also vote in advance over the Internet, or by telephone, or you may request a complete set of traditional proxy materials and vote your proxy by mail. To vote your proxy using the Internet or telephone, see the instructions on the proxy form and

have the proxy form available when you access the Internet website or place your telephone call. To vote your proxy by mail, mark your vote on the enclosed proxy card, then follow the instructions on the card.

**What are the Board’s recommendations on how I should vote my shares?**

The Board recommends that you vote your shares as follows:

- Proposal 1 — **FOR** the election of all eight nominees for director with terms expiring at the next annual meeting of the Company’s shareholders.
- Proposal 2 — **FOR** the non-binding resolution to approve the compensation of the Company’s named executive officers.
- Proposal 3 — **FOR** the ratification of the appointment of Ernst & Young, LLP as the Company’s independent registered public accounting firm (independent auditors) for the year ending December 31, 2013.

**What are my choices when voting?**

- Proposal 1 — You may cast your vote in favor of up to eight individual director-nominees. You may vote for less than eight director-nominees if you choose. You may also abstain from voting.
- Proposals 2 and 3 — You may cast your vote in favor of, or against, each proposal. You may also abstain from voting,

**How will my shares be voted if I do not specify how they should be voted?**

If you execute the enclosed proxy card without indicating how you want your shares to be voted, the proxies appointed by the Board will vote as recommended by the Board and described previously in this section.

**How will withheld votes, abstentions and broker non-votes be treated?**

Withheld votes, abstentions and broker non-votes will be deemed as “present” at the Meeting, and will be counted for quorum purposes only.

**Can I change my vote?**

You may revoke your proxy before the time of voting at the Meeting in any of the following ways:

- by mailing a revised proxy card to the Chief Financial Officer and Treasurer of the Company;
- by changing your vote on the Internet website;
- by using the telephone voting procedures; or
- by voting in person at the Meeting.

**What vote will be required to approve each proposal?**

Proposal 1 provides that the eight director-nominees who receive a majority of the votes cast with respect to his or her election will be elected as directors of the Company. This means that the number of shares voted “for” the election of a director must exceed the number of shares voted “against” the election of that director.

Proposals 2 and 3 will be approved if the number of votes cast, in person or by proxy, in favor of a particular proposal exceeds the number of votes cast in opposition to the proposal. Proposal 2 is an advisory vote only, and has no binding effect on the Board or the Company.

**Who will count the votes?**

Representatives from Zion's First National Bank, the Company's transfer agent, or other individuals designated by the Board, will count the votes and serve as inspectors of election. The inspectors of election will be present at the Meeting.

**Who will pay the cost of this proxy solicitation?**

The Company will pay the costs of soliciting proxies. Upon request, the Company will reimburse brokers, dealers, banks and trustees, or their nominees, for reasonable expenses incurred by them in forwarding proxy materials to beneficial owners of shares of the Common Stock.

**Is this Proxy Statement the only way proxies are being solicited for use at the Meeting?**

Yes. The Company does not intend to employ any other methods of solicitation.

**How are proxy materials being delivered?**

The Company is pleased to take advantage of U.S. Securities and Exchange Commission rules that allow companies to furnish their proxy materials over the Internet. As a result, the Company is mailing to most of its shareholders a Notice of Internet Availability of Proxy Materials (the "Notice") instead of a paper copy of this Proxy Statement and the Company's 2012 Annual Report to Shareholders. The Notice contains instructions on how to access those documents over the Internet. The Notice also contains instructions on how to request a paper copy of the Company's proxy materials, including this Proxy Statement, the 2012 Annual Report to Shareholders and a form of proxy card or voting instruction card. All shareholders who do not receive a Notice will receive a paper copy of the proxy materials by mail. The Company believes this process will allow it to provide its shareholders with the information they need in a more efficient manner, while reducing the environmental impact and lowering the costs of printing and distributing these proxy materials.

**PROPOSAL 1  
ELECTION OF DIRECTORS**

**Composition of the Board**

The Board currently consists of eight directors. All directors serve a one-year term and are subject to re-election each year.

The current composition of the Board is:

- Jerry C. Atkin, Chairman
- W. Steve Albrecht
- J. Ralph Atkin
- Margaret S. Billson
- Henry J. Eyring
- Robert G. Sarver
- Steven F. Udvar-Hazy
- James L. Welch

<p><b>The Board Recommends That Shareholders Vote <i>FOR</i> All Eight Nominees Listed Below.</b></p>
---

**Nominees for Election as Directors**

At the Meeting, the Company proposes to elect eight directors to hold office until the 2014 Annual Meeting of Shareholders and until their successors have been elected and have qualified. The eight nominees for election at the Meeting are listed below. All of the nominees are currently serving as a director of the Company and have consented to be named as a nominee. As contemplated by the Company's Corporate Guidelines, Mr. Ian M. Cumming, who had served as a director of the Company since 1986 and reached the age of 72 years, resigned as a director at the Board meeting held on February 13, 2013. The Nominating and Corporate Governance Committee of the Board has commenced a search to identify a qualified individual to fill the vacancy created by Mr. Cumming's resignation. That search is ongoing. Given the vacancy resulting from Mr. Cumming's resignation, shareholders voting in person or by proxy at the Meeting may only vote for eight nominees. If, prior to the Meeting, any of the nominees becomes unable to serve as a director, the Board may designate a substitute nominee. In that event, the persons named as proxies intend to vote for the substitute nominee designated by the Board. .

The Board and the Nominating and Corporate Governance Committee believe that each of the following nominees possesses the experience and qualifications that directors of the Company should possess, as described in detail below, and that the experience and qualifications of each nominee compliments the experience and qualifications of the other nominees. The experience and qualifications of each nominee, including information regarding the specific experience, qualifications, attributes and skills that led the Board and the Nominating and Corporate Governance Committee to conclude that he or she should serve as a director of the Company at the present time, in light of the Company's business and structure, are set forth on the following pages.

**Jerry C. Atkin**

*Age:* 64

*Director Since:* 1974

*Committees:* None

*Principal Occupation:* Chairman of the Board and Chief Executive Officer of the Company and its two operating subsidiaries, SkyWest Airlines, Inc. (“*SkyWest Airlines*”) and ExpressJet Airlines, Inc. (“*ExpressJet*”).

*Experience:* Mr. Atkin joined the Company in July 1974 as a director and the Company’s Director of Finance. In 1975, he assumed the office of President and Chief Executive Officer and was elected Chairman of the Board in 1991. Mr. Atkin served as President of the Company until 2011. Prior to joining the Company, Mr. Atkin was employed by a public accounting firm and is a certified public accountant.

The Board nominated Mr. Atkin to serve as a director, in part, because Mr. Atkin is the Company’s Chief Executive Officer and has more than 38 years of experience with the Company. He is the only officer of the Company nominated to serve as a director, and plays a critical role in communicating the Board’s expectations, advice, concerns and encouragement to more than 18,000 full-time equivalent Company employees. Mr. Atkin has a deep knowledge and understanding of the Company, SkyWest Airlines and ExpressJet, as well as the regional airline industry. Mr. Atkin also performs an extremely valuable role as the Chairman of the Board, providing critical leadership and direction to the Board’s activities and deliberations. The Board also believes Mr. Atkin’s values and integrity are tremendous assets to the Company and its shareholders.

*Other Directorships:* Mr. Atkin currently serves as a director of Zion’s Bancorporation, a regional bank holding company based in Salt Lake City, Utah (“*Zions*”).

*Family Relationship:* Mr. Atkin is a nephew of J. Ralph Atkin, who also serves as a director of the Company.

**W. Steve Albrecht**

*Age:* 66

*Director Since:* 2012 (Also served as a director of the Company from 2003 until 2009)

*Committees:* Chairman of the Audit and Finance Committee; Member of the Safety and Compliance Committee; Audit Committee Financial Expert.

*Principal Occupation:* Andersen Alumni Professor at Brigham Young University

*Experience:* Mr. Albrecht, a certified public accountant, certified internal auditor, and certified fraud examiner, joined the faculty of Brigham Young University in 1977, after teaching at the University of Illinois and Stanford University. At BYU, he served as director of the School of Accountancy (from 1990 to 1999) and as associate dean of the Marriott School (from 1999 to 2008). He served as the President of the Japan Tokyo Mission of The Church of Jesus Christ of Latter-day Saints from July 2009 to July 2012. Professor Albrecht has also served as the President of the American Accounting Association, the Association of Certified Fraud Examiners and Beta Alpha Psi. He has also served as a member of the Committee of Sponsoring Organizations of the Treadway Commission (also known as “COSO”); the Financial Accounting Standards Advisory Committee, an advisory committee to the Financial Accounting Standards Board (the “FASB”) and the Governmental Accounting Standards Board (the “GASB”); and the Financial Accounting Foundation that oversees the FASB and GASB. Mr. Albrecht has consulted with many major corporations and other organizations and has been an expert witness in 35 major financial statement fraud cases.

The Board recognizes Mr. Albrecht’s valuable contribution as a director of the Company from 2003 through 2009 and since his re-election in 2012, including his service as the Chairman of the Audit and Finance Committee. The Board nominated Mr. Albrecht because of his exceptional academic and professional record, his many achievements, awards and other forms of recognition in the accounting profession, his extensive training in accounting practices and fraud detection, and his outstanding past service on the board.

*Other Directorships:* Mr. Albrecht currently serves as a director of Red Hat, Inc. and Cypress Semiconductor.



**J. Ralph Atkin**

*Age:* 69

*Director Since:* 1972

*Committees:* Member of the Safety and Compliance Committee

*Principal Occupation:* Attorney-at-Law

*Experience:* Mr. Atkin is the founder of the Company and served as President and Chief Executive Officer of the Company from 1972 to 1975; Chairman of the Board of the Company from 1972 to 1991; and Senior Vice President of the Company from 1984 to 1988. He has helped develop airlines in Europe and Africa, including having served as the Chief Executive Officer of Ghana Airlines, the national carrier of the Republic of Ghana, and Chief Executive Officer of Euro Sky, a company organized to explore the feasibility of operating a regional airline in Austria. From March 1991 to January 1993, Mr. Atkin was Director of Business and Economic Development for the State of Utah.

The Board's nomination of Mr. Atkin is a reflection of the Board's respect for Mr. Atkin as a founder of the Company, and his unique perspective on the Company's growth, achievements and opportunities. Mr. Atkin has spent more than 40 years in the airline industry, and previously served as the Chairman of the Board and the Chief Executive Officer of the Company, as well as the Chief Executive Officer of two other aviation companies. In addition to Mr. Atkin's current service on the Safety and Compliance Committee, he has also served on each of the Company's Audit and Finance Committee, Compensation Committee and Nominating & Corporate Governance Committee, and brings to the Board his training and experience as a practicing attorney, which the Board believes has been valuable to the Company as it has addressed various legal and regulatory issues.

*Family Relationship:* Mr. Atkin is an uncle of Jerry C. Atkin, Chairman of the Board and Chief Executive Officer of the Company.

**Margaret S. Billson**

*Age:* 51

*Director Since:* 2006

*Committees:* Chairman of the Safety and Compliance Committee; Member of the Compensation Committee; Member of the Nominating and Corporate Governance Committee

*Principal Occupation:* President and CEO, BBA Aviation Aftermarket Services, BBA Aviation plc (“BBA Aviation”)

*Experience:* Ms. Billson has served in various roles throughout 28 years in the aviation industry. Since September 2009 she has been with BBA Aviation and most recently named President and Chief Executive Officer in 2013 of BBA Aviation’s Aftermarket Services division which is an international provider of aviation flight support and aftermarket services. Previously she was the Chief Operations Officer and later the President, Airplane Division, of Eclipse Aviation Corporation (“Eclipse”), a manufacturer of small business jets, during its development and early manufacturing phase from 2006 through 2008. She was with Honeywell Aerospace from 1997 through 2006 in roles that included Vice President of Engineering and Product Development, and later as Vice President and General Manager of Honeywell Aerospace’s Aircraft Landing Systems operations (later Airframe Systems). Ms. Billson started her career with McDonnell Douglas, where she spent 13 years in various roles including Deputy Chief Design Engineer on the MD-11 aircraft, Vice President of Technical Services and Vice President of Programs on the MD-11 and MD-80/90 aircraft.

The Board recognizes the breadth and depth of Ms. Billson’s considerable aviation industry knowledge and the leadership skills she has developed through 28 years in the aviation industry. She brings her vast knowledge of aircraft manufacture and operation to her position as Chairman of the Board’s Safety and Compliance Committee, and contributes her experience in leading large complex organizations to the Board’s Compensation and Nominating and Corporate Governance Committees. Additionally, in her service as a director, Ms. Billson draws upon her vast knowledge of developing and executing strategies to deliver financial results.

*Other Directorships:* Ms. Billson serves as a director of BBA Aviation US Holdings, Inc., a privately-held company directly related to her responsibilities at BBA Aviation.

**Henry J. Eyring**

*Age:* 49

*Director Since:* 2006 (Also served as a director of the Company from 1995 until 2003)

*Committees:* Chairman of the Compensation Committee; Member of the Audit and Finance Committee

*Principal Occupation:* Advancement Vice President at Brigham Young University Idaho

*Experience:* Mr. Eyring has served in various positions of administration at Brigham Young University Idaho since 2006. Mr. Eyring was President of the Japan Tokyo North Mission of The Church of Jesus Christ of Latter-day Saints from 2003 until 2006. From 2002 until 2003 he was a special partner with Peterson Capital, a private equity investment firm; from 1998 through 2002, he was the Director of the Masters of Business Administration Program at Brigham Young University.

The Board recognizes the strong business and strategic consulting experience Mr. Eyring contributes to the Board's direction of the Company. In addition to the recent experience summarized above, Mr. Eyring was previously engaged with the Monitor Company, an internationally-recognized management consulting firm. Mr. Eyring is a sound strategic thinker who possesses the unique ability to apply his academic thought and studies to the practical day-to-day challenges of the Company's operations. His thoughtful application of business and legal principles has been a valuable contribution to his service as the Chairman of the Compensation Committee.

**Robert G. Sarver**

*Age:* 51

*Director Since:* 2000

*Committees:* Member of the Audit and Finance Committee; Member of the Nominating and Corporate Governance Committee.

*Principal Occupations:* Managing Partner of the Phoenix Suns and Chairman and Chief Executive Officer of Western Alliance Bancorporation

*Experience:* Since 2004, Mr. Sarver has served as the Managing Partner of the Phoenix Suns, a professional basketball team in the National Basketball Association. Since 2002, he has also served as the Chairman and Chief Executive Officer of Western Alliance Bancorporation, a commercial bank holding company that does business in Nevada, California and Arizona. Mr. Sarver served as the Chairman and Chief Executive Officer of California Bank and Trust from 1995 to 2001. Prior to 1995, he served as the President of National Bank of Arizona.

The Board nominated Mr. Sarver, in part, because of his significant knowledge in the areas of financial analysis, business strategy and investment management. In addition to his lengthy service as the Chairman and Chief Executive Officer of Western Alliance Bancorporation, Mr. Sarver was formerly a certified public accountant. Mr. Sarver's background and experience have been tremendous assets to the Board in various capacities, including his service on the Audit and Finance Committee. Mr. Sarver also contributes valuable insight he has acquired through his strong entrepreneurial experience, and plays an important role in the Board's review of the Company's liquidity and capital management practices.

