SKYWEST INC
Form 10-K
February 18, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from to

Commission File 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 o No ý

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 o No ý

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 ý No o

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 ý No o

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. ý

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

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

The aggregate market value of the registrant's common stock held by non- affiliates (based upon the closing sale price of the registrant's common stock on The Nasdaq National Market) on June 30, 2014 was approximately $622,772,406.

As of February 6, 2015, there were 51,337,574 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 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report as specified.

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PART I

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

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

Cautionary Statement Concerning Forward-Looking Statements

Certain of the statements contained in this Report should be considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by words such as "may," "will," "expect," "intend," "anticipate," "believe," "estimate," "plan," "project," "could," "should," "hope," "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 3,600 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 Air Lines, Inc. ("Delta"), United Air Lines, Inc. ("United"), US Airways Group, Inc. ("US Airways"), American Airlines, Inc. ("American") or Alaska Airlines, Inc. ("Alaska"), respectively. SkyWest Airlines and ExpressJet generally provide regional flying to our partners under long-term, fixed-fee code-share agreements. Among other features of our fixed-fee agreements, our 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

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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 integration of the labor groups of Atlantic Southeast and ExpressJet Delaware into ExpressJet during 2015 and 2016.

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, 2014, our consolidated fleet consisted of a total of 749 aircraft, of which 425 were assigned to United, 239 were assigned to Delta, 29 were assigned to American, 15 were assigned to US Airways, nine were assigned to Alaska, two were subleased to unaffiliated entities and 30 were removed from service. 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 three different configurations the 50-seat Embraer ERJ-145 regional jet (the "ERJ145"), the 37-seat Embraer ERJ-135 regional jet (the "ERJ135"), and the 76-seat Embraer E-175 jet (the "E175"). We also operate the 30-seat Embraer Brasilia EMB- 120 turboprop (the "EMB120").

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*. 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 1,707 daily scheduled departures as of December 31, 2014, of which approximately 995 were United Express flights, 488 were Delta Connection flights, 84 were US Airways Express flights, 101 were American Eagle flights and 39 were Alaska-coded flights. SkyWest Airlines' operations are conducted principally from airports located in Chicago (O'Hare), Denver, Los Angeles, Houston, Minneapolis, Portland, Seattle, Phoenix, San Francisco and Salt Lake City. As of December 31, 2014, SkyWest Airlines operated a fleet of 362 aircraft consisting of the following:

	CRJ200	CRJ700	CRJ900	E175	EMB120	Total
United	82	70		20	21	193
Delta	54	19	32		6	111
American	16					16
US Airways	11		4			15
Alaska		9				9
Other**	2				16	18
Total	165	98	36	20	43	362

** Other aircraft includes aircraft transitioning between code-share partners, aircraft spares used for multiple code-share partners, leased aircraft removed from service that are in the process of being returned to the lessor and owned aircraft removed from service that are held for sale.

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In November 2014, SkyWest Airlines announced that it intends to remove all EMB120 aircraft type from service, which we anticipate will be completed by end of the second quarter of 2015. The removal was based on several factors including, management's assessment of the need for pilots to operate upcoming deliveries for the E175 aircraft, the incremental training cost to hire new pilots compared to retraining existing EMB120 pilots to operate CRJ or E175 aircraft and the uncertainty related to the number of qualified pilots available for hire, combined with the overall age and the increased operating costs of the EMB120 fleet.

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

Major airline partner	Agreement
United	"SkyWest Airlines United Express Agreements" and "SkyWest Airlines United Express Pro-rate Agreement"
Delta	"SkyWest Airlines Delta Connection Agreement" and "SkyWest Airlines Delta Pro-rate Agreement"
American	"SkyWest Airlines American Agreement" and "SkyWest Airlines American Pro-rate Agreement"
US Airways	"SkyWest Airlines US Airways Agreement"
Alaska	"SkyWest Airlines Alaska Agreement"

A summary of the terms for each SkyWest Airlines code-share agreement with the respective major partner is provided under the heading "Code Share Agreements" below.

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 1,838 daily scheduled departures as of December 31, 2014, of which approximately 607 were Delta Connection flights, 1,138 were United Express flights and 93 were American Eagle flights. As of December 31, 2014, ExpressJet operated a fleet of 385 aircraft consisting of the following:

	CRJ200	ERJ145	ERJ135	CRJ700	CRJ900	Total
United	7	216	9			232
Delta	59			41	28	128
American	13					13
Other**	2	10				12
Total	81	226	9	41	28	385

** Other aircraft includes leased aircraft removed from service that are in the process of being returned to the lessor.

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

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

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A summary of the terms for each ExpressJet code-share agreement with the respective major partner is provided under the heading "Code Share Agreements" below.

Competition and Economic Conditions

The airline industry is highly competitive. SkyWest Airlines and ExpressJet compete principally with other code-sharing regional airlines, but also compete 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"); Envoy Air Inc. ("Envoy"), PSA Airlines, Inc. ("PSA") and Piedmont Airlines ("Piedmont") (Envoy, PSA and Piedmont are owned by American); Horizon Air Industries, Inc. ("Horizon") (owned by Alaska Air Group, Inc.); Mesa Air Group, Inc. ("Mesa"); Endeavor, Inc. ("Endeavor") (owned by Delta); Republic Airways Holdings Inc. ("Republic"); and Trans State Airlines, Inc. ("Trans State"). Major airlines award contract flying to these regional airlines based primarily upon the following criteria: low cost, financial resources, geographical infrastructure, overall customer service levels relating to on-time arrival and departure statistics, low rates of flight cancellation, baggage handling performance and the overall image of the regional airline.

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 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 combined operations of SkyWest Airlines and ExpressJet represent the largest regional airline operations in the United States. However, many 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 Endeavor, Envoy, PSA and Piedmont, 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 changes in 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. 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 materially reduce scheduled flights in order to reduce their costs. In addition, adverse weather conditions can negatively impact our operations and financial condition.

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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 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") and JetBlue Airways Corporation ("JetBlue"), 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, Endeavor, Trans State and Republic, typically operate smaller aircraft on lower-volume routes than major and low-cost carriers. Several regional airlines, including Envoy, PSA, Piedmont 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 passenger ticket revenues, termed "pro-rate" or "revenue-sharing" flights as described in more detail below.

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 primarily operates as United Express out of Chicago (O'Hare), Denver, Houston, Los Angeles and San Francisco; as Delta Connection out of Salt Lake City, Detroit and Minneapolis; as an Alaska carrier out of Seattle and Portland; as a US Airways carrier out of Phoenix; and as American Eagle out of Los Angeles. ExpressJet operates primarily as Delta Connection out of Atlanta and Detroit; as United Express out of Chicago (O'Hare), Houston, Cleveland, Newark, Denver and Washington Dulles; and as American Eagle out of Dallas. 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 76 seats) flights between larger airports served by the major airline and surrounding cities, usually in lower-volume markets. The financial arrangements between the regional airlines and their code-share partners usually involve 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 (referenced in this report as a "fixed-fee arrangement," "contract flying" or a "capacity purchase agreement"), the major airline generally pays the regional airline a fixed-fee for each departure, flight or block time incurred, and an amount per aircraft in service each month with additional incentives based on completion of

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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 some 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 (including ancillary revenue programs), passenger loads or fuel prices because the major airlines absorb most of these costs associated with the regional airline flight, and 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 (referenced in this report as a "revenue-sharing" arrangement or "pro-rate" arrangement), the major airline and regional airline negotiate a passenger fare proration formula, pursuant to which the regional airline receives a percentage of the ticket revenues for those passengers traveling for one portion of their trip on the regional airline and the other portion of their trip on the major airline. Substantially all costs associated with the regional airline flight are borne by the regional airline. In such a revenue-sharing arrangement, the regional airline realizes increased profits as ticket prices and passenger loads increase or fuel prices decrease and, correspondingly, the regional airline realizes decreased profits as ticket prices and passenger loads decrease or fuel prices increase.

Code-Share Agreements

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

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, 2014, approximately 88.2% of our passenger revenues related to fixed-fee contract flights, where Delta, United, Alaska, American and US Airways controlled scheduling, ticketing, pricing and seat inventories. The remainder of our passenger revenues during the year ended December 31, 2014 related to pro-rate flights for Delta, United or American, where we controlled scheduling, ticketing, pricing and seat inventories, and shared revenues with Delta, United or American according to pro-rate formulas. The following summaries of our code-share agreements do not purport to be complete and are qualified in their entirety by reference to the applicable agreement. The number of aircraft under our fixed-fee arrangements and our pro-rate arrangements as of December 31, 2014 is reflected in the summary below.