*Other Directorships:* Mr. Sarver is a director of Meritage Corporation, a builder of single-family homes and Western Alliance Bancorporation, a bank holding company.

**Steven F. Udvar-Hazy**

*Age:* 67

*Director Since:* 1986

*Committees:* Chairman of the Nominating and Corporate Governance Committee; Member of the Compensation Committee; Member of Safety and Compliance Committee; Lead Director

*Principal Occupation:* Chairman and Chief Executive Officer of Air Lease Corporation

*Experience:* Mr. Udvar-Hazy has been engaged in aircraft leasing and finance for over 40 years. Prior to his current engagement with Air Lease Corporation, which leases and finances commercial jet aircraft worldwide, Mr. Udvar-Hazy founded and served as the Chairman and Chief Executive Officer of International Lease Finance Corporation, which leases and finances commercial jet aircraft.

Mr. Udvar-Hazy is recognized as one of the leading experts in the aviation industry, and contributes to the Board the wisdom and insight he has accumulated through a lengthy, distinguished career in aviation, aircraft leasing and finance. The Company has benefitted greatly from Mr. Udvar-Hazy's recognized position in the aviation industry, including introductions to his vast industry contacts and networking opportunities. In addition to his extensive industry experience, Mr. Udvar-Hazy is extremely knowledgeable of the Company's operations and opportunities, having served as a director for more than 26 years. Mr. Udvar-Hazy's even temperament and ability to encourage discussion, together with his experience as a chief executive officer and director of other successful organizations, make him an effective Lead Director.

*Other Directorships:* Mr. Udvar-Hazy is Chairman of the Board of Directors of Air Intercontinental, Inc., an aviation investment company, President and director of Ocean Equities, Inc., a financial holding company, and Chairman of the Executive Committee of the Board of Directors of Emerald Financial LLC, a real estate investment company.

**James L. Welch**

*Age:* 58

*Director Since:* 2007

*Committees:* Member of the Audit and Finance Committee; Member of the Nominating and Corporate Governance Committee; Member of the Compensation Committee.

*Principal Occupation:* Chief Executive Officer of YRC Worldwide Inc.

*Experience:* Since July 2011, Mr. Welch has served as the Chief Executive Officer of YRC Worldwide Inc., a provider of global, national and regional ground transportation services. From 2008 until July 2011, Mr. Welch served as the President and Chief Executive Officer of Dynamex, Inc., a provider of same-day transportation and logistics services in the United States and Canada. During 2007 and 2008 he served as Interim Chief Executive Officer of JHT Holdings, a holding company of multiple enterprises engaged in automotive transport and management services. From 2000 until 2007, Mr. Welch served as the President and Chief Executive Officer of Yellow Transportation, an international transportation services provider.

Mr. Welch has over 31 years of senior executive experience in the transportation sector, including valuable experience in the leadership of large and varied groups. That experience includes extensive experience working with organized labor groups, including unions. Mr. Welch's insights have been particularly valuable to the Board as the Company has addressed labor and related issues arising in the operation of SkyWest Airlines, as well as issues associated with the acquisition and integration of ExpressJet. Mr. Welch also contributes to the Board valuable practical experience in the operation of a large enterprise, as well as the perspective of a successful entrepreneur.

*Other Directorships:* Mr. Welch serves as a director for YRC Worldwide, Inc. and Erickson Air Crane, a manufacturer and operator of heavy-lift helicopters.

## EXECUTIVE OFFICERS

In addition to Jerry C. Atkin, the Chief Executive Officer and Chairman of the Board of the Company, whose biographical information is set forth above, the following individuals served as executive officers of the Company or its operating subsidiaries during 2012.

**Bradford R. Rich**, 51, is the President of the Company, with responsibility for the direction and oversight of the operations of the Company and its subsidiaries. He is also responsible for the strategic planning and development opportunities of the Company and oversees SkyWest Airline's contractual relationships with American Airlines, Inc. ("American"), Delta Air Lines, Inc. ("Delta"), United Airlines, Inc. ("United"), U.S. Airways, Inc. ("U.S. Airways") and Alaska Airlines ("Alaska").

Mr. Rich joined the Company in 1987 as Corporate Controller and is a certified public accountant. He served as the Company's Chief Financial Officer from 1991 until May 2011, when he was appointed to serve as the President of the Company.

**Michael J. Kraupp**, 52, was appointed as the Chief Financial Officer of the Company, SkyWest Airlines and ExpressJet in May 2011 and has served as Treasurer of the Company since 2007. He is responsible for the areas of finance, treasury, investor relations and information technology for the Company and its subsidiaries.

Prior to his appointment as Chief Financial Officer, Mr. Kraupp had served as the Vice President—Finance of the Company since 2001, and served as Vice President—Controller of the Company from 1991 until 2001. Mr. Kraupp is a certified public accountant.

**Eric J. Woodward**, 41, was appointed as the Chief Accounting Officer of the Company in May 2011. Mr. Woodward is responsible for the oversight of the Company's financial accounting practices, internal controls and reporting to the U.S. Securities and Exchange Commission.

Mr. Woodward served as the Company's Vice President and Controller from April 2007 until May 2011, and was employed in various other capacities with the Company from April 2004 until April 2007.

**Russell A. Childs**, 45, was appointed President and Chief Operating Officer of SkyWest Airlines in April 2007. He is responsible for oversight of the safety and quality of SkyWest Airline's operations, including aircraft flight operations, maintenance and customer service. He also oversees SkyWest Airline's operational relationships with American, Delta, United, U.S. Airways and Alaska.

Mr. Childs was initially employed with the Company in January 2001 as Senior Director/Controller and later that year was named Vice President/Controller.

**Bradford R. Holt**, 53, is the President and Chief Operating Officer of ExpressJet. Mr. Holt was appointed President and Chief Operating Officer of Atlantic Southeast Airlines, Inc., a predecessor of ExpressJet ("Atlantic Southeast"), in December 2007. Mr. Holt has directed the combination of the operations of Atlantic Southeast and ExpressJet Holdings, Inc., resulting in the operations currently conducted by ExpressJet. He is responsible for oversight of the safety and quality of airline operations, including aircraft flight operations, maintenance, and customer service at ExpressJet. He also oversees ExpressJet's operational relationships with its major airline partners, including American, Delta and United.

Prior to his appointment as President and Chief Operating Officer of Atlantic Southeast, Mr. Holt accumulated more than 26 years of aviation experience at SkyWest Airlines, where he was previously Vice President of Flight Operations and served in various leadership positions, including as a pilot.

## CORPORATE GOVERNANCE

### Corporate Governance Guidelines

The Board adopted Corporate Governance Guidelines on August 2, 2005, which can be accessed at the Company's Web site, *www.SkyWest.com*. The Company's Corporate Governance Guidelines supplement the Company's Bylaws and the charters of the Board's committees. Excerpts from the principal sections of the Company's Corporate Governance Guidelines are noted below:

### Director Independence

At a minimum, the Board will have a majority of directors who meet the criteria for independence as required by The Nasdaq Global Select Market.

### Director Qualifications

#### *Criteria for Membership*

The Company's Nominating and Corporate Governance Committee is responsible for annually reviewing with the Board the desired skills and characteristics of directors, as well as the composition of the Board as a whole.

#### *Terms and Limitations*

All directors currently stand for election each year. The Board does not believe it should establish a limit on the number of times that a director may stand for election.

#### *Retirement*

Directors are required to submit their resignation from the Board when their term expires upon reaching the age of 72 years old. The Board will accept the resignation unless the Nominating and Corporate Governance Committee recommends otherwise. Directors generally will not be nominated for election following their 72<sup>nd</sup> birthday.

#### *Ownership of Company Stock*

Directors are encouraged to own at least 8,000 shares of Common Stock.

### Director Responsibilities

#### *General Responsibilities*

The basic responsibility of directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its shareholders.

#### *Oversight of Management*

The Board is responsible to encourage the Company's management to effectively implement policies and strategies developed by the Board, and to provide dynamic leadership of the Company.



## **Board Meetings and Materials**

### *Frequency of Meetings*

The Board has four regularly scheduled meetings per year. As determined necessary by the Board and in order to address the Company's needs, special meetings of the Board are convened from time to time.

### *Annual Evaluations*

The Nominating and Corporate Governance Committee conducts an annual evaluation to assess the Board's performance. Each of the Board's standing committees conducts an annual evaluation to assess the performance of the applicable committee.

### *Executive Sessions of Independent Directors*

The Company's independent directors meet in executive session regularly, generally quarterly. The independent directors may either choose one director annually to serve as the Lead Director and to preside at all executive sessions or establish a procedure by which a Lead Director will be selected. The independent directors of the Company have chosen Mr. Udvar-Hazy to serve as the Lead Director.

## **Committees**

The Board has four standing committees: (1) Audit and Finance, (2) Compensation, (3) Nominating and Corporate Governance and (4) Safety and Compliance.

## **Director Compensation**

The form and amount of director compensation is determined by the Board based on general principles established on the Nominating and Corporate Governance Committee's recommendation. These principles are in accordance with the policies and principles set forth in the Nominating and Corporate Governance Committee's charter and are consistent with rules established by The Nasdaq Global Select Market, including those relating to director independence and to compensation of Audit & Finance Committee members.

## **CEO Evaluation and Management Succession**

The Nominating and Corporate Governance Committee conducts an annual review to assess the performance of the Company's Chief Executive Officer. The Nominating and Corporate Governance Committee communicates the results of its review to the other directors in a meeting that is not attended by the Chief Executive Officer. The directors of the Company, excluding the Chief Executive Officer, review the Nominating and Corporate Governance Committee's report to assess the Chief Executive Officer's leadership in the long and short-term.

## **Board Leadership Structure**

Mr. Jerry C. Atkin currently serves as the Chairman of the Board and Chief Executive Officer of the Company. The Board and its Nominating and Corporate Governance Committee believe that the traditional practice of combining the roles of chairman of the board and chief executive officer currently provides the preferred form of leadership for the Company. Given Mr. Atkin's vast experience with the Company, the tremendous respect which he has earned from employees, business partners and shareholders, as well as other members of the aviation industry, and his proven leadership skills, the Board believes the best interests of the Company's shareholders are met by Mr. Atkin's continued service in both capacities. The Board believes Mr. Atkin's fulfillment of both responsibilities encourages clear accountability and effective decision-making, and provides strong leadership for the Company's employees and other stakeholders.

Given the outstanding experience and qualifications the Company's directors contribute to the Board's activities, the Company has implemented a number of practices designed to encourage effective corporate governances. These practices, which are driven primarily by the Company's Corporate Governance Guidelines, include:

- the requirement that at least a majority of the Company's directors meet the standards of independence applicable to the Company;
- the election of a Lead Director, who is empowered to schedule and conduct meetings of the independent directors, communicate with the Chairman of the Board, disseminate information to the Board and raise issues with management on behalf of the independent directors when appropriate;
- regular executive sessions of the Board and its committees, which are typically held in conjunction with each regularly scheduled Board and committee meeting and include individual sessions with representatives of the Company's independent registered public accounting firm, internal auditors and legal counsel; and
- annual performance evaluations of the Company's Chief Executive Officer by the Nominating and Corporate Governance Committee.

The Board believes no single leadership model is right for all companies at all times. The Board recognizes that, depending on the circumstances, other leadership models, such as a separate independent Chairman of the Board, may be appropriate. For approximately 17 years prior to Mr. Atkin's appointment as Chairman of the Board, the Company separated the positions for the Chairman of the Board and the Chief Executive Officer. The independent directors and the Nominating and Corporate Governance Committee regularly review the Company's leadership structure and, depending on the Company's needs and the available resources, the Board may modify the Company's existing leadership structure.

#### **Review and Access to Guidelines**

The Nominating and Corporate Governance Committee reviews the Company's Corporate Governance Guidelines at least annually, then, as it deems appropriate, recommends amendments to the Board.

#### **Communications with the Board**

Shareholders and other interested parties may communicate with one or more directors or the non-management directors as a group in writing by regular mail. The following address may be used by those who wish to send such communications by regular mail:

**Board of Directors or Name of Individual Director(s)**  
c/o Chief Financial Officer and Treasurer  
SkyWest, Inc.  
444 South River Road  
St. George, UT 84790

#### **Code of Ethics**

The Company has adopted a Code of Ethics for Directors and Senior Executive Officers, which is available on the Company's Web site, [www.SkyWest.com](http://www.SkyWest.com). The Code of Ethics includes the following principles related to the Company's directors and executive officers:

- Act ethically with honesty and integrity;

- Promote full, fair, accurate, timely and understandable disclosure in reports and documents filed with the Securities and Exchange Commission and other public communications;
- Comply in all material respects with laws, rules and regulations of governments and their agencies;
- Comply in all material respects with the listing standards of a stock exchange where the shares of Common Stock are traded;
- Respect the confidentiality of information acquired in the course of performing work for the Company, except when authorized or otherwise legally obligated to disclose the information; and
- Do not use confidential information of the Company for personal advantage or for the benefit of acquaintances, friends or relatives.

### **Risk Oversight**

The Board and each of its committees are involved in overseeing risk associated with the Company and its operations. The Board and the Audit and Finance Committees monitor the Company's credit risk, liquidity risk, regulatory risk, operational risk and enterprise risk by regular reviews with management and internal and external auditors and other advisors. In its periodic meetings with the internal auditors and the Company's independent accountants, the Audit and Finance Committee discusses the scope and plan for the internal audit and includes management in its review of accounting and financial controls, assessment of business risks and legal and ethical compliance programs. The Board and the Nominating and Corporate Governance Committee monitor the Company's governance and succession risk by regular review with management and outside advisors. The Board and the Compensation Committee monitor CEO succession and the Company's compensation policies and related risks by regular reviews with management and the Compensation Committee's outside advisors. The Board and the Safety and Compliance Committee monitor management's administration of airline flight operations safety and compliance with safety regulations.

### **Whistleblower Hotline**

The Company has established a whistleblower hotline that enables employees, customers, suppliers and shareholders of the Company and its subsidiaries, as well as other interested parties, to submit confidential and anonymous reports of suspected or actual violations of the Company's Code of Ethics. The hotline number is (888) 273-9994.

## MEETINGS AND COMMITTEES OF THE BOARD

### The Board

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of his or her duties and to attend all Board, committee and shareholders' meetings. The Board met four times during 2012, all of which were regularly-scheduled meetings. All directors, with the exception of Ian M. Cumming, attended at least 75% of the meetings of the Board and of the committees on which he or she served during the year ended December 31, 2012. Six of the Company's eight directors attended the Annual Meeting of the Company's Shareholders held on May 1, 2012.

### Committees of the Board

The Board has four standing committees to facilitate and assist the Board in the execution of its responsibilities: (1) Audit and Finance, (2) Compensation, (3) Nominating and Corporate Governance and (4) Safety and Compliance. All the committees are comprised solely of non-employee, independent directors as defined by The Nasdaq Global Select Market listing standards. Charters for each committee are available on the Company's website, [www.SkyWest.com](http://www.SkyWest.com).

The table below shows current membership for each of the standing Board committees.

<u>Audit &amp; Finance</u>	<u>Compensation</u>	<u>Nominating &amp; Corporate Governance</u>	<u>Safety and Compliance</u>
W. Steve Albrecht*	Henry J. Eyring*	Steven F. Udvar-Hazy*	Margaret S. Billson*
Ian M. Cumming	Margaret S. Billson	Ian M. Cumming	Steven F. Udvar-Hazy
Henry J. Eyring	Steven F. Udvar-Hazy	Margaret S. Billson	J. Ralph Atkin
Robert G. Sarver	James L. Welch	James L. Welch	W. Steve Albrecht
James L. Welch		Robert G. Sarver	

\* Committee Chairman

#### *Audit & Finance Committee*

The Audit and Finance Committee has five members and met five times during the year ended December 31, 2012. The Board has determined that Mr. W. Steve Albrecht, Chairman of the Audit and Finance Committee is an "audit committee financial expert" within the meaning established by the U.S. Securities and Exchange Commission.

The Audit and Finance Committee's responsibilities, which are discussed in further detail in its charter, include the responsibility to:

- Establish and implement policies and procedures for review and approval of the appointment, compensation and termination of the independent registered public accounting firm;
- Review and discuss with management and the independent registered public accounting firm the audited financial statements of the Company and the Company's financial disclosure practices;
- Pre-approve all audit and permissible non-audit fees;
- Provide oversight of the Company's internal auditors;
- Hold meetings periodically with the independent registered public accounting firm, the Company's internal auditors, and management to review and monitor the adequacy and effectiveness of reporting, internal controls, risk assessment and compliance with Company policies;
- Review the Company's consolidated financial statements and related disclosures;

- Review with management and the registered independent public accounting firm and approve disclosure controls and procedures and accounting principles and practices; and
- Perform other functions or duties deemed appropriate by the Board.

Additional information regarding the Audit and Finance Committee's processes and procedures is addressed below under the heading "Audit & Finance Committee Disclosure." The Report of the Audit & Finance Committee is set forth on page 51 of this Proxy Statement.

#### *Compensation Committee*

The Compensation Committee has four members and met four times during the year ended December 31, 2012. The Compensation Committee's responsibilities, which are discussed in detail in its charter, include the responsibility to:

- In consultation with the Company's senior management, establish the Company's general compensation philosophy and oversee the development and implementation of the Company's compensation programs;
- Recommend the base salary, incentive compensation and any other compensation for the Company's Chief Executive Officer to the Board and review and approve the Chief Executive Officer's recommendations for the compensation of all other officers of the Company and its subsidiaries;
- Administer the Company's incentive and stock-based compensation plans, and discharge the duties imposed on the Compensation Committee by the terms of those plans;
- Review and approve any severance or termination payments proposed to be made to any current or former officer of the Company;
- Prepare and issue the report of the Compensation Committee required by the rules of the Securities and Exchange Commission; and
- Perform other functions or duties deemed appropriate by the Board.

Additional information regarding the Compensation Committee's processes and procedures for consideration of executive compensation are addressed below under the heading "Compensation Discussion and Analysis." The report of the Compensation Committee is set forth on page 30 of this Proxy Statement.

#### *Nominating and Corporate Governance Committee*

The Nominating and Corporate Governance Committee has five members and met twice during the year ended December 31, 2012. The Nominating and Corporate Governance Committee's responsibilities, which are discussed in detail in its charter, include the responsibility to:

- Develop qualifications and criteria for selecting and evaluating directors and nominees;
- Consider and propose director nominees;
- Make recommendations to the Board regarding Board compensation;
- Make recommendations to the Board regarding Board committee memberships;
- Develop and recommend to the Board corporate governance guidelines;
- Facilitate an annual assessment of the performance of the Board and each of its standing committees;
- Consider the independence of each director and nominee for director; and

- Perform other functions or duties deemed appropriate by the Board.

#### *Safety and Compliance Committee*

The Safety and Compliance Committee has four members and met twice during the year ended December 31, 2012. The responsibilities of the Safety and Compliance Committee, which are discussed in detail in its charter, include the responsibility to:

- Review and make recommendations to the Board addressing airline flight operations safety and compliance with safety regulations;
- Periodically review with the Company's management, and such advisors as the Safety and Compliance Committee deems appropriate, aspects of flight operations safety and compliance with safety regulations; and
- Monitor and provide input with respect to management's efforts to create and maintain a safety culture within the Company's flight operations.

#### *Nomination Process*

The policy of the Nominating and Corporate Governance Committee is to consider properly submitted shareholder recommendations for candidates to serve as directors of the Company. In evaluating those recommendations, the Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board and to address the membership criteria described below. Any shareholder wishing to recommend a candidate for consideration by the Nominating and Corporate Governance Committee should submit a recommendation in writing indicating the candidate's qualifications and other relevant biographical information and provide confirmation of the candidate's consent to serve as a director. This information should be addressed to Jerry C. Atkin, Chairman of the Board and Chief Executive Officer of the Company, 444 South River Road, St. George, Utah 84790.

As contemplated by the Company's Corporate Governance Guidelines, the Nominating and Corporate Governance Committee reviews the appropriate skills and characteristics required of directors in the context of the current composition of the Board, at least annually. There is currently no set of specific minimum qualifications that must be met by a nominee recommended by the Nominating and Corporate Governance Committee, as different factors may assume greater or lesser significance at particular times and the needs of the Board may vary in light of its composition and the Nominating and Corporate Governance Committee's perceptions about future issues and needs. Among the factors the Nominating and Corporate Governance Committee considers, which are outlined in the Corporate Governance Guidelines, are independence, diversity, age, skills, integrity and moral responsibility, policy-making experience, ability to work constructively with the Company's management and directors, capacity to evaluate strategy and reach sound conclusions, availability of time and awareness of the social, political and economic environment.

The Nominating and Corporate Governance Committee utilizes a variety of methods for identifying and evaluating director nominees. The Nominating and Corporate Governance Committee assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Nominating and Corporate Governance Committee considers various potential candidates for director. Candidates may come to the attention of the Nominating and Corporate Governance Committee through various means, including current directors, professional search firms, shareholder recommendations or other referrals. Candidates are evaluated at meetings of the Nominating and Corporate Governance Committee, and may be considered at any point during the year. All director-nominee recommendations which are properly submitted to the Nominating and Corporate Governance

Committee are aggregated and considered by the Nominating and Corporate Governance Committee at a meeting prior to the issuance of the proxy statement for the next annual meeting of shareholders. Any materials provided by a shareholder in connection with the recommendation of a director candidate are forwarded to the Nominating and Corporate Governance Committee, which considers the recommended candidate in light of the director qualifications discussed above. The Nominating and Corporate Governance Committee also reviews materials provided by professional search firms, if applicable, or other parties in connection with a candidate who is not proposed by a shareholder. In evaluating such recommendations, the Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board. The Nominating and Corporate Governance Committee has, on occasion, engaged professional search firms to assist in identifying qualified candidates for Board service. When such firms have been engaged, the Nominating and Corporate Governance Committee has utilized their services principally for the purpose of identifying and screening potential candidates and conducting background research; however, the members of the Nominating and Corporate Governance Committee, as well as other directors of the Company, have conducted interviews with prospective candidates and have performed other functions in completing the nomination process.

*Compensation Committee Interlocks and Insider Participation*

None of the individuals who served on the Compensation Committee during the year ended December 31, 2012, was an officer or employee of the Company in 2012 or any time prior thereto. None of the members of the Compensation Committee during the year ended December 31, 2012, had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). None of the executive officers of the Company served as a member of the Compensation Committee, or similar committee, of any other company whose executive officer(s) served as a director of the Company or the Compensation Committee.

## COMPENSATION DISCUSSION AND ANALYSIS

The following narrative compensation discussion and analysis provides information regarding the Company's executive compensation objectives, principles, practices and decisions as they relate to the following named executive officers of the Company (the "Executives"):

- Jerry C. Atkin, Chairman of the Board and Chief Executive Officer of the Company, SkyWest Airlines and ExpressJet (the "Chief Executive");
- Bradford R. Rich, President of the Company;
- Michael J. Kraupp, Chief Financial Officer and Treasurer of the Company, SkyWest Airlines and ExpressJet (the "CFO");
- Russell A. Childs, President and Chief Operating Officer of SkyWest Airlines; and
- Bradford R. Holt, President and Chief Operating Officer of ExpressJet.

The compensation discussion and analysis provides narrative perspective to the tables and disclosure in the tables following this section.

### Compensation Objectives and Principles

The overall objective of the Company's executive compensation programs is to create long-term value for the Company's shareholders by attracting and retaining talented executives that manage effectively and consistent with the long-term interest of shareholders.

Accordingly, the executive compensation program incorporates the following principles:

- The overall compensation package should encourage long-term focus and shareholder value creation.
- Compensation should be competitive with other airlines in order to attract and retain talented executives.
- Compensation should be based upon individual responsibility, leadership ability, and experience.
- Compensation should reflect the fair market value of the services received.
- A significant amount of total compensation should be incentive based, and should correlate to the Company's financial performance, as well as the achievement of operational and individual goals.
- Compensation should not encourage the taking of undue, material risk.

### Executive Compensation Procedures

To attain the Company's executive compensation objectives and to implement the underlying compensation principles, the Company follows the following procedures:

*Role of the Committee.* The Compensation Committee of the Board of Directors (the "Committee") has responsibility for establishing and monitoring the executive compensation programs and for making decisions regarding executive compensation. The Chief Executive regularly attends the Committee meetings. The Committee also meets in executive session. The Committee recommends the compensation package of the Chief Executive to the Board of Directors, which then sets his compensation. The Committee also considers the recommendations of the Chief Executive with respect to compensation of the other Executives, and after reviewing such recommendations, sets their compensation. The Committee also monitors, administers and approves awards under the various incentive compensation plans for all levels within the Company, including awards under the Company's annual bonus plan and the Company's 2006 Long-Term Incentive Plan and 2010 Long-Term Incentive Plan.



The Committee relies on its judgment in making compensation decisions in addition to reviewing relevant information and results. When setting total compensation for each of the Executives, the Committee reviews tally sheets which show the Executive's current compensation, including base pay, annual bonus objectives, long-term, equity-based compensation objectives, and deferred compensation retirement funding.

The Committee also occasionally evaluates surveys and other available data regarding the executive compensation programs of other regional and major air carriers in order to determine competitiveness of the Company's executive compensation programs. The Committee performed such a review in 2012 that included a review of the executive compensation practices of peer transportation companies Southwest, Avis Budget Gp, Ryder System, UTi Worldwide, JetBlue, Alaska Air Group, Swift Transportation, Hub Group, Republic Airways, Arkansas Best, Hawaiian Holdings, Pacer Intl, Atlas Air, and Spirit Airlines. The executive compensation procedures and the Committee assessment process are designed to be flexible in an effort to promptly respond to the evolving business environment and individual circumstances.

*Role of Consultants.* Neither the Company nor the Committee has any contractual arrangement with any compensation consultant for determining the amount or particular form of any Executive's compensation. During 2012, the Company and Committee received advice from Frederic W. Cook & Co., Inc. ("F.W. Cook") with respect to executive compensation practices and trends generally and within the airline industry. The Company and Committee retained F.W. Cook to make recommendations regarding the specific amount or forms of compensation awarded to Executives in 2012. The Company and the Committee did not retain any other outside consultants other than F.W. Cook during 2012. The Company and the Committee will continue to periodically seek the advice of such consultants, as deemed necessary, in the future. The Committee has sole authority to hire and fire outside compensation consultants.

*No Employment and Severance Agreements.* The Executives do not have employment, severance or change-in-control agreements, although the vesting of stock options, restricted stock, restricted stock units and performance units generally is accelerated upon a change in control of the Company. The Executives serve at the will of the Board, which enables the Board to terminate the employment of any Executive with discretion as to the terms of any severance. This is consistent with the Company's performance-based employment and compensation philosophy.

*Committee Consideration of Shareholder Advisory Vote.* At the Company's annual meeting of shareholders held in May 2012, the Company submitted the compensation of its named executive officers to the Company's shareholders in a non-binding vote. The Company's executive compensation program received the support of more than 89% of the shares represented at the meeting. The Committee considered the results of the 2012 vote and views the outcome as evidence of strong shareholder support of its executive compensation decisions and policies. Accordingly, the Committee concluded that no significant revisions were necessary to the Company's executive compensation program for 2013. The Committee will continue to review future shareholder voting results, including the voting results with respect to "Proposal 2—Advisory Vote on Executive Compensation" described in this Proxy Statement, and determine whether to make any changes to the Company's executive compensation program in light of such voting results.

## **Elements of Compensation**

The Company's executive compensation objectives and principles are implemented through the use of the following principal elements of compensation, each discussed more fully below:

- Salary
- Annual Bonus

- Long-Term Awards
- Retirement and other Benefits

The compensation objectives for each Executive are more fully described in the following paragraphs.

**Salary.** Salary is provided with the objective of paying for the underlying role and responsibility associated with the Executive's position, which the Committee believes allows the Company to attract and retain qualified executives. The Executives' salaries are set at levels that the Committee believes are generally competitive with the compensation paid to officers in similar positions at other airlines. Salary adjustments are considered annually and influenced by growth of the Company's operations, individual performance, changes in responsibility, changes in cost of living, and other factors. The salaries of the Executives are set forth in the Summary Compensation Table set forth immediately following this section.

**Annual Bonus.** In an effort to encourage achievement of the Company's objectives an annual performance-based bonus plan is maintained for the Executives. The combination of salary and annual bonuses is intended to result in a cash compensation package for each Executive that falls within competitive market standards as determined by the Committee based on its review and understanding of other regional and major air carrier executive compensation programs when the performance measures and personal goals are met. The purpose of the bonus plan is to reward the Executives with an annual cash bonus in an amount that correlates (i) in part, to the level of net income and other financial measurements of the Company or its operating subsidiaries achieved for the year; and (ii) in part, to the achievement of specific operational goals and individual quantitative and qualitative goals during the year. The 2012 annual bonus objective of 80% of salary for Messrs. Atkin, Rich, Child and Holt was allocated between 40% of salary based on net income and other financial targets established by the Committee, and 40% of salary based on the achievement of specific operational and individual goals. Mr. Kraupp's annual bonus objective of 60% of salary was allocated between 30% of salary based on net income and other financial targets established by the Committee and 30% of salary based on the achievement of specific operational and individual goals. The differing percentages for the Executives are due to differing entity level responsibilities. Details are explained below under the headings "2012 Net Income and Financial Targets Component" and "2012 Operational and Individual Goals Component".