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Delta Connection Agreements

Agreement	Number of aircraft under contract	Term / Termination Dates	Pass-through costs or costs paid directly by major partner	Performance Incentive Structure	Payment Structure
SkyWest Airlines Delta Connection Agreement (fixed-fee arrangement)	CRJ 200 44	The contract expires on an individual aircraft basis with expirations commencing in 2015	Fuel	No performance-based financial incentives	Rate per block hour, per departure and per aircraft under contract
	CRJ 700 19		Engine Maintenance		
	CRJ 900 32	The final aircraft expires in 2022	Landing fees, Station Rents, De-ice		
		The average remaining term of the aircraft under contract is 4.8 years	Insurance		
		Upon expiration, aircraft may be renewed or extended			
ExpressJet Delta Connection Agreement (fixed-fee arrangement)	CRJ 200 59	The contract expires on an individual aircraft basis with expirations commencing in 2015	Fuel	Performance-based financial incentives	Rate per block hour, per departure and per aircraft under contract
	CRJ 700 41		Engine Maintenance		
	CRJ 900 28	The final aircraft expires in 2022	Landing fees, Station Rents, De-ice Insurance		
		The average remaining term of the aircraft under contract is 4.1 years			
		Upon expiration, aircraft may be renewed or extended			
SkyWest Airlines Pro-rate Agreement (revenue-sharing agreement)	EMB 120 6	Terminates with 30-day notice	None	None	Pro-rata sharing of the passenger fare revenue

CRJ 200	10

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United Express Agreements

Agreement	Number of aircraft under contract	Term / Termination Dates	Pass-through costs or costs paid directly by major partner	Performance Incentive Structure	Payment Structure
SkyWest Airlines United Express Agreements (fixed-fee arrangement)	CRJ 200 61	The contract expires on an individual aircraft basis with expirations commencing in 2015	Fuel	Performance based incentives	Rate per block hour, per departure and per aircraft under contract
	CRJ 700 70		Landing fees, Station Rents, De-ice		
	E175 20	The final aircraft expires in 2026	Insurance		
	EMB 120 9	The average remaining term of the aircraft under contract is 3.4 years			
		Upon expiration, aircraft may be renewed or extended			
ExpressJet United ERJ Agreement (fixed-fee arrangement)	ERJ 135 9	The contract expires on an individual aircraft basis with expirations commencing in 2015	Fuel	Performance based incentives or penalties	Rate per block hour, per departure and per aircraft under contract
	ERJ 145 216		Engine Maintenance		
		The final aircraft expires in 2017	Landing fees, Station Rents, De-ice		
		The average remaining term of the aircraft under contract is 1.9 years	Insurance		
		Upon expiration, aircraft may be renewed or extended			
ExpressJet United CRJ Agreement (fixed-fee arrangement)	CRJ 200 7	The contract expires on an individual basis	Fuel	Performance based incentives	Rate per block hour, per departure and per

			with final aircraft terminating in March 2015	Landing fees, Station Rents, Deice		aircraft under contract
			Upon termination, leased aircraft are expected to be returned to lessors	Insurance		
SkyWest Airlines United Express Pro-rate Agreement (revenue-sharing arrangement)	CRJ 200	21	Terminates with 120-day notice	None	None	Pro-rata sharing of the passenger fare revenue
	EMB 120	12				

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Alaska Capacity Purchase Agreement

Agreement	Number of aircraft under contract		Term / Termination Dates	Pass-through costs or costs paid directly by major partner	Incentive Structure	Payment Structure
SkyWest Airlines Alaska Agreement (fixed-fee arrangement)	CRJ 700	9	Terminates 2018	Fuel	Performance based incentives	Rate per block hour, per departure and per aircraft under contract
			Upon expiration, aircraft may be renewed or extended	Landing fees, Station Rents, De-ice		
				Insurance		

US Airways Agreements

Agreement	Number of aircraft under contract		Term / Termination Dates	Pass-through costs or costs paid directly by major partner	Incentive Structure	Payment Structure
SkyWest Airlines US Airways Agreement (fixed-fee arrangement)	CRJ 200	10	Terminates 2015	Fuel	Performance based incentives	Rate per block hour, per departure and per aircraft under contract
	CRJ 900	4	Upon expiration, aircraft may be renewed or extended	Landing fees, Station Rents, De-ice		
				Insurance		
SkyWest Airlines US Airways Pro-rate Agreement (revenue-sharing agreement)	CRJ 200	1	Terminates with 120-day notice	None	None	Pro-rata sharing of the passenger fare revenue

American Agreements

Agreement	Number of aircraft under contract		Term / Termination Dates	Pass-through costs or costs paid directly by major partner	Incentive Structure	Payment Structure
SkyWest Airlines American Agreement (fixed-fee agreement)	CRJ 200	12	Terminates 2016	Fuel	Performance based incentives	Rate per block hour, per departure and per aircraft under contract
			Upon expiration, aircraft may be renewed or extended	Landing fees, Station Rents, De-ice		
				Insurance		

SkyWest Airlines American Pro-rate Agreement (revenue-sharing agreement)	CRJ 200	4	Terminates with 120-day notice	None	None	Pro-rata sharing of the passenger fare revenue
ExpressJet American Agreement (fixed-fee agreement)	CRJ 200	11	Terminates 2017	Fuel	Performance based incentives	Rate per block hour, per departure and per aircraft under contract
			Upon expiration, aircraft may be renewed or extended	Landing fees, Station Rents, De-ice		
				Insurance		
ExpressJet American Pro-rate Agreement (revenue-sharing agreement)	CRJ 200	2	Terminates with 120-day notice	None	None	Pro-rata sharing of the passenger fare revenue

SkyWest Airlines and ExpressJet 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 SkyWest Airlines and ExpressJet Delta Connection Agreements contain multi-year rate reset provisions that became operative in 2010 and reset each fifth year thereafter. The Delta Connection Agreements also provide that, beginning with the fifth anniversary of the execution of the agreements (September 8,

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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. SkyWest Airlines and ExpressJet have agreed with Delta on contractual rates that are effective through December 31, 2015.

The SkyWest Airlines Delta Connection Agreement is scheduled to terminate on December 31, 2022, subject to certain Delta extension rights. 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).

The ExpressJet Delta Connection Agreement is scheduled to terminate on December 31, 2022, subject to certain Delta extension rights. 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).

SkyWest Airlines United Express Agreements

SkyWest Airlines and United are parties to two United Express agreements: a United Express agreement initially executed between SkyWest Airlines and United to operate certain CRJ200s, CRJ700s and EMB120s dated July 31, 2003, and a United Express agreement to operate 40 new E175 aircraft (collectively, the "SkyWest Airlines United ExpressJet Agreements"). Under the E175 agreement, SkyWest Airlines began service in May 2014 and 20 E175 aircraft had been delivered

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as of December 31, 2014. We anticipate deliveries of the remaining E175 aircraft will continue through 2015. The E175 agreement has a 12-year term for each of the aircraft subject to the agreement.

The SkyWest Airlines United Express Agreements have a latest scheduled termination date in 2026. The SkyWest Airlines United Express Agreements are subject to early termination in various circumstances including:

- if SkyWest Airlines or United fails to fulfill an obligation under the SkyWest Airlines United Express Agreements 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; 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 United ERJ Agreement

Effective November 12, 2010, ExpressJet Delaware and Continental entered into the ExpressJet United ERJ Agreement, whereby ExpressJet Delaware agreed to provide regional airline service in the Continental flight system. The rights and obligations of ExpressJet Delaware under the ExpressJet United ERJ Agreement became the rights and obligations of ExpressJet as a consequence of the ExpressJet Combination. The rights and obligations of Continental under the ExpressJet United ERJ Agreement became the rights and obligations of United as a consequence of United's merger with Continental in 2010. The ExpressJet United ERJ Agreement was amended and restated on November 7, 2014, which among other modifications, reduced the term of the agreement.

The ExpressJet United ERJ Agreement terminates in December 2017, subject to early termination by United or ExpressJet upon the occurrence of certain events. United's termination rights include the right to terminate the ExpressJet United ERJ Agreement 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 ExpressJet United ERJ Agreement (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 ExpressJet United ERJ Agreement if United fails to make payment of $500,000 or more due to ExpressJet under the ExpressJet United ERJ Agreement and such failure is not cured within five business days following receipt of notice. Additionally, effective January 1, 2018, United has the right to extend the term for a 12-month period for a certain number of aircraft upon 180 days written notice. United also has the right to extend the term for a second 12-month period for a certain number of aircraft upon 180 days written notice.

Under the terms of the ExpressJet United ERJ Agreement, ExpressJet operates 216 ERJ145s and nine ERJ135s in the United flight system. All of such ERJ145s and ERJ 135s are leased to ExpressJet by United pursuant to sublease or lease agreements. Upon the expiration of the ExpressJet United ERJ Agreement, ExpressJet is obligated to return the subleased or leased aircraft to United. As of December 31, 2014, ExpressJet had removed ten ERJ145s from service and was in the process of returning such aircraft to United. During the 2015 calendar year, ExpressJet anticipates removing 59 ERJ145s and nine ERJ135s from contract and intends to return the aircraft to United under the aircraft lease agreement.