*2012 Net Income and Financial Targets Component.* In determining annual net income and other financial targets to be used for the purpose of determining each bonus amount for the Executives, the Committee began with a targeted net income objective which the Committee believes is a key measure of the financial health of the Company and reflects the Company's development of shareholder value. The Committee then considered the planned budget for the year, timing differences between the Company's actual engine overhaul expenses and the related revenue collected from the Company's major partners, and other unusual or non-recurring items, such as the transition and integration of the ExpressJet Holdings, Inc.'s operations. The specific income and other financial targets were 1) a designated amount of net income at the operating subsidiary level, 2) a designated amount of controllable expenditures at the operating subsidiary level, 3) a designated amount of capital expenditures at the operating subsidiary level, and 4) a designated amount of net income at the Company level. The bonus objective for net income and other financial targets was allocated 50.0% to net income at the operating subsidiary level, 26.0% to controllable expenditures, 12.0% to capital expenditures, and 12.0% to net income at the Company level. The above identified measurements were identified to encourage continued focus on overall net income and financial results, to encourage continued integration of ExpressJet Holdings, Inc.'s operations, and to facilitate the exchange of best practices between the operating subsidiaries of the Company.

In the case of Messrs. Atkin, Rich and Kraupp, the applicable net income and other financial targets, with the exception of a designated amount of net income at the Company level, were based on the designated amounts of both operating subsidiaries SkyWest Airlines (weighted two thirds) and ExpressJet (weighted one third). Because of his primary responsibility with respect to operations of SkyWest Airlines, Mr. Childs' net income and financial targets, with the exception of a designated amount of net income at the Company level, were set as the designated amounts at the SkyWest Airlines level. Similarly, because Mr. Holt was principally engaged with respect to the operations of ExpressJet, his net income and financial targets, with the exception of a designated amount of net income at the Company level, were designated amounts at the ExpressJet level. At year-end, the Committee reviewed the actual net income and financial results, as well as other items taken into account in setting the annual net income and financial targets and applied judgment as to the final amounts awarded for the year.

*2012 Operational and Individual Goals Component.* A portion of the Executives' annual bonus is based on their achievement of net income and financial targets (weighted 50%) and individual and operational targets (weighted 50%) established in advance each year. The Committee has adopted this approach because it believes the use of operational and individual goals allows awards to reflect the individual efforts and achievements of an Executive that may not be reflected by corporate net income performance. The targeted bonus attributable to achievement of operational and individual is 40% of salary for Messrs. Atkin, Rich, Childs and Holt and 30% of salary for Mr. Kraupp. The actual amount of the bonus payment for each Executive is adjusted by the Committee based on each Executive's achievement of his goals.

For fiscal year 2012, the Committee reviewed the individual goals for the Executives. The actual payout of the portion of an Executive's annual bonus incentive related to individual goals is increased or decreased, as applicable, based on the Executive's achievement of his individual goals.

The corresponding results for each Executive for the year ended December 31, 2012, are set forth below as a percentage of each Executive's salary.

	Objective Percentage of Salary	Net Income & Financial Target	Net Income & Financial Results	Individual & Operational Target	Individual & Operational Results	Total Annual Bonus Results
Jerry C. Atkin . . . . .	80%	40.0%	46.0%	40.0%	38.3%	84.3%
Bradford R. Rich . . . .	80%	40.0%	46.0%	40.0%	37.7%	83.7%
Russell A. Childs . . . .	80%	40.0%	43.6%	40.0%	40.4%	84.0%
Bradford R. Holt . . . .	80%	40.0%	50.8%	40.0%	36.6%	87.4%
Michael J. Kraupp . . . .	60%	30.0%	34.5%	30.0%	28.6%	63.1%

*Amount of 2012 Annual Bonus*—The total annual bonus amounts payable to the Executives for 2012 were: Mr. Atkin—\$337,042; Mr. Rich—\$250,981; Mr. Childs—\$213,432; Mr. Holt—\$221,919 and Mr. Kraupp—\$110,700. Those amounts are included in the amounts shown in the Summary Compensation Table below under the caption headings “Bonus and Non-Equity Incentive Plan Compensation”.

**Long-Term Awards.** Discretionary long-term incentive awards, in the form of stock options, restricted stock units (or, from 2006 through 2009, shares of restricted stock), and performance units payable in cash are granted to the Executives annually.

Long-term incentive awards are made to encourage the Executives to continue their engagement with the Company throughout the vesting periods of the awards and to align management and shareholder interests. In making awards to the Executives, the grant size and the appropriate combination of equity- based and deferred cash awards is considered. The Committee generally grants long-term incentive awards at its first meeting of each year. Except in the case of accelerated vesting

upon a change in control of the Company, long-term incentive awards currently vest only if the Executive remains employed by the Company for three years from the date of grant. The Committee believes the three-year cliff-vesting schedule assists in retaining Executives and encourages the Executives to focus on the Company's long-term performance.

In granting stock options, restricted stock units and shares of restricted stock to the Executives, the Committee also considers the impact of the grant on the Company's financial performance, as determined in accordance with the requirements of Financial Accounting Standards Board Accounting Standards Codification Topic 718 (ASC Topic 718). For long-term equity awards, the Company records expense in accordance with ASC Topic 718. The amount of expense recorded pursuant to ASC Topic 718 may vary from the corresponding compensation value used in determining the amount of the awards.

*Amount and allocation of grant*— For 2012 the total annual targeted long-term incentive grant value was 139% of salary and targeted annual bonus for Mr. Atkin, 117% of salary and targeted annual bonus for Messrs. Rich, Childs and Holt and 70% of salary and targeted annual bonus for Mr. Kraupp. The Committee established these targeted amounts to provide a competitive pay package and to ensure that a large portion of each Executive's compensation was based on continuing long-term service and correlated to the creation of shareholder value. This has been the Committee's policy for several years, but is subject to review and continuation or modification each year by the Committee. Mr. Atkin's targeted level of long-term incentive awards is higher than the targeted level of long-term incentive awards for other Executives since he has overall responsibility for the long-term success of the Company. Each Executive's 2012 long-term incentive award was allocated among three types of long-term awards as follows: stock options, restricted stock units and performance units payable in cash.

The three types of awards were used in an effort to link the Executives' long-term incentive compensation with the creation of shareholder value. The value of stock options and restricted stock units is directly related to the value of the Common Stock. The Executives earn performance units payable in cash by meeting return on shareholder equity objectives that the Committee believes also lead to long-term shareholder value, but are not subject to short-term stock market volatility.

Stock options, restricted stock unit and performance unit grants in 2012 were made pursuant to the Company's 2010 Long-Term Incentive Plan, as shown in greater detail below in the table labeled "Grants of Plan Based Awards."

*Stock Options*—Options are granted with an exercise price equal to the closing price per share on the date of grant and vest three years after the date of grant. Grants are made on a systematic schedule, generally one grant per year made at the first Committee meeting of each year.

The purpose of stock options is to tie a significant percentage of the award's ultimate value to increases in the stock price, thereby rewarding increased value to the shareholders. A stock option only has a value to the extent the value of the underlying shares on the exercise date exceeds the exercise price. Accordingly, stock options provide compensation only if the underlying share price increases over the option term and the Executive's employment continues through the vesting date.

The size of the grant for each Executive is calculated by determining the number of shares with a theoretical future value equal to the targeted compensation for stock options, assuming each option will have a value equal to 33% of its exercise price. This value generally correlates to the ASC Topic 718 value of the awards. The targeted stock option allocation of each Executive's aggregate, targeted level of long-term incentive compensation for 2012 was 17% for Mr. Atkin, 18% for Messrs. Rich, Childs and Holt and 15% for Mr. Kraupp.

*Restricted Stock Units*—The Company also granted restricted stock units to the Executives in 2012 under the Company's 2010 Long-Term Incentive Plan. The restricted stock units awarded to an

Executive entitle the Executive to receive a designated number of shares of Company common stock upon completion of a three-year vesting period, measured from the date of grant. Until the vesting date the shares underlying restricted stock units are not considered issued and outstanding. Accordingly, the Executive is not entitled to vote or receive dividends on the shares underlying his restricted stock units unless and until those restricted stock units vest. The purpose of the restricted stock unit component is to support continued employment through volatile economic and stock market conditions, to manage dilution overhang, and to align officers' interests with maintaining shareholder value already created. The Committee believes this approach mitigates the incentive for Executives to take unnecessary risks and helps retain the Executives' expertise through continued employment. Recipients of restricted stock units do not pay for the underlying shares once the awards vest; however they must remain employed by the Company for three years to receive the underlying shares. Restricted stock unit awards provide the Executives with an indirect ownership stake in the Company and encourage the Executive to continue employment in order to receive the underlying shares. The compensation value of a restricted stock unit award does not depend solely on future stock price increases; at grant, its value is equal to the Company's stock price. Although its value may increase or decrease with changes in the stock price during the period before vesting, a restricted stock unit award will likely have value even without future stock price appreciation. Accordingly, restricted stock unit awards deliver significantly greater share-for-share compensation value at grant than do stock options, and the Company can offer comparable grant date compensation value with 65% fewer shares than if the grant were made solely with stock options. This results in less dilution of the outstanding shares of Common Stock.

The annual award of restricted stock units to each Executive for 2012 consisted of the right to receive upon future vesting a number of shares of Company stock. The targeted restricted stock unit allocation of each Executive's aggregate, targeted level of long-term incentive compensation for 2012 was 31% for Mr. Atkin, 30% for Messrs. Rich, Childs and Holt and 35% for Mr. Kraupp.

*Performance Units*—The remaining component of each Executive's 2012 annual long-term incentive award was a performance unit award payable in cash under the Company's 2010 Long-Term Incentive Plan. The targeted cash allocation of each Executive's aggregate, targeted level of long-term incentive compensation for 2012 was 52% for Messrs. Atkin, Rich, Childs and Holt and 50% for Mr. Kraupp. The purpose of the performance unit awards is to reward achievement of a financial efficiency goal that supports shareholder value and reflects real performance without regard to stock market volatility. Under each Executive's performance unit award, a cash bonus is payable three years from the date of grant, based on the level of net earnings actually attained for the year of grant, and subject to the Executive's continued employment through the date of payment. The 2012 committee-designated targeted net earnings was set as \$47.5 million, with the actual amount of cash bonus payable to each Executive to be adjusted in proportion to the extent to which the Company's actual results varied from the target level of performance.

The 2012 goal for each Executive was based on the Company's targeted net earnings, and there was no alternative operating company goal set for the Presidents of the operating subsidiaries, thus encouraging teamwork and working towards the creation of long-term value for the Company's shareholders. The targeted net earnings goal is adjusted to exclude accounting timing differences between engine overhauls and related revenue collected from contracts. Earned performance unit awards are paid in cash to reduce share dilution and emphasize the real economic cost of officer incentives. The Company believes that the performance unit grant provides an effective long-term incentive for the Executives to act in the best interests of shareholders, by focusing on net earnings, which the Committee believes is one of the principal contributing factors to long-term shareholder value.

For 2012, the actual adjusted shareholder net earnings for 2012 was \$51.2 million, versus the \$47.5 million targeted net earnings. Accordingly, the Executive earned 107.8% (\$51.2 million/\$47.5 million) of his performance units (subject to risk of forfeiture in the event of termination prior to February 15, 2015).

The targeted net earnings, actual net earnings, performance units granted, and the performance units earned (subject to forfeiture if the vesting period is not met) for the year ended December 31, 2012 were as follows:

	<u>Targeted Net Earnings (in Millions)</u>	<u>Actual Net Earnings (in Millions)</u>	<u>Performance Units Granted</u>	<u>Performance Units Earned</u>
Jerry C. Atkin . . . . .	\$47.5	\$51.2	\$515,000	\$555,170
Bradford R. Rich . . . . .	\$47.5	\$51.2	\$324,500	\$349,811
Russell A. Childs . . . . .	\$47.5	\$51.2	\$274,600	\$296,019
Bradford R. Holt . . . . .	\$47.5	\$51.2	\$274,600	\$296,019
Michael J. Kraupp . . . . .	\$47.5	\$51.2	\$ 98,280	\$105,946

The following table summarizes the number and nature of long-term awards granted to the Executives by the Board on February 15, 2012.

	<u>Time Vested LTI</u>		<u>Performance-Contingent LTI</u>		
	<u>Options</u>	<u>Shares/Stock Units</u>	<u>Options</u>	<u>Shares/Stock Units</u>	<u>Other Units (Cash)(1)</u>
Jerry C. Atkin . . . . .	39,627	24,119	—	0	\$515,000
Bradford R. Rich . . . . .	27,156	14,472	—	0	\$324,500
Russell A. Childs . . . . .	22,979	12,253	—	0	\$274,600
Bradford R. Holt . . . . .	22,979	12,253	—	0	\$274,600
Michael J. Kraupp . . . . .	6,873	5,268	—	0	\$ 98,280

(1) Number of performance units if 100% of target achieved. See table above for performance units actually earned for 2012.

**Retirement Benefits.**

The Company and SkyWest Airlines sponsor a 401(k) retirement plan for their eligible employees, including the Executives other than Mr. Holt. ExpressJet also maintains a substantially equivalent 401(k) plan for its eligible employees, including Mr. Holt. Both plans are broad based, tax-qualified retirement plans under which eligible employees, including the Executives, may make annual pre-tax salary reduction contributions subject to the various limits imposed under the Internal Revenue Code of 1986, as amended (the "Code"). The sponsoring employers make matching contributions under the plans on behalf of eligible participants; however the right of Executives and other officers to such matching contributions is limited. The Committee believes that maintaining the 401(k) retirement plans

and providing a means to save for retirement is an essential part of a competitive compensation package necessary to attract and retain talented executives.

The Company also maintains the SkyWest, Inc. 2002 Deferred Compensation Plan, a non-qualified deferred compensation plan for the benefit of officers and other highly compensated employees. All of the Executives participate in the SkyWest, Inc. 2002 Deferred Compensation Plan. ExpressJet also maintains a separate but similar non-qualified deferred compensation plan, the ExpressJet Executive Deferred Compensation Plan, for its highly compensated management employees, including Mr. Holt. Under both such deferred compensation plans (the “Deferred Compensation Plans”), the employer credits each Executive’s account with a discretionary employer contribution equal to 15% of salary and annual bonus. These amounts are included in the Summary Compensation Table under the column “All Other Compensation”. Additional information on the Deferred Compensation Plans is found in the section “Non-Qualified Deferred Compensation for 2012,” below.

The SkyWest Inc. 2002 Deferred Compensation Plan (but not the ExpressJet Executive Deferred Compensation Plan) also permits eligible executives, including the Executives, to elect in advance of each calendar year to defer up to 100% of their cash salary and annual bonus compensation for the year. None of the Executives elected to defer any portion of his salary or annual bonus for 2012. The Company and its subsidiaries do not maintain any defined benefit pension plans for the Executives.

**Other Benefits.** In addition to the benefits described above, the Company provides certain other benefits to the Executives that the Committee believes are generally consistent with the benefits provided to senior executives of other airlines. The Committee believes that those benefits, which are detailed in the footnotes to the Summary Compensation Table applicable to the heading “All Other Compensation” below, are reasonable, competitive and consistent with overall executive compensation objectives. Those benefits consist primarily of employer-paid premiums on health, dental and eye insurance, a personal automobile allowance, and use of Company owned recreational equipment.

The Company and its subsidiaries also maintain a non-discriminatory, broad based program under which all full-time employees and their dependents, including the Executives and their dependents, may fly without charge on a space available basis on regularly scheduled flights of aircraft operated by the Company’s operating airline subsidiaries.

### **Ownership Guidelines**

The Company maintains ownership guidelines for the Executives to encourage the alignment of their interests with the long-term interests of the shareholders. Each Executive is required to maintain a minimum ownership interest in the Company. The guideline ownership level is a number of shares of Common Stock having a value equal to six times annual base salary for Mr. Atkin, and three times annual base salary for Messrs. Rich, Childs, Holt and one times annual base salary for Mr. Kraupp. Messrs. Atkin, Rich, and Kraupp met the guidelines at the end of the fiscal year ended December 31, 2012. Messrs. Child and Holt are continuing to make progress towards the ownership guideline. The holdings of the Executives are summarized in the table entitled “Security Ownership of Certain Beneficial Owners”, below.

### **Deductibility of Executive Compensation**

Section 162(m) of the Code imposes a \$1 million annual limit on the amount that a publicly traded company may deduct for compensation paid to the company’s principal executive officer during a tax year or to any of the company’s three other most highly compensated executive officers who are still employed at the end of the tax year (other than the Company’s principal financial officer). The limit does not apply to compensation that meets the requirements of Section 162(m) of the Code for “qualified performance-based compensation” (i.e., compensation paid only if the executive meets pre-established, objective goals based upon performance criteria approved by the Company’s shareholders).

The Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Code. In certain situations, the Committee may approve compensation that will not meet the requirements of Code Section 162(m) in order to ensure competitive levels of total compensation for its executive officers. Stock options and 2012 long-term performance units awarded to the Executives during 2012 were intended to constitute “qualified performance-based compensation” under Section 162(m) of the Code. The Company’s 2012 restricted stock unit grants and 2012 performance-based annual bonuses, however, were not “qualified performance-based compensation.” As a result, a portion of the compensation earned by Mr. Atkin for 2012 exceeded the deduction limit of Section 162(m) of the Code.

### **Effect of Compensation on Risk**

Based on the Committee’s review of the various elements of the Company’s executive compensation practices and policies, the Committee believes the Company’s compensation policies and practices are designed to create appropriate and meaningful incentives for the Company’s employees without encouraging excessive or inappropriate risk taking. Among other factors, The Committee considered the following information:

- The Company’s compensation policies and practices are designed to include a significant level of long-term compensation, which discourages short-term risk taking.
- The base salaries the Company provides to its employees are generally consistent with salaries paid for comparable positions in the Company’s industry, and provide the Company’s employees with steady income while reducing the incentive for employees to take risks in pursuit of short-term benefits.
- The Company’s incentive compensation is capped at levels established by the Committee, which the Committee believes reduces the incentive for excessive risk-taking.
- The Company has established internal controls and adopted codes of ethics and business conduct, which are designed to reinforce the balanced compensation objectives established by the Committee.
- The Company has adopted equity ownership guidelines for its executive officers, which the Committee believes discourages excessive risk-taking.

Based on the review outlined above, the Company has concluded that the risks arising from its compensation policies and practices for its employees are not reasonably likely to have a material adverse effect on the Company.



## **COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed the foregoing compensation discussion and analysis and discussed with the Company's management the information set forth herein. Based on such review and discussions with management, the Compensation Committee recommended to the Board that the foregoing compensation discussion and analysis be included in this proxy statement.

The Compensation Committee

Henry J. Eyring, Chair  
Margaret S. Billson  
Steven F. Udvar-Hazy  
James L. Welch

## EXECUTIVE COMPENSATION

The table below summarizes the total compensation paid to or earned by each of the Executives for the years indicated.

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Name and Principal Position	Year	Salary (\$)	Discretionary Bonus \$(1)	Stock Awards \$(2)	Option Awards \$(2)	Non-Equity Incentive Plan Compensation \$(3)	All Other Compensation (\$)	Total (\$)
<b>Jerry C. Atkin</b> . . . . .	2012	\$400,000	\$ 0	\$315,000	\$170,000	\$892,212	\$115,183(4)	\$1,892,395
Chairman and Chief	2011	\$400,000	\$40,000	\$300,000	\$100,070	\$148,000	\$126,601(5)	\$1,114,671
Executive Officer	2010	\$384,200	\$ 0	\$288,150	\$288,150	\$579,340	\$120,487(6)	\$1,660,327
<b>Bradford R. Rich</b> . . . . .	2012	\$300,000	\$ 0	\$189,000	\$116,500	\$600,792	\$ 95,232(7)	\$1,301,524
President	2011	\$300,000	\$23,000	\$180,000	\$ 60,042	\$118,500	\$ 97,857(8)	\$ 779,399
	2010	\$279,100	\$ 0	\$167,460	\$167,460	\$376,185	\$ 95,965(9)	\$1,086,170
<b>Russell A. Childs</b> . . . . .	2012	\$254,000	\$ 0	\$160,020	\$ 98,580	\$509,451	\$ 90,249(10)	\$1,112,300
President and Chief	2011	\$254,000	\$ 0	\$152,400	\$ 50,836	\$156,500	\$ 89,179(11)	\$ 702,915
Operating Officer— SkyWest Airlines, Inc.	2010	\$247,200	\$ 0	\$148,320	\$148,320	\$346,476	\$ 89,441(12)	\$ 979,757
<b>Bradford R. Holt</b> . . . . .	2012	\$254,000	\$ 0	\$160,020	\$ 98,580	\$517,938	\$ 78,184(13)	\$1,108,722
President and Chief	2011	\$254,000	\$20,000	\$152,400	\$ 50,836	\$ 82,000	\$ 80,521(14)	\$ 639,757
Operating Officer— ExpressJet	2010	\$231,800	\$15,000	\$139,080	\$139,080	\$281,576	\$ 77,148(15)	\$ 883,684
<b>Michael J. Kraupp</b> . . . . .	2012	\$175,500	\$ 0	\$ 68,796	\$ 29,484	\$216,646	\$ 52,793(16)	\$ 543,219
Chief Financial Officer And Treasurer	2011	\$172,000	\$ 4,200	\$ 62,350	\$ 62,387	\$ 71,505	\$ 44,923(17)	\$ 417,365

- (1) Column (d) shows discretionary bonuses approved by the Compensation Committee and earned by Messrs. Atkin, Rich, Holt and Kraupp.
- (2) These columns show the full grant date fair market value of the options granted as computed under ASC Topic 718 and the expense attributable to restricted stock and restricted stock unit awards (excluding estimates for forfeitures in case of awards with service-based vesting). These amounts do not reflect the extent to which the Executive realized an actual financial benefit from the awards. Assumptions and methodologies used in the calculation of these amounts are included in footnotes to the Company's audited financial statements for the year ended December 31, 2012 which are included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.
- (3) The amounts in column (g) include the annual performance bonus amounts earned in the year indicated based on performance in that year and paid in the subsequent year. As described in the section entitled "Compensation Discussion and Analysis" above, annual performance bonuses payable to the Executives are calculated based upon the financial performance of the Company or its subsidiaries and also the achievement of individual goals. The target amount of each Executive's annual performance bonus opportunity for 2012 is reported in the "Grants of Plan-Based Awards for 2012" table below. The amounts of such annual performance bonuses actually earned in 2012 and paid in 2013 were: Mr. Atkin—\$337,042; Mr. Rich—\$250,981; Mr. Childs—\$213,432; Mr. Holt—\$221,919. The actual amount of Mr. Kraupp's annual performance bonus earned for 2012 was \$110,700. Mr. Kraupp's annual performance bonus is paid quarterly rather than annually.  
  
The amounts in column (g) also include the amounts of performance unit awards granted in 2012 and earned based on 2012 targeted net earnings, but payable in cash in 2015 and subject to forfeiture in the event of termination of employment within three years of the applicable date of grant in 2012. The target amount for each Executive's performance unit grant for 2012 is reported in the "Grants of Plan-Based Awards for 2012" table below. The amounts of those performance unit awards actually earned for 2012 were Mr. Atkin—\$555,170; Mr. Rich—\$349,811; Mr. Childs—\$296,019; Mr. Holt—\$296,019 and Mr. Kraupp—\$105,946.
- (4) All other compensation for Mr. Atkin for 2012 consists of \$88,920 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2012; \$3,918 in employer-paid health insurance premiums, \$15,858 for a personal vehicle lease; \$5,309 for personal use of the Company's recreational equipment; and \$1,178 in discretionary matching contributions under the SkyWest 401(k) Plan.
- (5) All other compensation for Mr. Atkin for 2011 consists of \$103,157 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2011; \$1,436 in employer-paid health insurance

premiums, \$18,541 for a personal vehicle lease; \$2,855 for personal use of the Company's recreational equipment; and \$612 in discretionary matching contributions under the SkyWest 401(k) Plan.

- (6) All other compensation for Mr. Atkin for 2010 consists of: \$100,185 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2010; \$3,645 in employer-paid health insurance premiums; \$11,485 for a personal vehicle lease; \$4,075 for personal use of the Company's recreational equipment; and \$1,200 in discretionary matching contributions under the SkyWest 401(k) Plan.
- (7) All other compensation for Mr. Rich for 2012 consists of: \$68,810 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2012; \$5,103 in employer-paid health insurance premiums; \$14,760 for a personal vehicle allowance; \$5,309 for personal use of the Company's recreational equipment; and \$1,250 in discretionary matching contributions under the SkyWest 401(k) Plan.
- (8) All other compensation for Mr. Rich for 2011 consists of: \$78,064 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2011; \$1,994 in employer-paid health insurance premiums; \$14,270 for a personal vehicle allowance; \$2,855 for personal use of the Company's recreational equipment; and \$674 in discretionary matching contributions under the SkyWest 401(k) Plan.
- (9) All other compensation for Mr. Rich for 2010 consists of: \$72,615 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2010; \$4,166 in employer-paid health insurance premiums; \$13,920 for a personal vehicle allowance; \$4,166 for personal use of the Company's recreational equipment; and \$1,189 in discretionary matching contributions under the SkyWest 401(k) Plan.
- (10) All other compensation for Mr. Childs for 2012 consists of: \$63,859 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2012; \$5,103 in employer-paid health insurance premiums; \$14,727 for a personal vehicle lease; \$5,309 for personal use of the Company's recreational equipment; and \$1,250 in discretionary matching contributions under the SkyWest 401(k) Plan.
- (11) All other compensation for Mr. Childs for 2011 consists of: \$69,454 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2011; \$1,994 in employer-paid health insurance premiums; \$14,283 for a personal vehicle lease; \$2,855 for personal use of the Company's recreational equipment; and \$593 in discretionary matching contributions under the SkyWest 401(k) Plan.
- (12) All other compensation for Mr. Childs for 2010 consists of: \$66,225 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2010; \$4,166 in employer-paid health insurance premiums; \$13,966 for a personal vehicle lease; \$4,075 for personal use of the Company's recreational equipment and \$1,009 in discretionary matching contributions under the SkyWest 401(k) Plan.
- (13) All other compensation for Mr. Holt for 2012 consists of: 54,111 of employer credits under the ExpressJet Deferred Compensation Plan attributable to compensation earned for 2012; \$4,964 in employer-paid health insurance premiums; \$13,800 for a personal vehicle lease; and \$5,309 for personal use of the Company's recreational equipment.
- (14) All other compensation for Mr. Holt for 2011 consists of: \$61,917 of employer credits under the ExpressJet Deferred Compensation Plan attributable to compensation earned for 2011; \$1,949 in employer-paid health insurance premiums; \$13,800 for a personal vehicle lease; and \$2,855 for personal use of the Company's recreational equipment.
- (15) All other compensation for Mr. Holt for 2010 consists of: \$57,885 of employer credits under the ExpressJet Deferred Compensation Plan attributable to compensation earned for 2010; \$3,905 in employer-paid health insurance premiums; \$13,563 for a personal vehicle lease; and \$4,075 for personal use of the Company's recreational equipment.
- (16) All other compensation for Mr. Kraupp for 2012 consists of: \$41,273 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2012; \$5,103 in employer-paid health insurance premiums; \$5,309 for personal use of the Company's recreational equipment; and \$1,108 in discretionary matching contributions under the SkyWest 401(k) Plan.
- (17) All other compensation for Mr. Kraupp for 2011 consists of: \$39,543 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2011; \$1,994 in employer-paid health insurance premiums; \$2,855 for personal use of the Company's recreational equipment; and \$531 in discretionary matching contributions under the SkyWest 401(k) Plan.

## Grants of Plan-Based Awards For 2012

The following table provides information about non-equity based and equity-based plan awards granted to the Executives for the year ended December 31, 2012:

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards Target (\$)	Estimated Possible Payouts Under Equity Incentive Plan Awards Target (# shares)	All Other Stock Awards: Number of Shares of Stock (# shares)	All Other Option Awards: Number of Securities Underlying Options (# shares)	Exercise Price of Options Awards (\$/share)(1)	Grant Date Full Fair Value(2)
Jerry C. Atkin . . . . .	9-Nov-2011(3)(4)	\$320,000					
	15-Feb-2012(5)(6)	\$515,000	—	24,119	39,627	\$13.06	\$1,000,000
Bradford R. Rich . . .	9-Nov-2011(3)(4)	\$240,000					
	15-Feb-2012(5)(6)	\$324,500	—	14,472	27,156	13.06	\$ 630,000
Russell A. Childs . . .	9-Nov-2011(3)(4)	\$203,200					
	15-Feb-2012(5)(6)	\$274,600	—	12,253	22,979	13.06	\$ 533,200
Bradford R. Holt . . .	9-Nov-2011(3)(4)	\$203,200					
	15-Feb-2012(5)(6)	\$274,600	—	12,253	22,979	13.06	\$ 533,200
Michael J. Kraupp . .	9-Nov-2011(3)(4)	\$105,300					
	15-Feb-2012(5)(6)	\$ 98,280	—	5,268	6,873	13.06	\$ 196,560

- (1) The exercise price of the options of \$13.06 per share was the market closing price of the Common Stock on the date of grant.
- (2) Column (h) shows the full grant date fair market value of the options granted in 2012 as computed under ASC Topic 718 and the expense attributable to restricted stock unit awards granted in 2012 (excluding the effect of estimates for forfeitures). Assumptions and methodologies used in the calculation of these amounts are included in footnotes to the Company's audited financial statements for the year ended December 31, 2012, which are included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.
- (3) The Compensation Committee approved the grant of Non-Equity Incentive Plan Awards for 2012 in the form of annual performance bonuses on November 9, 2011.
- (4) Annual performance bonuses earned for year 2012 are included in the "Non-Equity Incentive Plan Compensation" column in the Executive Compensation table. The amounts of such annual performance bonuses actually earned in 2012 and paid in 2013 were: Mr. Atkin—\$337,042; Mr. Rich—\$250,981; Mr. Childs—\$213,432; Mr. Holt—\$221,919. The actual amount of Mr. Kraupp's annual performance bonus earned for 2012 was \$110,700. Mr. Kraupp's annual performance bonus is paid quarterly rather than annually.
- (5) On February 15, 2012, the Company granted stock options, restricted stock units and performance unit awards payable in cash pursuant to the 2010 Long-Term Incentive Plan. Each Executive's target level of performance unit grant is listed in column (c). The shares underlying each Executive's stock option grant are listed in column (f). The number of shares of Company common stock underlying each restricted stock unit award earned for year 2012 and payable in 2015, are shown in column (e). All of the long-term incentive awards shown in columns (c) through (f) vest on the third anniversary of the date of grant (with earlier acceleration if the Executive is terminated in connection with a change in control).
- (6) The performance units were originally granted based on achieving targeted net earnings. As a result of the 2012 net earnings, Mr. Atkin received performance-based units payable in cash having a value of \$555,170; Mr. Rich received performance-based units payable in cash having a value of \$349,811; Mr. Childs received performance-based units payable in cash having a value of \$296,019, Mr. Holt received performance-based units payable in cash having a value of \$296,019 and Mr. Kraupp received performance-based units payable in cash having a value of \$105,946.