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ExpressJet United CRJ Agreement

ExpressJet and United are parties to the ExpressJet United CRJ Agreement dated February 10, 2010. As of December 31, 2014, ExpressJet operated seven CRJ200s under the United Express CRJ Agreement. The ExpressJet United CRJ Agreement terminates in March 2015.

SkyWest Airlines American Agreement

On September 11, 2012, SkyWest Airlines and American entered into the SkyWest Airlines American Agreement. The SkyWest Airlines American Agreement is scheduled to terminate in 2016 and 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. 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 Agreement

On April 13, 2011, SkyWest Airlines and Alaska entered into the SkyWest Airlines Alaska Capacity Purchase Agreement. The SkyWest Airlines Alaska Capacity Purchase Agreement is scheduled to terminate in 2018. In November 2014, SkyWest and Alaska reached an agreement under a 12-year fixed-fee arrangement for SkyWest to operate seven new E175 aircraft for Alaska, beginning in mid-2015. 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.

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SkyWest Airlines US Airways Agreement

On November 17, 2011, SkyWest Airlines and US Airways entered into the SkyWest Airlines US Airways Agreement. Additionally, as of December 31, 2014, SkyWest Airlines operated one CRJ200 under a revenue-sharing arrangement.

The SkyWest Airlines US Airways Agreement is scheduled to terminate in 2015. The SkyWest Airlines US Airways 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 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.

Segment Financial Information

See Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in Item 7 of this Report, and Note 2 to our Consolidated Financial Statements for the fiscal year ended December 31, 2014, included in Item 8 of this Report, for financial information regarding our business segments.

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 fixed-fee agreements with Delta, United, American, Alaska and US Airways provide for fuel used in the performance of those agreements to be reimbursed by our major partners, thereby reducing our exposure to fuel price fluctuations. During the year ended December 31, 2014, 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 our lack of adequate fuel supplies in the future, could have a material adverse effect on our business, financial condition, results of operations or liquidity.

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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. The U.S. 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, 2014, we had approximately 18,500 full-time equivalent employees. Approximately 45.1% 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.

Employee Group	Approximate Number of Active Employees Represented	Representatives	Status of Agreement
Atlantic Southeast Pilots	1,631	Air Line Pilots Association International	Amendable
Atlantic Southeast Flight Attendants	1,132	International Association of Machinists and Aerospace Workers	Amendable
Atlantic Southeast Flight Controllers	53	Transport Workers Union of America	Amendable
Atlantic Southeast Mechanics	554	International Brotherhood of Teamsters	Amendable
Atlantic Southeast Stock Clerks	60	International Brotherhood of Teamsters	Amendable
ExpressJet Delaware Pilots	2,577	Air Line Pilots Association International	Amendable
ExpressJet Delaware Flight Attendants	1,210	International Association of Machinists and Aerospace Workers	Amendable
ExpressJet Delaware Mechanics	942	International Brotherhood of Teamsters	Amendable
ExpressJet Delaware Dispatchers	81	Transport Workers Union of America	Amendable
ExpressJet Delaware Stock Clerks	97	International Brotherhood of Teamsters	Amendable

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The successful combination 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 employee groups of Atlantic Southeast and ExpressJet Delaware and on maintaining productive employee relations. During December 2013 and January 2014, the Airline Pilots Association International ("ALPA"), which represents the Atlantic Southeast pilot and ExpressJet Delaware pilot groups, conducted a vote of the two employee groups, seeking approval of a joint collective bargaining agreement that ExpressJet had negotiated with ALPA representatives. The two employee groups rejected the joint collective bargaining agreement, which resulted in the agreements with those employee groups remaining amendable as indicated in the foregoing table. The decision of those employee groups to reject the joint collective bargaining agreement has precluded us from realizing some of the savings we had hoped to achieve through the ExpressJet Combination. ExpressJet intends to resume negotiations with ALPA in an effort to negotiate an acceptable agreement.

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, 2014, SkyWest and SkyWest Airlines collectively employed 9,642 full-time equivalent employees, consisting of 6,209 pilots and flight attendants, 1,743 customer service personnel, 1,497 mechanics and other maintenance personnel, and 193 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 in compliance in all material respects 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. 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 authorities, 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 can result in cancelled flights, principally during the winter months. Additionally, a significant portion of our fixed-fee arrangements is based on completing flights. We generally experience a significantly higher number of weather cancellations during the winter months, which negatively impacts our revenue during such months.

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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

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. Under our fixed-fee arrangements, our code-share partner directly reimburses us for certain costs we incur, as defined as "pass-through" costs. With respect to other costs we incur, our code-share partner is obligated to pay to us amounts based, in part, on pre-determined rates typically applied to production statistics (such as departures or block/flight time). During the year ended December 31, 2014, approximately 18% of our code-share operating costs were pass-through costs and approximately 82% of our code-share operating costs were reimbursable at pre-determined rates. These pre-determined rates may not equal the actual expenses we incur in delivering the associated services. There can be no assurance that the pre-determined rates contemplated by our code-share agreements will be higher than the costs SkyWest Airlines and ExpressJet will incur to provide the services required under their respective agreements. Labor and labor-related expenses, including crew training, and certain maintenance expenses are significant expenses intended to be covered by the pre-determined rates under our fixed-fee arrangements. If the amount we earn from our pre-determined rates under our fixed-fee arrangements is less than our operating costs (excluding pass-through costs), our financial position and operating results will be negatively affected.

We have aircraft lease and debt commitments that extend beyond our existing fixed-fee contractual term on certain aircraft.

Under our fixed-fee arrangements with Delta, United and US Airways, we have a total of 66 CRJ700s and CRJ900s with flying contract expirations ranging from mid-2015 to the end of 2016. Our underlying lease or debt financing obligation associated with each of these aircraft are scheduled to terminate between 2018 and 2024 on an aircraft-by-aircraft basis. We may not be successful in extending the flying contract term on these aircraft with our major partner at acceptable economic terms. In the event we are unsuccessful in extending the flying contract terms on these aircraft, we will pursue alternative uses for the aircraft over the remaining aircraft financing term including, but not limited to, operating the aircraft with another major carrier under a negotiated code-share agreement, subleasing the aircraft to another operator, and/or marketing the debt financed aircraft for sale. In the event we are unable to extend the flying contract terms at similar or improved economics for these aircraft at each respective contract's expiration, or if we pursue alternative uses for these aircraft that result in reduced economics than our current flying contracts, our financial results could be adversely affected.

The supply of pilots to the airline industry may be limited.

On July 8, 2013, as directed by the U.S. Congress, the FAA issued more robust pilot qualification and crew member flight training standards. With the issuance of the new standards, the supply of qualified pilot candidates eligible for hiring by the airline industry has been dramatically reduced. If we

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are unable to secure the services of sufficient eligible pilots to staff our routes, our operations and financial results could be materially and adversely affected.

New student pilot certificates have decreased dramatically, especially in the past three years, and the pool of eligible pilots qualified to be new hires into the airline industry has been declining significantly. In addition, the major network air carriers have done only minimal pilot hiring in the past several years because of industry capacity reductions and the increase in statutory mandatory retirement age for pilots from age 60 to age 65. Also effective January 2014, mandatory pilot retirement rules began again to force major network carriers to hire replacement pilots.

The current pilot shortage may increase training costs and we may not have enough pilots to conduct our operations. Our projections of available pilots may impact our fleet planning decisions, including the removal of which could negatively impact our operations and financial results. Additionally, the lack of qualified pilots to conduct our operations would negatively impact our operations and financial condition.

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, 2014, our salary, wage and benefit costs constituted approximately 39.2% 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 45.1% 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 action 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.

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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 and our financial performance.

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 employee groups and the relative seniority of the employee 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 intends to 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.

During December 2013 and January 2014, ALPA, which represents the Atlantic Southeast pilot and ExpressJet Delaware pilot groups, conducted a vote of the two employee groups, seeking approval of a joint collective bargaining agreement that ExpressJet had negotiated with ALPA representatives. The two employee groups rejected the joint collective bargaining agreement, which resulted in the agreements with those employee groups remaining amendable. The decision of those employee groups to reject the joint collective bargaining agreement will preclude us from realizing some of the savings we had hoped to achieve through the ExpressJet Combination. All of ExpressJet's union labor contracts are currently amendable.

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 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.

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

The Airline Safety and Pilot Training Improvement Act of 2009 (the "Improvement Act") became effective in August 2013. The Improvement Act added new certification requirements for entry-level commercial pilots, requires additional emergency training for airline personnel, improves availability of pilot records and mandates stricter rules to minimize pilot fatigue.

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The Improvement Act also:

- Requires that all airline pilots obtain an Airline Transport Pilot license, which was previously only required for captains.
- Obligates the FAA to maintain a 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 Improvement Act (and associated regulations) has increased our compliance and FAA reporting obligations, has had a negative effect on pilot scheduling, work hours and the number of pilots required to be employed for our operations or other aspects of our operations, and may continue to negatively impact our operations and financial condition.