## Outstanding Equity Awards at Year-End

This table provides information on the year-end 2012 holdings of stock options and other stock awards (restricted stock and restricted stock units) by the Executives.

(a) Name	Option Awards				Stock Awards	
	(b) Number of Securities Underlying Unexercised Options Exercisable (#)	(c) Number of Securities Underlying Unexercised Options Unexercisable (#)	(d) Option Exercise Price (\$)	(e) Option Expiration Date(4)	(f) Number of Shares or Share Units That Have Not Vested (#)	(g) Market Value of Share Units That Have Not Vested(5) (\$)
Jerry C. Atkin . . . . .	104,000	—	\$19.18	3-Feb-14	—	—
	188,000	—	\$17.11	1-Feb-15	—	—
	61,100	—	\$23.80	2-May-13	—	—
	59,281	—	\$26.84	6-Feb-14	—	—
	59,281	—	\$25.80	6-Feb-15	—	—
	99,124	—	\$15.24	4-Feb-16	—	—
	—	60,282(1)	\$14.49	3-Feb-17	19,886(1)	\$246,984
	—	19,545(2)	\$15.51	2-Feb-18	19,342(2)	\$240,228
—	39,627(3)	\$13.06	15-Feb-19	24,119(3)	\$299,558	
Bradford R. Rich . . . . .	50,000	—	\$19.18	3-Feb-14	—	—
	100,000	—	\$17.11	1-Feb-15	—	—
	35,400	—	\$23.80	2-May-13	—	—
	34,467	—	\$26.84	6-Feb-14	—	—
	34,467	—	\$25.80	6-Feb-15	—	—
	57,614	—	\$15.24	4-Feb-16	—	—
	—	35,034(1)	\$14.49	3-Feb-17	11,557(1)	\$143,538
—	11,727(2)	\$15.51	2-Feb-18	11,605(2)	\$144,134	
—	27,156(3)	\$13.06	15-Feb-19	14,472(3)	\$179,742	
Russell Childs . . . . .	40,000	—	\$17.11	1-Feb-15	—	—
	8,800	—	\$23.80	2-May-13	—	—
	8,589	—	\$26.84	6-Feb-14	—	—
	13,597	—	\$27.37	6-Feb-14	—	—
	30,142	—	\$25.80	6-Feb-15	—	—
	51,024	—	\$15.24	4-Feb-16	—	—
	—	31,029(1)	\$14.49	3-Feb-17	10,236(1)	\$127,131
—	9,929(2)	\$15.51	2-Feb-18	9,826(2)	\$122,039	
—	22,979(3)	\$13.06	15-Feb-19	12,253(3)	\$152,182	
Bradford R. Holt . . . . .	48,000	—	\$17.11	1-Feb-15	—	—
	8,800	—	\$23.80	2-May-13	—	—
	8,867	—	\$26.84	6-Feb-14	—	—
	26,211	—	\$25.80	6-Feb-15	—	—
	47,835	—	\$15.24	4-Feb-16	—	—
	—	29,094(1)	\$14.49	3-Feb-17	9,597(1)	\$119,195
	—	9,929(2)	\$15.51	2-Feb-18	9,826(2)	\$122,039
—	22,979(3)	\$13.06	15-Feb-19	12,253(3)	\$152,182	
Michael J. Kraupp . . . . .	36,000	—	\$17.11	1-Feb-15	—	—
	8,500	—	\$23.80	8-May-13	—	—
	8,451	—	\$26.84	6-Feb-14	—	—
	8,451	—	\$25.80	6-Feb-15	—	—
	15,531	—	\$15.24	4-Feb-16	—	—
	—	12,692(1)	\$14.49	3-Feb-17	4,187(1)	\$ 52,003
	—	12,185(2)	\$15.51	2-Feb-18	4,020(2)	\$ 49,928
—	6,873(3)	\$13.06	15-Feb-19	5,268(3)	\$ 65,429	

(1) Awards scheduled to vest on February 3, 2013.

(2) Awards scheduled to vest on February 2, 2014.

(3) Awards scheduled to vest on February 15, 2015.

(4) Stock options awarded through 2005 expire ten years from date of grant. Stock options granted in 2006 and after expire seven years from date of grant.

(5) Based on market closing price per share of Common Stock of \$12.42 on December 31, 2012.

## Option Exercises and Stock Vested

Stock options exercised and shares of restricted stock that vested for the Executives during the year ended December 31, 2012 are outlined below.

(a) Name	Option Awards		Stock Awards	
	(b) Number of Shares Acquired On Exercise (#)	(c) Value Realized on Exercise (\$)	(d) Number of Shares Acquired on Vesting (#)	(e) Value Realized on Vesting (\$)
Jerry C. Atkin . . . . .	94,540	\$88,064	16,521	\$232,120
Bradford R. Rich . . . . .	50,000	\$44,892	9,602	\$134,908
Russell A. Childs . . . . .	—	—	8,504	\$119,481
Bradford R. Holt . . . . .	—	—	7,972	\$112,007
Michael J. Kraupp . . . . .	—	—	3,883	\$ 54,556

## Non-Qualified Deferred Compensation for 2012

Pursuant to the SkyWest Deferred Compensation Plan and the ExpressJet Deferred Compensation Plan, covered Executives may elect prior to the beginning of each calendar year to defer the receipt of base salary and annual performance bonuses earned for the ensuing calendar year. Amounts deferred are credited to an unfunded liability account maintained by the Company on behalf of the applicable Executive, which account is deemed invested in and earns a rate of return based upon certain notational, self-directed investment options offered under the applicable plan.

Each Executive's account under the SkyWest Deferred Compensation Plan and ExpressJet Deferred Compensation Plan, as applicable, is also credited with a discretionary employer contribution monthly, whether or not the Executive contributes. For 2012 that discretionary employer contribution was 15% of the Executive's salary and annual bonus. Participant account balances under the SkyWest and ExpressJet Deferred Compensation Plans are fully vested and will be paid by the Company to each Executive upon retirement or separation from employment, or on other specified dates, in a lump sum form or in installments according to a schedule elected in advance by the Executive.

The following table provides information regarding the SkyWest Deferred Compensation Plan for the Executives for the year ended December 31, 2012:

(a) Name(1)	(b) Executive Contributions in Last Year (\$)	(c) Registrant Contributions in Last Year (\$)(2)	(d) Aggregate Earnings in Last Year (\$)(3)	(e) Aggregate Withdrawals/ Distributions in Last Year (\$)	(f) Aggregate Balance at Last Year End (\$)
<b>SkyWest</b>					
Jerry C. Atkin . . . . .	—	\$88,920	\$284,853	—	\$2,353,051
Bradford R. Rich . . . . .	—	\$68,810	\$129,471	—	\$1,366,407
Russell A. Childs . . . . .	—	\$63,859	\$ 59,700	—	\$ 647,628
Bradford R. Holt . . . . .	—	\$ 0	\$ 49,496	—	\$ 441,716
Michael J. Kraupp . . . . .	—	\$41,273	\$ 61,280	—	\$ 609,467

(1) For 2012, Messrs. Atkin, Rich, Childs and Kraupp were covered by the SkyWest Deferred Compensation Plan only and Mr. Holt was covered by both the SkyWest Deferred Compensation Plan (as to contributions for years prior to 2009 and earnings thereon only) and the ExpressJet Deferred Compensation Plan (with respect to contributions for 2009 through 2012 and earnings thereon).

- (2) The amounts in column (c) reflect the amounts of employer contributions credited under the applicable deferred compensation plan for 2012 at the rate of 15% of each Executive's 2012 base salary and 2011 bonus which was paid in 2012. The amounts reported in column (c) are also included in the amounts reported in the "Other Compensation" column of the Summary Compensation Table appearing above.
- (3) The amounts in column (d) reflect the notational earnings during 2012 credited to each Executive's account under the SkyWest Deferred Compensation Plan. These amounts are not reported in the Summary Compensation Table because they are based on market rates determined by reference to mutual funds that are available to participants in the SkyWest 401(k) Plan or otherwise broadly available.

The table below shows the funds available for notational investment under the SkyWest Deferred Compensation Plan, and the annual rate of return for the calendar year ended December 31, 2012:

<u>Name of Fund</u>	<u>Rate of Return</u>
NVIT Money Market Fund Class I . . . . .	0.00%
PIMCO VIT Total Return Admin . . . . .	9.60%
PIMCO VIT Real Return Admin . . . . .	8.76%
Invesco Van Kampen V.I. Growth & Income I . . . . .	14.63%
Dreyfus Stock Index Initial . . . . .	15.74%
American Fund IS Growth 2 . . . . .	17.89%
Nationwide NVIT Mid Cap Index I . . . . .	17.47%
Fidelity VIP Mid Cap Svc . . . . .	14.75%
AllianceBernstein VPS Small/Mid Cap Value A . . . . .	18.75%
Royce Capital Small Cap . . . . .	12.50%
Ivy VIP Small Cap Growth . . . . .	5.16%
MFS VIT II International Value Svc . . . . .	15.93%
Invesco VIF International Growth I . . . . .	15.53%

The following table provides information regarding the ExpressJet Deferred Compensation Plan for Mr. Holt for 2012.

<u>(a) Name</u>	<u>(b) Executive Contributions in Last Year (\$)</u>	<u>(c) Registrant Contributions in Last Year (\$)(1)</u>	<u>(d) Aggregate Earnings in Last Year (\$)(2)</u>	<u>(e) Aggregate Withdrawals/ Distributions in Last Year (\$)</u>	<u>(f) Aggregate Balance at Last Year End (\$)</u>
Bradford R. Holt . . . . .	—	\$54,111	\$15,248	—	\$281,342

- (1) The amount in column (c) reflects the employer contributions credited in 2012 at the rate of 15% of Mr. Holt's 2012 base salary and 2011 bonus which was paid in 2012. The amount reported in column (c) is also included in the amount reported in the "Other Compensation" column of the Summary Compensation Table appearing above.
- (2) The amounts in column (d) reflect the notational earnings during 2012 credited to Mr. Holt's account under the ExpressJet Deferred Compensation Plan. This amount is not reported in the Summary Compensation Table because it is based on market rates determined by reference to mutual funds that are available to participants in the ExpressJet 401(k) Plan or, in certain cases, otherwise broadly available.

The table below shows the funds available under the ExpressJet Deferred Compensation Plan, and the annual rate of return for the calendar year ended December 31, 2012:

<u>Name of Fund</u>	<u>Rate of Return</u>
American Century Equity Income-Inst . . . . .	11.58%
American Century International Growth-Inst . . . . .	22.16%
American Century Premium Money Market-Inv . . . . .	0.02%
American Century Short-Term Government-Inv . . . . .	0.30%
American Century Strategic Alloc Aggressive-Inv . . . . .	15.03%
American Century Strategic Alloc Conservative-Inv . . . . .	9.58%
American Century Strategic Alloc Moderate-Inv . . . . .	12.83%
American Century Value-Inst . . . . .	14.76%
Buffalo Small Cap . . . . .	19.93%
JPMorgan Equity Index-Select . . . . .	15.76%
JPMorgan Large Cap Growth-R6 . . . . .	12.38%

**Potential Payments upon Termination or Change in Control**

The information below describes and quantifies certain payments or benefits that would be payable under the existing plans and programs of the Company and its subsidiaries if an Executive’s employment had terminated on December 31, 2012, or the Company had undergone a change in control on December 31, 2012. These benefits are in addition to benefits generally available to all salaried employees of the Company in connection with a termination of employment, such as distributions from the 401(k) Plans, disability and life insurance benefits, the value of employee-paid group health plan continuation coverage under the Consolidated Omnibus Reconciliation Act, or “COBRA” and accrued vacation pay. The Executives do not have any other severance benefits, severance agreements or change-in-control agreements.

*Accelerated Vesting of Stock Options and Stock Awards Upon Change In Control.* Under the Company’s prior long-term incentive plans, all outstanding stock options, shares of restricted stock, restricted stock units and performance units held by an Executive on December 31, 2012, would have become fully vested upon a “change in control” without regard to whether the Executive terminated employment in connection with or following the change in control. The Company’s long-term incentive plans generally define a “change in control” as any of the following events: (i) the acquisition by any person of 50% or more of the Company’s voting shares, (ii) replacement of a majority of the Company’s directors within a two-year period under certain conditions, or (iii) shareholder approval of a merger in which the Company is not the surviving entity, sale of substantially all of the Company’s assets or liquidation. The following table shows for each Executive the intrinsic value of his unvested stock option, unvested restricted stock and unvested restricted stock units and performance units as of December 31, 2012, that would have been accelerated had a change in control of the Company occurred on that date, calculated in the case of restricted stock, restricted stock units and stock options, by multiplying the number of underlying shares by the closing price of the Common Stock on the last



trading day of 2012 (\$12.42 per share) and, in the case of stock options, by then subtracting the applicable option exercise price:

<u>Name</u>	<u>Early Vesting of Stock Options</u>	<u>Early Vesting of Restricted Stock</u>	<u>Early Vesting of Restricted Stock Units</u>	<u>Early Vesting of Performance Units</u>
Jerry C. Atkin . . . . .	\$0	\$0	\$786,770	\$858,617
Bradford R. Rich . . . . .	\$0	\$0	\$467,414	\$526,161
Russell A. Childs . . . . .	\$0	\$0	\$401,352	\$452,213
Bradford R. Holt . . . . .	\$0	\$0	\$393,416	\$442,467
Michael J. Kraupp . . . . .	\$0	\$0	\$167,360	\$188,539

If a change in control with respect to the Company results in acceleration of vesting of an Executive's otherwise unvested stock options, unvested restricted stock, unvested restricted stock units or performance unit awards, and if the value of such acceleration equals or exceeds three times the Executive's average W-2 compensation with the Company for the five taxable years preceding the year of the change in control (the "Base Period Amount"), the acceleration would result in an excess parachute payment under Code Section 280G. An Executive would be subject to a 20% excise tax on any such parachute payment in excess of the Base Period Amount, and the Company would be unable to deduct the amount of the parachute payment in excess of the Base Period Amount for tax purposes. The Company has not agreed to provide its Executives with any gross-up or reimbursement for excise taxes imposed on excess parachute payments.

*Deferred Compensation.* If the employment of an Executive were terminated on December 31, 2012, the Executive would have become entitled to receive the balance in his account under the applicable deferred compensation plan. Distribution would be made in the form of a lump sum or in installments, and in accordance with the distributions schedule elected by the Executive under the applicable plan. The 2012 year-end account balances under those plans are shown in column (e) in the applicable Non-qualified Deferred Compensation Tables set forth above. An Executive's account balance would continue to be credited with notational investment earnings or losses through the date of actual distribution.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

### **Transaction Related Party**

Jerry C. Atkin, the Company's Chairman of the Board and Chief Executive Officer, serves on the Board of Directors of Zions. The Company maintains a line of credit and certain bank accounts with Zions. Zions is an equity participant in leveraged leases on ten aircraft operated by the Company's subsidiaries. Zions also refinanced eight of the Company's aircraft in 2012 for terms of three to four years, becoming the debtor on these aircraft. An affiliate of Zions, Zion's First National Bank, also serves as the Company's transfer agent. The Company's cash balance in the accounts held at Zions as of December 31, 2012 and 2011 was \$56.4 million and \$51.8 million, respectively. The Company paid to Zions First National Bank \$6,583 in exchange for transfer agent services during the year ended December 31, 2012.

### **Review and Approval of Transactions with Related Parties**

The Company believes that transactions between the Company and its directors and executive officers, or between the Company and persons related to directors and executive officers of the Company, present a heightened risk of creating or appearing to create a conflict of interest. Accordingly, the Company has adopted a policy regarding related-party transactions that has been approved by the Board and incorporated into the Charter of the Audit and Finance Committee. The policy provides that the Audit and Finance Committee will review all transactions between the Company and related persons (as defined in Item 404 of Regulation S-K promulgated by the Securities and Exchange Commission) for potential conflicts of interest. Under the Company's policy, all transactions between the Company and related persons are required to be submitted to the Audit and Finance Committee for approval prior to the Company's entry or participation in such transactions.

## **DIRECTOR COMPENSATION**

The Company uses a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve as directors. In setting director compensation, the Company considers the significant amount of time that directors expend in fulfilling their duties to the Company, as well as the skill level required by the Company of its directors. Each director is encouraged to own at least 8,000 shares of Common Stock.

### **Cash Compensation Paid to Directors**

For the year ended December 31, 2012, all directors who were not employees of the Company received an annual cash retainer of \$33,000 and attendance fees of \$1,800 for each in-person Board meeting attended, \$1,700 for each in-person Audit & Finance Committee meeting attended, \$1,350 for each in-person Compensation Committee meeting attended, \$1,350 for each in-person Nominating and Corporate Governance Committee meeting attended and \$1,350 for each in-person Safety and Compliance Committee meeting attended. Non-employee directors who participated in telephonic meetings of the Board or its committees were also paid \$850 for each telephonic Board meeting, \$800 for each telephonic Audit & Finance Committee meeting and \$800 for each telephonic Compensation Committee meeting, \$800 for each telephonic Nominating and Corporate Governance Committee meeting and \$800 for each telephonic Safety and Compliance Committee meeting. The Chairman of the Audit & Finance Committee was paid an annual fee of \$15,000, the Chairman of the Compensation Committee was paid an annual fee of \$5,000, the Chairman of Nominating and Corporate Governance Committee was paid an annual fee of \$4,000, the Chairman of the Safety and Compliance Committee was paid an annual fee of \$4,000 and the Lead Director was paid an annual fee of \$4,000. In addition, the Company paid to Steven F. Udvar-Hazy, a director of the Company, an industry expert fee of \$6,000 during the year ended December 31, 2012. Jerry C. Atkin, who is the Chairman of the Board and an employee of the Company, received no compensation for his service on the Board.

### **Stock Awards**

Each non-employee director receives a stock award annually. On February 15, 2012, each of the non-employee directors, other than W. Steve Albrecht, who was not serving as a director on that date, received an award of 3,982 shares of Common Stock, representing \$52,000 of value based on the closing price of the Common Stock on the date of award. Subsequent to his election as a director in May 2012, Mr. Albrecht received an award of 1,991 shares of Common Stock, representing \$26,000 of value based on the closing price of the Common Stock on the date of award. The Company did not grant stock options to its non-employee directors in 2012.

## DIRECTOR SUMMARY COMPENSATION TABLE

The table below summarizes the compensation paid by the Company to its non-employee directors for the year ended December 31, 2012.

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Name(1)	Fees Earned or Paid in Cash (\$)	Stock Awards \$(2)	Option Awards \$(3)	Change in Pension Value and Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
J. Ralph Atkin . . . . .	\$57,300	\$52,000	—	—	—	\$109,300
W. Steve Albrecht . . . . .	\$27,050	\$26,000	—	—	—	\$ 53,050
Margaret S. Billson . . . . .	\$53,650	\$52,000	—	—	—	\$105,650
Ian M. Cumming . . . . .	\$43,150	\$52,000	—	—	—	\$ 95,150
Henry J. Eyring . . . . .	\$59,600	\$52,000	—	—	—	\$111,600
Robert G. Sarver . . . . .	\$47,000	\$52,000	—	—	—	\$ 99,000
Steven F. Udvar-Hazy . . . . .	\$61,000	\$52,000	—	—	—	\$113,000
James L. Welch . . . . .	\$59,650	\$52,000	—	—	—	\$111,650

- (1) Jerry C. Atkin, the Chairman of the Board and Chief Executive Officer of the Company, is not included in the foregoing table as he is an employee of the Company and receives no monetary compensation for his services as Chairman of the Board.
- (2) Represents the closing price of the Common Stock awarded on the grant date of February 15, 2012, of \$13.06 per share, multiplied by the 3,982 shares (1,991 for W. Steve Albrecht) granted to each non-employee director. That amount is the aggregate grant date fair market value of awards as computed under ASC Topic 718. All such shares of Common Stock are fully vested.
- (3) As of December 31, 2012, each of the following non-employee directors of the Company held unexercised options to purchase the following number of shares of Common Stock: J. Ralph Atkin: 28,000; W. Steve Albrecht: 30,000; Ian M. Cumming: 24,000; Robert G. Sarver: 32,000; Steven F. Udvar-Hazy: 24,000.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

### Security Ownership of Directors and Executive Officers

The following table sets forth the beneficial ownership of the Common Stock as of March 4, 2013, for each director and nominee for director, each Executive, and by all directors (including nominees) and Executives of the Company as a group.

<u>Name</u>	<u>Common Stock</u>	<u>Options Exercisable</u>	<u>Unvested Restricted Shares</u>	<u>Total</u>	<u>Beneficial Ownership(1)</u>
Jerry C. Atkin . . . . .	1,584,466	631,068	68,355	2,283,889	4.4%
Bradford R. Rich . . . . .	36,367	346,982	41,013	424,362	(2)
Russell A. Childs . . . . .	13,261	183,181	34,728	231,170	(2)
Bradford R. Holt . . . . .	16,964	168,807	34,728	220,499	(2)
Michael J. Kraupp . . . . .	8,554	89,625	14,725	112,904	(2)
Robert G. Sarver . . . . .	51,120	24,000		75,120	(2)
J. Ralph Atkin . . . . .	30,120	24,000		54,120	(2)
Steven F. Udvar-Hazy . . . . .	28,720	24,000		52,720	(2)
Henry J. Eyring . . . . .	27,680	—		27,680	(2)
Margaret S. Billson . . . . .	21,320	—		21,320	(2)
James L. Welch . . . . .	21,320	—		21,320	(2)
W. Steve Albrecht . . . . .	31,325	24,000		55,325	(2)
All officers and directors as a group (12 persons) . . . . .	1,871,217	1,515,663	193,549	3,580,429	6.9%

(1) Based on 51,877,298 shares outstanding as of March 4, 2013.

(2) Less than one percent of the total shares outstanding as of March 4, 2013.

### Security Ownership of Other Beneficial Owners

As of March 4, 2013, the Company's records and other information available from outside sources indicated that the following shareholders were beneficial owners of more than five percent of the outstanding shares of Common Stock. The information following is as reported in their filings with the Securities and Exchange Commission. The Company is not aware of any other beneficial owner of more than 5% of the Common Stock.

<u>Name</u>	<u>Amount of Beneficial Ownership</u>	
	<u>Common Stock</u>	
	<u>Shares</u>	<u>Percent of Class</u>
Tradewinds Global Investors, LLC . . . . . 2049 Century Park East Los Angeles, CA 90067	2,305,021	4.5%
Dimensional Fund Advisors LP . . . . . 6300 Bee Cave Road Austin, TX 78746	4,284,395	8.4%
Black Rock, Inc. . . . . 40 East 52 <sup>nd</sup> Street New York, NY 10022	3,769,510	7.4%
Franklin Resources Inc. . . . . One Franklin Parkway San Mateo, CA 94403	3,762,808	7.3%
FMR, LLC . . . . . 82 Devonshire Street Boston, MA 02109	2,292,063	4.5%
Vanguard Group Inc. . . . . 100 Vanguard Blvd Malvern, PA 19355	2,981,454	5.8%

**PROPOSAL 2**  
**ADVISORY VOTE ON EXECUTIVE COMPENSATION**

**Background**

Section 14A of the Exchange Act, which was enacted pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, requires that the Company provide its shareholders with the opportunity to vote on an advisory (non-binding) resolution to approve the compensation of the Executives (referred to as a “Say-on-Pay” proposal) as disclosed in this Proxy Statement.

Accordingly, the following resolution will be submitted to the Company’s shareholders for approval at the Meeting:

“RESOLVED, that the Company’s shareholders approve, on an advisory basis, the compensation of the Executives, as disclosed in the Company’s Proxy Statement for the 2013 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the U.S. Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2012 Executive Compensation table and the other related tables and disclosure.”

As described in detail under the heading “Compensation Discussion and Analysis,” the Board believes the Company’s compensation of the Executives achieves the primary goals of (i) attracting and retaining experienced, well-qualified executives capable of implementing the Company’s strategic and operational objectives, (ii) aligning management compensation with the creation of shareholder value on an annual and long-term basis, and (iii) linking a substantial portion of the Executives’ compensation with long-term Company performance and the achievement of pre-determined goals, while at the same time avoiding the encouragement of unnecessary or excessive risk-taking. The Board encourages you to review in detail the Compensation Discussion and Analysis beginning on page 22 of this Proxy Statement and the executive compensation tables beginning on page 31 of this Proxy Statement. In light of the information set forth in such sections of this Proxy Statement, the Board believes the compensation of the Executives for the fiscal year ended December 31, 2012 was fair and reasonable and that the Company’s compensation programs and practices are in the best interests of the Company and its shareholders.

The vote on this Say-on-Pay resolution is not intended to address any specific element of compensation; rather, the vote relates to all aspects of the compensation of the Executives, as described in this Proxy Statement. While this vote is only advisory in nature, which means that the vote is not binding on the Company, the Board or the Compensation Committee (which is composed solely of independent directors), the Board and the Compensation Committee value the opinion of the Company’s shareholders and will consider the outcome of the vote when addressing future compensation arrangements.

**Voting**

Approval of the resolution above (on a non-binding, advisory basis) requires that the number of votes cast at the Meeting, in person or by proxy, in favor of the resolution exceeds the number of votes cast in opposition to the resolution.

<p><b>The Board and the Compensation Committee Recommend that Shareholders Vote <i>FOR</i> Approval of the Compensation of the Executives, as disclosed in this Proxy Statement.</b></p>
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**PROPOSAL 3**  
**RATIFICATION OF APPOINTMENT OF**  
**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit and Finance Committee has recommended and approved the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm (independent auditors) to examine the consolidated financial statements of the Company for the year ending December 31, 2013. The Company is seeking shareholder ratification of such action.

It is expected that representatives of Ernst & Young LLP will attend the Meeting and be available to make a statement or respond to appropriate questions.

<p><b>The Board and the Audit and Finance Committee Recommend that Shareholders Vote <i>FOR</i> the Ratification of Appointment of Ernst &amp; Young LLP as the Company's Independent Registered Public Accounting Firm (Independent Auditors).</b></p>
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## **AUDIT & FINANCE COMMITTEE DISCLOSURE**

### **Who served on the Audit and Finance Committee?**

The members of the Audit and Finance Committee as of December 31, 2012, were W. Steve Albrecht (Chairman from August 7, 2012 through December 31, 2012), James L. Welch (Chairman from January 1, 2012 through August 7, 2012), Henry J. Eyring, Robert G. Sarver and Ian M. Cumming. Each member of the Audit and Finance Committee has been determined by the Board to be independent under the rules of the Securities and Exchange Commission and The Nasdaq Global Select Market. The Board has determined that each of Robert G. Sarver and W. Steve Albrecht, who served on the Audit and Finance Committee during the year ended December 31, 2012, is an “audit committee financial expert” as defined in Item 401(h) (2) of Regulation S-K promulgated under the Exchange Act.

### **What document governs the activities of the Audit and Finance Committee?**

The Audit and Finance Committee acts under a written charter, which sets forth its responsibilities and duties, as well as requirements for the Audit and Finance Committee’s composition and meetings. The Audit and Finance Committee charter is available on the Company’s website at [www.SkyWest.com](http://www.SkyWest.com), and is also available in print, free of charge, upon request. Requests for a printed copy of the Audit and Finance Committee charter should be submitted to Michael J. Kraupp, Chief Financial Officer and Treasurer of the Company, at 444 South River Road, St. George, Utah 84790.

### **How does the Audit and Finance Committee conduct its meetings?**

During the year ended December 31, 2012, the Audit and Finance Committee met with the senior members of the Company’s financial management team at each of its regular scheduled quarterly meetings. The Audit and Finance Committee also met with representatives of Ernst & Young, LLP (“E&Y”), the Company’s independent registered public accounting firm, at each of its in-person meetings and met with representatives of Protiviti, Inc. (“Protiviti”), the Company’s principal internal auditor, at several of its meetings. Agendas for the Audit and Finance Committee’s meetings are established by the Chairman of the Audit and Finance Committee, after consultation with the Company’s Chief Financial Officer and Treasurer and Chief Accounting Officer. At those meetings, the Audit and Finance Committee reviewed and discussed the Company’s financial performance, financial reporting practices, various financial and regulatory issues, accounting and financial management issues, developments in the accounting profession, as well as the Company’s industry, risk management and a summary of calls received on the Company’s anonymous reporting line. The Audit and Finance Committee also had separate, executive sessions regularly with representatives of E&Y, the Company’s Chief Financial Officer, Protiviti and the Company’s legal counsel, at which meetings candid discussions of financial management, accounting, internal controls and legal and compliance issues took place. Additionally, the Chairman of the Audit and Finance Committee had separate discussions regularly with the Chief Accounting Officer and representatives of E&Y, Protiviti and the Company’s legal counsel.

### **Does the Audit and Finance Committee review the periodic reports and other public financial disclosures of the Company?**

The Audit and Finance Committee reviews each of the Company’s quarterly and annual reports, including Management’s Discussion and Analysis of Financial Condition and Results of Operations. As part of its review, the Audit and Finance Committee discusses the reports with the Company’s management and independent registered public accounting firm and considers the audit and review reports prepared by the independent registered public accounting firm about the Company’s quarterly and annual reports, as well as related matters such as the quality (and not just the acceptability) of the

Company's accounting practices, alternative methods of accounting under generally accepted accounting principles in the United States ("GAAP") and the preferences of the independent registered public accounting firm in this regard, the Company's critical accounting policies and the clarity and completeness of the Company's financial and other disclosures.