We are highly dependent on Delta and United.

As of December 31, 2014, we had 664 aircraft out of our total 749 aircraft operating under a fixed-fee arrangement or a revenue-sharing agreement with either Delta or United. If 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 either 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 to which we or either of our operating subsidiaries is a party), 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

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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 to maintain 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 obtain alternative 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.

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 12.9 years, 12.7 years, 9.6 years and 7.1 years respectively. All of the parts on these aircraft 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. If our maintenance costs increase at a higher rate than amounts we can recover in revenue, we will experience 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, 2014 approximately 93.0% 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 any 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,

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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.

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.

Long-term 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, and we may be subject to additional disputes and litigation in the future. Those disagreements have also required a significant amount of management time, financial resources and settlement negotiations of disputed matters.

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, settlement negotiations 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, 2014, we had a total of approximately $1.7 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, 2014, we had 554 aircraft under lease, with remaining terms ranging up to 11 years. Future minimum lease payments due under all long-term operating leases were approximately $1.5 billion at December 31, 2014. At a 4.8% discount factor, the present value of these lease obligations was equal to approximately $1.3 billion at December 31, 2014. 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 anticipated fleet replacement would require a significant increase in our leverage and the related cash requirements.

We currently have 246 CRJ200s with an average life of 12.9 years, 226 ERJ145s with an average life of 12.7 years and 43 EMB120s with an average life of 17.3 years. We have announced our intention to remove all of our EMB120s from service before the end of the second quarter of 2015, and we anticipate that over the next several years, we will continue to replace the CRJ200s and ERJ145s with larger regional jets or turboprops. Our fleet replacement strategy, if undertaken as we currently anticipate, will require significant amounts of capital to acquire these larger 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

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required debt service payments related to our existing or anticipated future 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.

Additional growth opportunities within the Delta and United flight systems are limited by various factors. Except as 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 competitive 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.

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

In 2014, the Ebola virus outbreak in West Africa caused general public concerns for passenger air travel. In recent years, outbreaks of the H1N1 flu virus and of Severe Acute Respiratory Syndrome ("SARS") had an adverse impact on travel behavior. Any outbreak of a disease (including a worsening of the outbreak of the Ebola 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.

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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, security closures 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.

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 could be adversely affected by significant disruptions in the supply of fuel or by high fuel prices.

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 high fuel prices for a significant period of time, would have a material adverse impact on us.

Pursuant to our fixed-fee arrangements, our major partners have agreed to bear the economic risk of fuel price fluctuations on our contracted flights. However, we bear the economic risk of fuel price fluctuations on our pro-rate operations. As of December 31, 2014, essentially all of our EMB120s flown for Delta were flown under pro-rate arrangements, while approximately 57% of our EMB120s flown in the United system were flown under pro-rate arrangements. As of December 31, 2014, we operated 21 CRJ200s under a pro-rate agreement with United. We also operate ten CRJ200s under a pro-rate agreement with Delta, one CRJ200 under a pro-rate arrangement with US Airways and 6 CRJ200s under a pro-rate agreement with American. 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.

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. Historically, 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 a general 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 100 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 the majority of our fixed-fee 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 $2.7 million, or 3.9%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. 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 $0.4 million, or 11.0% during the year ended December 31, 2014, compared to the year ended December 31, 2013. Interest income is not a component of our contractual arrangements 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.

If we have a failure in our technology or if we have security breaches of our information technology infrastructure, our business and financial condition may be adversely affected.

The performance and reliability of our technology are critical to our ability to compete effectively. Any internal technological error or failure or large-scale external interruption in the technological 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 ability to conduct our business and result in increased costs. Our technological 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.

In addition, as a part of our ordinary business operations, we collect and store sensitive data, including personal information of our passengers and employees and information of our business partners. Our information systems are subject to an increasing threat of continually evolving cybersecurity risks. Unauthorized parties may attempt to gain access to our systems or information through fraud or other means of deception. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving, and may be difficult to anticipate or to detect for long periods of time. We may not be able to prevent all data security breaches or misuse of data. The compromise of our technology systems resulting in the loss, disclosure, misappropriation of, or access to, customers', employees' or business partners' information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disruption to our operations and damage to our reputation, any or all of which could adversely affect our business and financial condition.

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-person 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

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regional carriers 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 likely continue to affect, the operations and financial condition of participants in the industry, including us, major carriers (including our major partners), low-cost carriers, competitors and aircraft manufacturers. These industry developments raise substantial risks and uncertainties, which will likely 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 and JetBlue 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, including the merger between American and US Airways in 2013, United and Continental in 2010, Delta and Northwest Airlines, Inc. in 2008, as well as the merger of Southwest and AirTran Airways, Inc. ("AirTran") in 2011. 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. If additional terrorist attacks are launched against the airline industry, there will be lasting consequences of the attacks, which may include loss of life, property damage, 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.

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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 involving our aircraft 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, 2014, we had 51,186,025 shares outstanding. In addition, as of December 31, 2014, we had equity-based incentive plans under which 4,080,423 shares are reserved for issuance and an employee stock purchase plan under which 1,260,759 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.

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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.

The amount of common stock we repurchase may decrease from historical levels, or we may not repurchase any additional shares of common stock.

Historically, we have repurchased shares of our common stock in varying amounts. Our future repurchases of shares of common stock, if any, and the number of shares of common stock we may repurchase will depend upon our financial condition, 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 repurchasing shares of common stock or that we will have the financial resources to repurchase shares of common stock in the future.

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, 2014, our fleet consisted of the following types of owned and leased aircraft:

Aircraft Type	Number of Owned Aircraft	Number of Leased Aircraft	Passenger Capacity	Scheduled Flight Range (miles)	Average Cruising Speed (mph)	Average Age (years)
CRJ200s	94	154	50	1,500	530	12.9
CRJ700s	70	69	70	1,600	530	9.6
CRJ900s	11	53	90	1,500	530	7.1
E175s	20		76	2,100	530	0.4
ERJ145s		226	50	1,500	530	12.7
ERJ135s		9	37	1,500	530	13.6
EMB120s	18	25	30	300	300	17.3

The following table outlines the currently anticipated size and composition of our combined fleet for the periods indicated. The projected fleet size schedule below assumes aircraft financed under

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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.

	As of December 31,			
	2015	**2016**	**2017**	**2018**
Additional aircraft deliveries				
E175	25	2		

	As of December 31,			
	2015	**2016**	**2017**	**2018**
Anticipated fleet size				
Total Bombardier Regional Jets	414	390	342	307
Total Embraer Regional Jets	225	199	47	47
Total Combined Fleet	639	589	389	354

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 (2,100 miles for the E175 aircraft); 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 EMB120s are 30-seat, pressurized aircraft designed to operate more economically over short-haul routes than larger jet aircraft. In November 2014, SkyWest Airlines announced that it intends to remove all EMB120 aircraft from service, which we anticipate completing by the end of the second quarter of 2015.

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 leases a 221,000 square foot facility at the Salt Lake International Airport. This facility consists of a 98,000 square-foot aircraft maintenance hangar and a 123,000 square-foot training and office facility. SkyWest Airlines is leasing the facility from the Salt lake City Department of Airports under a lease that expires in 2028.

SkyWest Airlines owns a 55,000 square-foot maintenance accessory shop (which includes 5,000 square-foot office space) and a 5,000 square-foot training facility in Salt Lake City, Utah.

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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 owns a 57,000 square-foot maintenance facility and an 18,000 square-foot office facility in Chicago, Illinois. The City of Chicago possesses the right to acquire ownership rights of the facility in 2017.

SkyWest Airlines owns a 57,000 square foot aircraft maintenance facility in Palm Springs, California.

SkyWest Airlines owns a 55,000 square-foot hangar and a 46,000 square-foot office facility in Colorado Springs, Colorado.

SkyWest Airlines leases a 42,000 square-foot maintenance hangar facility in South Bend, Indiana.

SkyWest Airlines leases a 41,000 square-foot hangar and office facility in Milwaukee, Wisconsin.

SkyWest Airlines leases a 32,000 square-foot hangar and office facility in Nashville, Tennessee.

SkyWest Airlines is currently constructing a maintenance facility in Boise, Idaho. The facility is designed to include a 94,000 square-foot hangar and a 32,000 square-foot office facility and is expected to be completed by September 2015. SkyWest Airlines is temporarily leasing a 15,000 square-foot hangar and office facility in Boise, Idaho.

ExpressJet Facilities

ExpressJet leases an aircraft hangar complex consisting of 203,000 square feet of building space at the Hartsfield-Jackson Atlanta Airport. 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 17,000 square feet of warehouse space is leased on a month-to-month basis.

ExpressJet leases 24 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 380,000 square-foot hangar and office support facility in Houston, Texas. The lease agreement is scheduled to expire on December 31, 2015.

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 subleases a 91,000 square-foot aircraft maintenance facility in Cleveland, Ohio. The lease agreement is scheduled to expire on January 30, 2015.

ExpressJet leases an 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

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November 30, 2020, and the lease for the shop facility is scheduled to expire on October 31, 2017.

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 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 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 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 a 32,000 square-foot aircraft maintenance facility in Richmond, Virginia. The lease agreement is scheduled to expire on October 31, 2016.

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 2018.

ExpressJet leases a 27,000 square-foot aircraft maintenance hangar in Kansas City, Missouri. The lease agreement is scheduled to expire on November 30, 2016.

ExpressJet subleases 12,000 square-feet of hangar space in Detroit, Michigan. The term of the sublease agreement is on a rolling 90-day basis.

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, 2014, our management believed, after consultation with legal counsel, that the ultimate outcome of such legal matters was not likely to have a material adverse effect on our financial position, liquidity or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

The disclosure required by this item is not applicable.

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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 6, 2015, there were approximately 875 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.

	2014		2013	
Quarter	**High**	**Low**	**High**	**Low**
First	$ 14.98	$ 11.77	$ 16.10	$ 12.32
Second	13.72	11.21	16.11	13.19
Third	12.66	7.78	15.54	12.39
Fourth	13.28	7.07	17.05	13.57

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

Dividends

During 2014 and 2013, 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, 2014.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders(1)	2,888,074	$ 16.46	5,341,182

(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, 2014, included in Item 8 of this Report, for additional information regarding these plans.

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, 2014, 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

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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

INDEXED RETURNS

Company Name / Index	Base Period Dec09	Years Ending Dec10	Dec11	Dec12	Dec13	Dec14
SkyWest, Inc.	**100**	93.38	76.15	76.40	91.96	83.81
NASDAQ Composite	**100**	118.02	117.04	137.47	192.62	221.02
Peer Group	**100**	118.68	84.52	107.57	200.73	374.64

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.; American Airlines Group, Inc.; Delta Air Lines, Inc.; Hawaiian Holdings, Inc.; JetBlue Airways Corp.; Republic Airways, Holdings Inc.; SkyWest, Inc.; Southwest Airlines Co.; Spirit Airlines Inc.; United Continental Holdings Inc.; and Virgin America, Inc.

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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,				
	2014	2013	2012	2011	2010(2)
Operating revenues	$ 3,237,447	$ 3,297,725	$ 3,534,372	$ 3,654,923	$ 2,765,145
Operating income	24,848	153,111	165,987	41,105	201,826
Net income (loss)	(24,154)	58,956	51,157	(27,335)	96,350
Net income (loss) per common share:					
Basic	$ (0.47)	$ 1.14	$ 1.00	$ (0.52)	$ 1.73
Diluted	$ (0.47)	$ 1.12	$ 0.99	$ (0.52)	$ 1.70
Weighted average shares:					
Basic	51,237	51,688	51,090	52,201	55,610
Diluted	51,237	52,422	51,746	52,201	56,526
Total assets	$ 4,409,928	$ 4,233,219	$ 4,254,637	$ 4,281,908	$ 4,456,148
Current assets	1,291,003	1,464,437	1,434,040	1,280,464	1,379,203
Current liabilities	684,355	620,464	591,425	624,148	572,278
Long-term debt, net of current maturities	1,533,990	1,293,179	1,470,567	1,606,993	1,738,936
Stockholders' equity	1,400,346	1,434,939	1,387,175	1,334,261	1,420,923
Return (loss) on average equity(1)	(1.7)%	4.2%	3.8%	(2.0)%	6.9%
Cash dividends declared per common share	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.16

(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 results contain 50 days of additional revenue and expenses generated subsequent to the ExpressJet Merger.

Selected Operating Data

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Block hours	2,275,562	2,380,118	2,297,014	2,250,280	1,547,562
Departures	1,357,454	1,453,601	1,435,512	1,390,523	1,001,766
Passengers carried	58,962,010	60,581,948	58,803,690	55,836,271	40,411,089
Revenue passenger miles (000)	31,499,397	31,834,735	30,088,278	29,109,039	20,227,220
Available seat miles (000)	38,220,150	39,207,910	37,278,554	36,698,859	25,503,845
Revenue per available seat mile	8.5¢	8.4¢	9.5¢	10.0¢	10.8¢
Cost per available seat mile	8.6¢	8.2¢	9.2¢	10.1¢	10.4¢
Average passenger trip length	534	525	512	521	501
Number of operating aircraft at end of year	747	755	738	732	704

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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, 2014, 2013 and 2012. Also discussed is our financial position as of December 31, 2014 and 2013. 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, 2014, SkyWest Airlines and ExpressJet offered scheduled passenger and air freight service with approximately 3,600 total daily departures to destinations in the United States, Canada, Mexico and the Caribbean. As of December 31, 2014, we had a combined fleet of 749 aircraft consisting of the following:

	CRJ200	CRJ700	CRJ900	ERJ135	ERJ145	E175	EMB120	Total
United	89	70		9	216	20	21	425
Delta	113	60	60				6	239
American	29							29
US Airways	11		4					15
Alaska		9						9
Subleased to an un-affiliated entity	2							2
Other	4				10		16	30
Total	248	139	64	9	226	20	43	749

For the year ended December 31, 2014, approximately 61.4% of our aggregate capacity was operated for United, approximately 31.6% was operated for Delta, approximately 3.2% was operated for American, approximately 2.1% was operated for Alaska and approximately 1.7% was operated for US Airways.

Under our fixed-fee arrangements, three compensation components have a significant impact on comparability of revenue and operating expense for the periods presented in this Report. The first item is the reimbursement of fuel expense, which is a directly-reimbursed expense under all of our fixed-fee arrangements. If we purchase fuel directly from vendors, our major partners 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 during a particular period will impact our fuel expense and our passenger revenue during the period equally, with no impact on our operating income. Over the past few years, some of our major airline partners have purchased an increased volume of fuel directly from vendors on flights we operated under our fixed-fee contracts, which has decreased both revenue and operating expenses compared to previous periods presented in this Report.

The second item is the reimbursement of landing fees and station rents, which is a directly-reimbursed expense under all of our fixed-fee arrangements. Our major partners reimburse us for landing fees and station rent expense incurred under each respective fixed-fee contract, and we record such reimbursement as passenger revenue. Over the past few years, some of our major airline partners have paid an increased volume of landing fees and station rents directly to our vendors on flights we operated under our flying contracts, which has also decreased both revenue and operating expenses compared to previous periods presented in this Report.

The third item is the compensation we receive for engine maintenance under our fixed-fee arrangements. Under our United CRJ and E175 contracts, American, US Airways and Alaska fixed-fee contracts, a portion of our compensation is based upon fixed hourly rates the aircraft is in operation, which is intended to cover various operating costs, including engine maintenance costs ("Fixed-Rate Engine Contracts"). Under the compensation structure for our Delta Connection and United ERJ145 flying contracts, our major partner reimburses us for engine maintenance expense when the expense is incurred as a pass-through cost ("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.

Because we recognize revenue at the same amount and in the same period 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 (a "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

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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.

Flying Contract	Compensation of Engine Expense	Expense Recognition
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 (E175)	Fixed-Rate Engine Contracts	Power by the Hour Agreement
SkyWest United Express (EMB120)	Fixed-Rate Engine Contracts	Deferral Method
ExpressJet United (CRJ200)	Fixed-Rate Engine Contracts	Direct Expense Method
ExpressJet United (ERJ145)	Directly-Reimbursed Engine Contracts	Power by the Hour Agreement
Alaska Agreement (CRJ700s)	Fixed-Rate Engine Contracts	Power by the Hour Agreement
SkyWest American Agreement (CRJ200)	Fixed-Rate Engine Contracts	Direct Expense Method
ExpressJet American Agreement (CRJ200)	Fixed-Rate Engine Contracts	Direct Expense Method
US Airways Agreement (CRJ200 / CRJ900)	Fixed-Rate Engine Contracts	Direct Expense Method

Historically, multiple contractual relationships with major airlines have enabled us to reduce our reliance on any single major airline code and to enhance and stabilize operating results through a mix of fixed-fee flying arrangements and our pro-rate flying arrangements. For the year ended December 31, 2014, contract flying revenue and pro-rate revenue represented approximately 88% and 12%, 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 total operating revenues of $3.2 billion for the year ended December 31, 2014, a 1.8% decrease, compared to total operating revenues of $3.3 billion for the year ended December 31, 2013. We had a net loss of $24.2 million, or $(0.47) per diluted share, for the year ended December 31, 2014, compared to $59.0 million, or $1.12 per diluted share, for the year ended December 31, 2013.