**Did the Audit and Finance Committee play any role in connection with the Company's report on internal controls?**

The Audit and Finance Committee reviewed management's report on internal control over financial reporting, required under Section 404 of the Sarbanes Oxley Act of 2002 and related rules. As part of this review, the Audit and Finance Committee reviewed the bases for management's conclusions in that report, and also reviewed the report of the independent registered public accounting firm on internal control over financial reporting. Throughout the year ended December 31, 2012, the Audit and Finance Committee reviewed management's plan for documenting and testing controls, the results of their documentation and testing, any deficiencies discovered and the resulting remediation of any such deficiencies.

**What is the role of the Audit and Finance Committee in connection with the financial statements and controls of the Company?**

Management of the Company has primary responsibility for the Company's financial statements and internal control over the Company's financial reporting. The Company's independent registered public accounting firm has responsibility for the integrated audit of the Company's financial statements and internal control over financial reporting. It is the responsibility of the Audit and Finance Committee to oversee financial and control matters, among other responsibilities fulfilled by the Audit and Finance Committee under its charter. The Audit and Finance Committee meets regularly with representatives of E&Y and Protiviti, without the presence of management, to ensure candid and constructive discussions about the Company's compliance with accounting standards and best practices among public companies comparable in size and scope to the Company. The Audit and Finance Committee also regularly reviews with its outside advisors material developments in the law and accounting literature that may be pertinent to the Company's accounting financial reporting practices.

**Does the Audit and Finance Committee have any policy-making responsibility?**

From time to time, the Audit and Finance Committee establishes certain policies as required by the rules of the Securities and Exchange Commission and the listing standards of The Nasdaq Global Select Market. For example, the Audit and Finance Committee has established a policy for the receipt and retention (including on an anonymous basis) of complaints about financial and control matters. The Audit and Finance Committee also has implemented a policy that addresses when the Company may recruit personnel who formerly were employed by the Company's independent registered public accounting firm. In other cases, the Audit and Finance Committee is responsible for overseeing the efficacy of management policies, including compliance with the Company's Code of Ethics and the availability of prerequisites.

**What matters have members of the Audit and Finance Committee discussed with the independent registered public accounting firm?**

In its meetings with representatives of E&Y, the Audit and Finance Committee asked E&Y to address and discuss their responses to several questions that they believed were particularly relevant to its oversight. These questions included:

- Are there any significant judgments made by management in preparing the financial statements that would have been made differently had E&Y prepared and been responsible for the financial statements?
- Based on E&Y's experience, and their knowledge of the Company, do the Company's financial statements fairly present to investors, with clarity and completeness, the Company's financial position and performance for the reporting period in accordance with GAAP and Securities and Exchange Commission disclosure requirements?
- Based on E&Y's experience, and their knowledge of the Company, has the Company implemented internal controls and internal audit procedures that are appropriate for the Company?
- During the course of the applicable year, has E&Y received any communication or discovered any information indicating any improprieties with respect to the Company's accounting and reporting procedures or reports?

The Audit and Finance Committee has also discussed with E&Y that they are retained by the Audit and Finance Committee and that they must raise any concerns about the Company's financial reporting and procedures directly with the Audit and Finance Committee. Based on these discussions and its discussions with management, the Audit and Finance Committee believes it has a basis for its oversight judgments and for recommending that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

**What has the Audit & Finance Committee done with regard to the Company's audited financial statements for the year ended December 31, 2012?**

The Audit and Finance Committee has:

- Reviewed and discussed the Company's audited financial statements with the Company's management; and
- Discussed with E&Y the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit and Finance Committees, as amended and as adopted by the Public Company Accounting Oversight Board.

**Has the Audit and Finance Committee considered the independence of the Company's independent registered public accounting firm?**

The Audit and Finance Committee has received from E&Y the written disclosures regarding the accounting firm's independence required by PCAOB Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence, and has discussed with E&Y their independence. The Audit and Finance Committee has concluded that E&Y is independent from the Company and its management.

**Has the Audit and Finance Committee made a recommendation regarding the audited financial statements for the year ended December 31, 2012?**

Based upon its review and the discussions with management and the Company's independent registered public accounting firm, the Audit and Finance Committee recommended to the Board that the audited consolidated financial statements for the Company be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

**Does the Audit and Finance Committee provide a periodic report of its activities to the Board?**

The Audit and Finance Committee provides reports of its activities at each regularly scheduled Board meeting.

**Has the Audit and Finance Committee reviewed the fees paid to the Company's independent registered public accounting firm during the year ended December 31, 2012?**

The Audit and Finance Committee has reviewed and discussed the fees paid to E&Y during the year ended December 31, 2012, for audit, audit-related, tax and other services, which are set forth below under "Fees Paid to Independent Registered Public Accounting Firm." Because the Company did not pay to E&Y any fees for non-audit services during the years ended December 31, 2012, the Audit and Finance Committee was not required to assess whether E&Y's delivery of non-audit services is compatible with E&Y's independence.

**What is the Company's policy regarding the retention of the Company's independent registered public accounting firm?**

The Audit and Finance Committee has adopted a policy regarding the retention of the independent registered public accounting firm that requires pre-approval of all services by the Audit and Finance Committee or the Chairman of the Audit and Finance Committee. When services are pre-approved by the Chairman of the Audit and Finance Committee, notice of such approvals is given to the other members of the Audit and Finance Committee and presented to the full Audit and Finance Committee at its next scheduled meeting.

## **FEES PAID TO INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

### **Audit Fees**

During the years ended December 31, 2012 and 2011, the Company paid E&Y fees in the aggregate amount of \$984,000 and \$947,000, respectively, for the annual audit of the Company's financial statements, the quarterly reviews of the Company's financial statements included in its Quarterly Reports on Form 10-Q, audits of the closing balance sheets of certain businesses acquired, and the review of the Company's registration statements.

### **Audit-Related Fees**

During the years ended December 31, 2012 and 2011, the Company did not pay any fees to E&Y for audit-related services.

### **Tax Fees**

During the years ended December 31, 2012 and 2011, the Company did not pay any fees to E&Y for tax services.

### **All Other Fees**

During the years ended December 31, 2012 and 2011, E&Y did not provide any other services to the Company, and the Company did not pay to E&Y any fees, other than those identified above.

## **REPORT OF THE AUDIT & FINANCE COMMITTEE**

In connection with the financial statements for the year ended December 31, 2012, the Audit and Finance Committee has:

- (1) reviewed and discussed the audited financial statements with management;
- (2) discussed with E&Y, the Company's independent registered public accounting firm, the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended and as adopted by the Public Company Accounting Oversight Board (the "PCAOB"); and
- (3) received the written disclosure and letter from E&Y regarding the auditors' independence required by PCAOB Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence, and has discussed with the independent auditors the independent auditor's independence.

Based upon these reviews and discussions, the Audit and Finance Committee recommended to the Board at the February 13, 2013 meeting of the Board that the Company's audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission. The Board approved this inclusion.

### **The Audit & Finance Committee**

W. Steve Albrecht. Chair  
Henry J. Eyring  
Robert G. Sarver  
James L. Welch  
Ian M. Cumming

## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

The Company's executive officers, directors and 10% shareholders are required under Section 16 of the Exchange Act to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Copies of these reports must also be furnished to the Company.

Based solely on a review of copies of reports furnished to the Company, or written representations that no reports were required, the Company believes that during 2012 its executive officers, directors and 10% holders complied with all filing requirements of Section 16 of the Exchange Act.

## **SHAREHOLDER PROPOSALS FOR THE 2014 ANNUAL MEETING OF SHAREHOLDERS**

If any shareholder intends to present a proposal to be considered for inclusion in the Company's proxy material in connection with the Company's 2014 Annual Meeting of Shareholders, the proposal must be in proper form (per SEC Regulation 14A, Rule 14a-8—Shareholder Proposals) and received by the Chief Financial Officer and Treasurer of the Company on or before November 19, 2013. Shareholder proposals to be presented at the 2014 Annual Meeting of Shareholders which are not to be included in the Company's proxy materials must be received by the Company no earlier February 6, 2014, nor later than February 26, 2014, in accordance with the procedures set forth in the Company's Bylaws.

### **DELIVERY OF DOCUMENTS TO SHAREHOLDERS SHARING AN ADDRESS**

In instances in which multiple holders of the Common Stock share a common address and are the beneficial owners, but not the record holders, of those shares of Common Stock, the holders' banks, brokers or other nominees may only deliver one copy of this Proxy Statement and the Company's 2012 Annual Report to Shareholders, unless the applicable bank, broker or nominee has received contrary instructions from one or more of the shareholders. The Company will deliver promptly, upon written request, a separate copy of this Proxy Statement and the Company's 2012 Annual Report to Shareholders to any shareholder at a shared address to which a single copy of the documents was delivered. A shareholder who wishes to receive a separate copy of this Proxy Statement and the Company's 2012 Annual Report to Shareholders should submit a request in writing to Michael J. Kraupp, Chief Financial Officer and Treasurer of the Company, 444 South River Road, St. George, Utah 84790. Beneficial owners sharing an address who are receiving multiple copies of proxy materials and annual reports and who wish to receive a single copy of such materials in the future will need to contact their broker, bank or other nominee to request that only a single copy of each document be mailed to all shareholders at the shared address in the future.

### **OTHER BUSINESS**

The Company's management does not know of any other matter to be presented for action at the Meeting. However, if any other matters should be properly presented at the Meeting, it is the intention of the persons named in the accompanying proxy to vote said proxy in accordance with their best judgment.

Michael J. Kraupp  
*Chief Financial Officer and Treasurer*

St. George, Utah

March 19, 2013



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## OFFICERS AND DIRECTORS

### OFFICERS - SKYWEST, INC. AND SUBSIDIARIES

**Jerry C. Atkin**

Elected Chairman of the Board, 1991  
Chief Executive Officer since 1975.

**Bradford R. Rich**

President  
Previously Executive Vice President and  
Chief Financial Officer  
26 years service.

**Michael J. Kraupp**

Chief Financial Officer and Treasurer  
Previously Vice President Finance and Treasurer,  
Vice President – Controller  
22 years service.

**Eric J. Woodward**

Chief Accounting Officer  
Previously Vice President – Controller  
9 years service.

**James B. Jensen**

Vice President – Information Technology  
Previously Sr. Director Information Technology  
23 years service.

### OFFICERS OF SKYWEST AIRLINES, INC.

**Russell A. Childs**

President and Chief Operating Officer  
Previously Vice President – Controller and  
Sr. Director – Controller. 12 years service.

**James K. Boyd**

Vice President – Customer Service  
Previously Director of Stations and Station  
Manager. 31 years service.

**H. Michael Gibson**

Vice President – Maintenance  
Previously Director of Quality Assurance.  
25 years service.

**Sonya Wolford**

Vice President – Inflight  
Previously Sr. Director – Inflight.  
18 years service.

**Lori Hunt**

Vice President – People  
Previously Director – Delta Connection and  
Regional Director Customer Service.  
27 years service.

**Michael Thompson**

Vice President – Market Development  
Previously Operations Analyst. 9 years service.

**Klen Brooks**

Vice President – Flight Operations  
Previously Director Flight Operations and  
Chief Pilot. 40 years service.

**Wade J. Steel**

Vice President – Controller  
Previously Director of Financial Planning and  
Analysis. 5 years service.

### OFFICERS – EXPRESSJET AIRLINES, INC.

**Bradford R. Holt**

President and Chief Operating Officer  
Previously Vice President – Flight  
Operations for SkyWest Airlines, Inc.  
30 years service.

**Charlie Tutt**

Vice President – Flight Operations  
Various positions with Delta Air Lines  
including Line Pilot, Flight Instructor and  
Chief Pilot. 8 years service.

**Ken Ashworth**

Vice President – Maintenance and Engineering  
Previously Director of Maintenance  
for SkyWest Airlines, Inc. 32 years service.

**Kevin Wade**

Vice President – Controller  
Previously, Vice President Administration &  
Resources, Director of Finance.  
12 years service.

**Brandee Reynolds**

Vice President – Inflight Services  
Previously Director of Inflight Operations  
Director of Labor Contract Administration.  
19 years service.

**Terry Vais**

Vice President – Customer Care  
Previously LAX Hub Director for SkyWest  
Airlines. 22 years service.

**Cathy Harris**

Vice President – People  
Previously Senior Director of Human Resources,  
Senior Director of Strategic Development and  
Operational Planning.  
10 years service.

### BOARD OF DIRECTORS

**Jerry C. Atkin**

Chairman of the Board of Directors  
Elected Chairman 1991  
Chief Executive Officer of SkyWest, Inc.  
Member of the Board since 1974.

**J. Ralph Atkin**

Attorney-at-Law  
Founder of SkyWest, Inc.  
Member Safety & Compliance Committee  
Member of the Board since 1972.

**Steven F. Udvar-Hazy**

Chairman and CEO Air Lease Corporation  
Board Lead Director  
Chairman Nominating & Corp Governance  
Member Compensation Committee  
Member Safety & Compliance Committee  
Member of the Board since 1986.

**Ian M. Cumming**

Chairman Leucadia National Corporation  
Member Nominating and Corp Governance  
Member Audit & Finance Committee  
Member of the Board since 2000.  
Resigned from Board of Directors February 13,  
2013.

### BOARD OF DIRECTORS CONTINUED

**Robert G. Sarver**

Chairman and Chief Executive Officer  
Western Alliance Bancorporation  
Member Audit & Finance Committee  
Member Nominating & Corp Governance  
Member of the Board since 2000.

**Henry J. Eyring**

Advancement VP  
Brigham Young University – Idaho.  
Chairman Compensation Committee  
Member Audit & Finance Committee  
Member of the Board since 1995.

**Margaret S. (Peg) Billson**

President and CEO BBA Aviation's Aftermarket Services  
Chairman Safety & Compliance Committee  
Member Compensation Committee  
Member Nominating & Corp Governance  
Member of the Board since 2006.

**James L. Welch**

CEO YRC Worldwide Inc.  
Member Audit & Finance Committee  
Member Nominating & Corp Governance  
Member Compensation Committee  
Member of the Board since 2007.

**W. Steve Albrecht**

Andersen Alumni Professor Brigham Young University  
Chairman Audit & Finance Committee  
Member Safety & Compliance Committee  
Member of Board since 2012  
(Also served from 2003-2009)

### CORPORATE INFORMATION

**Stock Information**

NASDAQ Stock Symbol: SKYW

**Registrar and Transfer Agent**

Zions First National Bank  
Stock Transfer Department  
PO Box 9088  
Salt Lake City, UT 84130

**Independent Public Accountants**

Ernst & Young LLP  
178 South Rio Grande Street, Suite 400  
Salt Lake City, UT 84101

**Corporate Headquarters**

SkyWest, Inc.  
444 South River Road  
St. George, UT 84790  
Tel: (435) 634-3000  
[inc.skywest.com](http://inc.skywest.com)

**SkyWest**  
AIRLINES®

**EXPRESSJET™**