The significant items affecting our financial performance during the year ended December 31, 2014 are outlined below:

Revenue

Under our fixed-fee arrangements, certain expenses are subject to direct reimbursement from our major partners and we record such reimbursements as passenger revenue (referred to as pass through costs). These pass-through costs include fuel, landing fees, station rents and engine maintenance expenses under certain fixed-fee contracts. Excluding the pass-through expenses for fuel, landing fees and engine maintenance and the associated direct reimbursement from our major partners, our passenger revenues increased from $2,570 million for the year ended December 31, 2013 to $2,583 million for the year ended December 31, 2014, a $13 million increase. This increase during the 2014 year was primarily due to the addition of the E175 aircraft, certain contract renewals and modifications at improved rates and increased volume of departures on routes subject to government subsidies. Block hours incurred on completed flights is a significant driver of our revenue under our fixed-fee arrangements. During the three months ended March 31, 2014, we experienced unusual weather-related disruptions and cancelled approximately 15,800 more flights compared to the three months ended March 31, 2013, or a 144% increase in weather-cancelled flights. The decrease in block hour production from 2013 to 2014 was significantly concentrated in the ExpressJet ERJ145 aircraft type, which has a lower revenue per block hour than our other flying contracts, as the aircraft lease payments are paid directly by the major airline partner and we do not record revenue for expenses paid directly to vendors by our major partners.

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Operating Expenses and Other Income items

Salaries, wages and employee benefits increased $46.8 million, or 3.9%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The increase in salaries, wages and employee benefit expenses was primarily due to increased pilot costs associated with the implementation of the Airline Safety and Pilot Training Improvement Act of 2009 (the "Improvement Act"), which had a negative effect on pilot scheduling and work hours in 2014. We anticipate that the negative impact of compliance with the Improvement Act we experienced in 2014 will continue in future periods. The increase in salaries, wages and employee benefits was also due to additional hiring and training associated with the deliveries of our E175 aircraft, which we anticipate will continue into 2015.

During the year ended December 31, 2014, we recorded $74.8 million in special items that consisted primarily of impairment charges to write-down owned EMB120 aircraft and related long-lived assets to their estimated fair value, accrued obligations on the leased aircraft and related costs. The special item associated with the EMB120 aircraft was triggered by our decision to remove the EMB120 aircraft from service by the second quarter of 2015. The special item additionally consists of impairment charges to write-down certain ERJ145 long-lived assets to their estimated fair value and aircraft lease return and related costs. The special item associated with the ERJ145 aircraft was triggered by the execution of an amended and restated contract with United that accelerates the lease termination dates of certain ERJ145 aircraft and accelerated the termination date of the ExpressJet United ERJ Agreement to operate the ERJ145s from the year 2020 to 2017. The special item also includes the write-down of assets associated with the disposition of our paint facility located in Saltillo, Mexico, which was sold during the year ended December 31, 2014.

Other operating expenses, which primarily consist of property taxes, hull and liability insurance, crew simulator training and crew hotel costs, increased $24.5 million, or 10.2%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The increase in other expenses during the year ended December 31, 2014 was primarily due to an increase in crew lodging expenses resulting from our compliance with the Improvement Act.

We recorded a gain of $24.9 million in other income during the year ended December 31, 2014 related to the completion of the sale of our ownership interest in Trip Linhas Arereas S.A., a Brazilian regional airline ("TRIP").

Other Significant Developments in 2014

In May 2014, SkyWest Airlines inducted its first E175 aircraft into service pursuant to the SkyWest Airlines United Express Agreement. As of December 31, 2014, we had taken delivery of 20 E175 aircraft and we anticipate taking delivery of the remaining 20 E175 aircraft in 2015. The United Express Agreement has a 12-year term for each of the aircraft subject to the agreement, and other terms which are generally consistent with the SkyWest Airlines United Express Agreement.

In November 2014, SkyWest Airlines reached an agreement with Alaska to place seven E175 aircraft into service pursuant to the SkyWest Airlines Alaska Agreement. We anticipate taking deliveries of the seven aircraft between mid-2015 and the first quarter of 2016.

In November 2014, ExpressJet reached an agreement with American to operate 15 used ERJ145s. We anticipate the aircraft will be placed into service during the first half of 2015. We intend to lease the aircraft from American and we anticipate operating the aircraft through the end of 2016.

In November 2014, we made the decision to remove all EMB120 aircraft from service by the end of the second quarter of 2015. As of December 31, 2014, we owned 18 EMB120s and leased 25 EMB120 aircraft. We are actively marketing our owned EMB120 aircraft and our EMB120 aircraft spare parts inventory.

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In November 2014, ExpressJet executed an amended and restated contract with United that accelerates the lease termination dates of certain ERJ145 aircraft and accelerated the termination date of the ExpressJet United ERJ Agreement to operate the ERJ145s from the year 2020 to 2017. As of December 31, 2014, ExpressJet operated 216 ERJ145s and nine ERJ135s and had removed ten ERJ145s from contract, which are in the process of being returned to United. We anticipate ExpressJet will remove 59 ERJ145s and nine ERJ135s from United service during 2015 and will return the aircraft to United.

In December 2014, SkyWest Airlines reached an agreement with Delta to operate 12 additional used CRJ200 aircraft that SkyWest Airlines intends to lease from Delta. The aircraft deliveries started December 2014 and are scheduled to continue through the second quarter of 2015.

Critical Accounting Policies

Our significant accounting policies are summarized in Note 1 to our consolidated financial statements for the year ended December 31, 2014, 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 likely 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 each 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 EMB120 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, factoring lease termination dates on leased aircraft, whichever is shorter. In conjunction with our decision in November 2014 to remove the EMB120 aircraft from service by the end of the second quarter of 2015, the capitalized engine overhaul amounts were evaluated for impairment. See *Impairment of Long-Lived Assets* below. With respect to SkyWest

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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 the majority of ExpressJet's aircraft flying for Delta and American are primarily debt-financed on a long-term basis, and all of ExpressJet's ERJ145 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, 2014, we had approximately $3.0 billion of property and equipment and related assets. Additionally, as of December 31, 2014, we had approximately $12.7 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, 2014, we had recorded $21.0 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 type or contract level.

In November 2014, we made the decision to remove all EMB120 aircraft from service by the end of the second quarter of 2015. This decision resulted in an impairment review of our long-lived assets specific to the EMB120 aircraft, which included owned aircraft, capitalized engine overhaul assets, spare engines and other EMB120 specific long-lived assets. The impairment analysis required us to use judgment to estimate the fair value of our EMB120 long-lived assets. As the largest operator of the EMB120 aircraft in the United States, our decision to remove all our EMB120 aircraft from service by the end of the second quarter of 2015 may consequently have a negative impact on the fair value of our long-lived assets. The amounts we ultimately realize from the disposal of our EMB120 long-lived assets may vary from our December 31, 2014 fair value assessments.

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In November 2014, ExpressJet entered into an amended and restated ExpressJet United ERJ Agreement, which reduced the term of the agreement from the year 2020 to 2017 and accelerated the removal of ERJ145 aircraft from the contract between the years 2015 and 2017. As of December 31, 2014, all of ExpressJet's ERJ145 aircraft were operated pursuant to the ExpressJet United ERJ Agreement. The reduced term of the ExpressJet United ERJ Agreement shortened our anticipated use of ERJ145 specific long-lived assets and resulted in an impairment review for such aircraft type specific assets, which included capitalized aircraft improvements, spare engines and other ERJ145 long-lived assets. The impairment analysis required us to use judgment to estimate the fair value of our ERJ145 long-lived assets. The amounts we ultimately realize from the disposal of our ERJ145 long-lived assets may vary from our December 31, 2014 fair value assessments.

In conjunction with the acquisition of ExpressJet Delaware, we acquired an aircraft paint facility located in Saltillo, Mexico. During the three months ended September 30, 2014, we discontinued use of the facility and wrote down the value of the facility and related assets to its estimated fair value. During the three months ended December 31 2014, we sold the paint facility to a third party for an amount that approximated our estimated fair market value.

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.

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Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board issued ASU No. 2014-15. This standard provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. This ASU is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2016, with early adoption permitted. We are evaluating the new guidance and plan to provide additional information about its expected impact at a future date.

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period ("ASU 2014-12"). The FASB issued ASU 2014-12 to provide explicit guidance for share-based awards which allow for an employee's award to vest upon achievement of a performance condition met after completion of a requisite service period regardless of whether the employee is rendering service on the date the performance target is achieved. ASU 2014-12 provides that the performance target should not be reflected in estimating the grant-date fair value of the award, but rather compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and recognized prospectively over the remaining requisite service period. ASU 2014-12 is effective for fiscal years and interim periods within those years beginning after December 15, 2015. We do not believe the implementation of ASU 2014-12 will have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (ASU No. 2014-09). Under ASU No. 2014-09, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods, and early adoption is not permitted. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. Our management is currently evaluating the impact, the adoption of ASU No. 2014-09 will have on our consolidated financial statements.

In April 2014, the FASB issued Accounting Standards Update 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The standard changes the requirements for reporting discontinued operations in Subtopic 205-20. The standard is effective in the first quarter of 2015. We do not believe the implementation of the standard will have a material impact on our consolidated financial statements.

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Results of Operations

2014 Compared to 2013

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,		
	2014	2013	% Change
Revenue passenger miles (000)	31,499,397	31,834,735	(1.1)%
Available seat miles ("ASMs") (000)	38,220,150	39,207,910	(2.5)%
Block hours	2,275,562	2,380,118	(4.4)%
Departures	1,357,454	1,453,601	(6.6)%
Passengers carried	58,962,010	60,581,948	(2.7)%
Passenger load factor	82.4%	81.2%	1.2pts
Revenue per available seat mile	8.5¢	8.4¢	1.2%
Cost per available seat mile	8.6¢	8.2¢	4.9%
Fuel cost per available seat mile	0.5¢	0.5¢	0.0%
Average passenger trip length (miles)	534	525	1.7%

Revenues. Total operating revenues decreased $60.3 million, or 1.8%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. 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. These reimbursed expenses include fuel, landing fees, station rents and certain engine maintenance expenses. Our fuel expense, landing fees, station rents and directly-reimbursed engine expense decreased by $79.1 million during the year ended December 31, 2014, as compared to the year ended December 31, 2013, due primarily to (i) our major partners purchasing an increased volume of fuel, landing fees and station rents directly from vendors on flights we operated under our code-share agreements and (ii) a reduction in the number of engine maintenance events. The following table summarizes the amount of fuel, landing fees, station rents, de-ice and engine overhaul reimbursements included in our passenger revenues for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2014	2013	$ Change	% Change
Passenger revenues	$ 3,168,000	$ 3,239,525	$ (71,525)	(2.2)%
Less: Fuel reimbursement from major partners	76,675	91,925	(15,250)	(16.6)%
Less: Landing fee and station rent reimbursements from major partners	23,800	95,175	(71,375)	(75.0)%
Less: Engine overhaul reimbursement from major partners	130,505	123,024	7,481	6.1%
Passenger revenue excluding fuel, landing fee, station rent and engine overhaul reimbursements	$ 2,937,020	$ 2,929,401	$ 7,619	0.3%

Passenger revenues. Passenger revenues decreased $71.5 million, or 2.2%, during year ended December 31, 2014, compared to the year ended December 31, 2013. Our passenger revenues, excluding fuel, landing fees, station rents and engine overhaul reimbursements from major partners, increased $7.6 million, or 0.3%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The increase in passenger revenues, excluding fuel, landing fees, station rents and engine overhaul reimbursements, was primarily due to the additional E175 operations that began in 2014, improvements in the provisions in certain of our flying contracts and additional revenue sharing

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operations, partially offset by reductions in the ExpressJet fleet size, severe weather experienced in the first half of 2014 and reduced contract performance incentives.

Ground handling and other. Total ground handling and other revenues increased $11.3 million, or 19.3%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. Ground handling and other revenue primarily consists of ground handling services we provide to third-party airlines and government subsidies we receive for operating certain routes. Revenues associated with ground handling services we provide for our aircraft are recorded as passenger revenues. The increase in ground handling and other revenue was primarily due to an increased volume of departures during the 2014 year on routes subject to government subsidies.

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,					
	2014 Amount	2013 Amount	$ Change Amount	% Change Percent	2014 Cents Per ASM	2013 Cents Per ASM
Salaries, wages and benefits	$ 1,258,155	$ 1,211,307	$ 46,848	3.9%	3.3	3.1
Aircraft maintenance, materials and repairs	682,773	686,381	(3,608)	(0.5)%	1.8	1.8
Aircraft rentals	305,334	325,360	(20,026)	(6.2)%	0.8	0.8
Depreciation and amortization	259,642	245,005	14,637	6.0%	0.7	0.6
Aircraft fuel	193,247	193,513	(266)	(0.1)%	0.5	0.5
Ground handling services	123,917	129,119	(5,202)	(4.0)%	0.3	0.3
Special items	74,777		74,777	NM	0.2	
Station rentals and landing fees	51,024	114,688	(63,664)	(55.5)%	0.1	0.3
Other	263,730	239,241	24,489	10.2%	0.7	0.6
Total operating expenses	3,212,599	$ 3,144,614	$ 67,985	2.2%	8.4	8.0
Interest expense	65,995	68,658	(2,663)	(3.9)%	0.2	0.2
Total airline expenses	$ 3,278,594	$ 3,213,272	$ 65,322	2.0%	8.6	8.2

Salaries, Wages and Employee Benefits. Salaries, wages and employee benefits increased $46.8 million, or 3.9%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The increase in salaries, wages and employee benefits was primarily due to additional expenses attributable to the implementation of the Improvement Act, which had a negative effect on pilot scheduling and work hours and resulted in increased crew costs. The increase was also due to the additional E175 operations and training costs associated with the commencement of our E175 flight operations during 2014.

Aircraft maintenance, materials and repairs. Aircraft maintenance expense decreased $3.6 million, or 0.5%, during the year ended December 31, 2014, compared to the year ended December 31 2013. The following table summarizes the effect of engine overhaul reimbursements included in our aircraft maintenance expense for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2014	2013	$ Change	% Change
Aircraft maintenance, materials and repairs	$ 682,773	$ 686,381	$ (3,608)	(0.5)%
Less: Engine overhaul reimbursement from major partners	130,505	123,024	7,481	6.1%
Less: CRJ200 engine overhauls reimbursed at fixed hourly rate	25,223	39,388	(14,165)	(36.0)%
Other aircraft maintenance, materials and repairs	$ 527,045	$ 523,969	$ 3,076	0.6%

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Other aircraft maintenance, materials and repairs, increased $3.1 million, or 0.6%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The increase in aircraft maintenance expense excluding engine overhaul costs was primarily due to an increase in the number of scheduled maintenance events and aircraft parts replacement primarily due to the timing of major maintenance events and general aging of our EMB120, CRJ and ERJ fleet.

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, 2014, our CRJ200 engine expense under our Fixed-Rate Engine Contracts decreased $14.2 million compared to the year ended December 31, 2013. The decrease in CRJ200 engine overhauls reimbursed under our Fixed-Rate Engine Contracts was principally due to fewer scheduled engine maintenance events.

Under our Directly-Reimbursed Engine Contracts, we are reimbursed for engine overhaul costs by our applicable major partner at the time the maintenance event occurs. Such reimbursements are reflected as passenger revenue in the same amount and during the same period we recognized the expense in our consolidated statements of comprehensive income.

Aircraft rentals. Aircraft rentals decreased $20.0 million, or 6.2%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The decrease was primarily due to a reduction in leased aircraft in our fleet and lower aircraft lease renewal rates since 2013.

Depreciation and amortization. Depreciation and amortization expense increased $14.6 million, or 6.0%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The increase in depreciation and amortization expense was primarily due to the purchase of 20 E175 aircraft and related long lived assets in 2014, combined with acquisition of used aircraft and spare engines in 2014.

Fuel. Fuel costs decreased $0.3 million, or 0.1%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The decrease in fuel cost was primarily due to the decrease in the average fuel cost per gallon in 2014 compared to 2013, offset by the increased volume of fuel used in our expanded pro-rate flying operations during 2014 year compared to 2013. The average fuel cost per gallon was $3.33 and $3.60 for the years ended December 31, 2014 and 2013, respectively. The following table summarizes the gallons of fuel we purchased directly and our fuel expense, for the periods indicated:

	For the year ended December,		
(in thousands, except per gallon amounts)	**2014**	**2013**	**% Change**
Fuel gallons purchased	57,959	53,825	7.7%
Fuel expense	$ 193,247	$ 193,513	(0.1)%

Ground handling service. Ground handling service expense decreased $5.2 million, or 4.0%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The decrease in ground handling service expense was primarily due to a reduction in outsourced customer service and ramp functions at airport locations serving our pro-rate operations.

Special items. Special items for the year ended December 31, 2014 included impairment charges to write-down owned EMB120 aircraft, including capitalized engine overhaul costs, and related long-lived assets to their estimated fair value and accrued obligations on leased aircraft and related costs of $57.1 million. The special item associated with the EMB120 aircraft was triggered by our decision in November 2014 to remove the EMB120 aircraft from service by the end of the second

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quarter of 2015. The special item additionally consisted of impairment charges to write-down certain ERJ145 long-lived assets, including spare engines and capitalized aircraft improvements, to their estimated fair value and accrued obligations on leased aircraft and related costs of $12.9 million. The special item associated with the ERJ145 aircraft was triggered by our execution of an amended and restated contract with United in November 2014. The amended and restated contract provides for accelerated lease termination dates of certain ERJ145 aircraft and advances the termination date of the ExpressJet United ERJ Agreement to operate the ERJ145s from the year 2020 to 2017. The special item also includes the write-down of assets associated with the disposition of our paint facility located in Saltillo, Mexico of $4.8 million. We sold the Saltillo paint facility during the year ended December 31, 2014.

Station rentals and landing fees. Station rentals and landing fees expense decreased $63.7 million, or 55.5%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The decrease in station rentals and landing fees expense was primarily due to our major partners paying for an increased amount of station rents and landing fees directly to the applicable airports related to our contract flying arrangements.

Other operating expenses. Other operating expenses, primarily consisting of property taxes, hull and liability insurance, crew simulator training and crew hotel costs, increased $24.5 million, or 10.2%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The increase in other operating expenses was primarily due to additional crew lodging expenses attributable to the requirements of the Improvement Act. The increase was also attributable to additional other operating expense items associated with incremental pro-rate operations in 2014.

Total airline expenses. Total airline expenses (consisting of total operating and interest expenses) increased $65.3 million, or 2.0%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. Under our contract flying arrangements, we are reimbursed by our major airline partners for our actual fuel costs and engine overhaul costs under our Directly-Reimbursed Engine Contracts. We record such reimbursements 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,			
	2014	**2013**	**$ Change**	**% Change**
Total airline expense	$ 3,278,594	$ 3,213,272	65,322	2.0%
Less: Fuel expense	193,247	193,513	(266)	(0.1)%
Less: Engine overhauls Directly-Reimbursed Engine Contracts	130,505	123,024	7,481	6.1%
Less: CRJ200 engine overhauls reimbursed at fixed hourly rate	25,223	39,388	(14,165)	(36.0)%
Total airline expense excluding fuel and engine overhauls and CRJ200 engine overhauls reimbursed at fixed hourly rate	2,929,619	2,857,347	72,272	2.5%

Excluding fuel and engine overhaul costs and CRJ200 engine overhauls reimbursed at fixed hourly rates, our total airline expenses increased $72.3 million, or 2.5%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The increase in total airline expenses, excluding fuel and engine overhauls, was primarily due to the special items recorded during 2014 of $74.8 million, and an increase in salaries, wages and benefits and other operating expenses of $71.3 million, offset by a reduction in station rents and landing fees of $63.7 million, as further explained above.

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Summary of other income (expense) items and provision for income taxes:

Other Income (expense), net. Other income (expense) for the 2014 year includes a gain of $24.9 million resulting from the sale of our ownership in TRIP stock, offset by losses from the sale of assets during 2014. Other income (expense) for the year ended December 31, 2014 primarily consisted of $10.1 million associated with our sale of stock in Mekong Aviation Joint Stock Company, an airline operating in Vietnam ("Air Mekong"), and recognition of maintenance deposit we collected associated with the aircraft sub-leases we terminated with Air Mekong.

Provision for income taxes. The income tax provision for the 2014 year included a valuation allowance of $6.0 million for previously generated state net operating loss benefits specific to ExpressJet that we anticipate to expire, $2.0 million of foreign income tax associated with our sale of ownership in TRIP stock, and the write-off of $2.4 million of tax assets associated with the sale of our paint facility located in Saltillo, Mexico during 2014. These discrete income tax provision items were partially offset by the income tax benefit associated with our loss before income tax of $16.3 million for 2014.

Net Income (loss). Primarily due to factors described above, we generated a net loss of $24.2 million, or $(0.47) per diluted share, for the year ended December 31, 2014, compared to net income of $59.0 million, or $1.12 per diluted share, for the year ended December 31, 2013.

Our Business Segments:

For the year ended December 31, 2014, we had two reportable segments which are the basis of our internal financial reporting: SkyWest Airlines and ExpressJet. The following table sets forth our segment data for the years ended December 31, 2014 and 2013 (in thousands):

	2014 Amount	2013 Amount	$ Change Amount	% Change Percent
Operating Revenues:				
SkyWest Airlines operating revenue	$ 1,888,693	$ 1,827,568	$ 61,125	3.3%
ExpressJet operating revenues	1,346,859	1,466,341	(119,482)	(8.1)%
Other operating revenues	1,895	3,816	(1,921)	(50.3)%
Total Operating Revenues	$ 3,237,447	$ 3,297,725	$ (60,278)	(1.8)%
Airline Expenses:				
SkyWest Airlines airline expense	$ 1,811,054	$ 1,688,049	$ 123,005	7.3%
ExpressJet airlines expense	1,464,804	1,515,336	(50,532)	(3.3)%
Other airline expense	2,736	9,887	(7,151)	(72.3)%
Total Airline Expense(1)	$ 3,278,594	$ 3,213,272	$ 65,322	2.0%
Segment profit (loss):				
SkyWest Airlines segment profit	$ 77,639	$ 139,519	$ (61,880)	(44.4)%
ExpressJet segment loss	(117,945)	(48,995)	(68,950)	140.7%
Other profit (Loss)	(841)	(6,071)	5,230	(86.1)%
Total Segment Profit (Loss)	$ (41,147)	$ 84,453	$ (125,600)	(148.7)%
Interest Income	4,096	3,689	407	11.0%
Other Income (Expense), net	20,708	10,390	10,318	99.3%
Consolidated Income (Loss) Before Taxes	$ (16,343)	$ 98,532	$ (114,875)	(116.6)%

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

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SkyWest Airlines Segment Profit. SkyWest Airlines segment profit decreased $61.9 million, or 44.4%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The decrease in the SkyWest Airlines' segment profit was due primarily to the following factors:

SkyWest Airlines operating revenue increased by $61.1 million or 3.3%, for the 2014 year compared to the 2013 year. The increase was primarily due to the additional E175 operations we began in 2014, increased government subsidies applicable to certain routes we operated and improvements in the provisions of certain of our flying contracts since 2013. The increase in operating revenue was partially offset by additional expenses described below.

SkyWest Airlines airline expense included special items of $57.1 million for impairment charges to write-down owned EMB120 aircraft, including capitalized engine overhaul costs, and related long-lived assets to their estimated fair value and accrued obligations on leased aircraft and related costs.

SkyWest Airlines airline expense included an increase in salaries, wages and employee benefits of $41.1 million, or 7.2%, for the 2014 year compared to the 2013 year, primarily due to direct labor costs associated with our increased pro-rate and E175 operations during the year, and increased labor related costs attributable to the implementation of the Improvement Act.

SkyWest Airlines' airline expense included an increase in other direct operating costs of $24.8 million, or 2.2%, during the 2014 year, compared to the 2013 year, primarily due to other operating expenses associated with the additional pro-rate and E175 operations and additional crew hotel expenses due to crew scheduling inefficiencies resulting from the Improvement Act.

ExpressJet Segment Loss. ExpressJet segment loss increased $68.9 million, or 140.7%, during the year ended December 31, 2014, compared to the year ended December 31, 2013. The increase in ExpressJet segment loss was due primarily to the following factors:

ExpressJet's operating revenue decreased by $119.5 million, or 8.1%, for the 2014 year compared to the 2013 year. The decrease in operating revenue was primarily due to a reduction in the ExpressJet fleet size and severe weather that negatively impacted the operations in the first half of 2014. These two factors resulted in a decrease in block hour production of 107,220 hours at ExpressJet, or 8.1%, for 2014 compared to 2013.

ExpressJet airlines expenses included special items of $12.9 million for impairment charges to write-down certain ERJ145 long-lived assets, including spare engines and capitalized aircraft improvements, to their estimated fair value and accrued obligations on leased aircraft and related costs. ExpressJet also had $4.8 million in special charges associated with the write-down of its paint facility located in Saltillo, Mexico that was sold in 2014.

ExpressJet's airline expense decreased $50.5 million, or 3.3%, for the 2014 year compared to the 2013 year. The decrease was not proportionate to the decrease in operating revenue for the comparable periods due to the inefficiencies and costs associated with the weather cancellations experienced in the first half of 2014 and additional expenses, including pilot training, associated with the implementation of the Improvement Act in 2014 compared to 2013.

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2013 Compared to 2012

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,		
	2013	2012	% Change
Revenue passenger miles (000)	31,834,735	30,088,278	5.8%
Available seat miles ("ASMs") (000)	39,207,910	37,278,554	5.2%
Block hours	2,380,118	2,297,014	3.6%
Departures	1,453,601	1,435,512	1.3%
Passengers carried	60,581,948	58,803,690	3.0%
Passenger load factor	81.2%	80.7%	0.5 pts
Revenue per available seat mile	8.4¢	9.5¢	(11.6)%
Cost per available seat mile	8.2¢	9.2¢	(10.9)%
Fuel cost per available seat mile	0.5¢	1.1¢	(54.5)%
Average passenger trip length (miles)	525	512	2.5%

Revenues. Total operating revenues decreased $236.6 million, or 6.7%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. 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. These reimbursed expenses include fuel, landing fees, station rents and certain engine maintenance expenses. Our fuel expense, landing fees, station rents and directly-reimbursed engine expense decreased by $331.0 million, during the year ended December 31, 2013, from the year ended December 31, 2012, due primarily (i) to our major partners purchasing an increased volume of fuel, landing fees and station rents directly from vendors on flights we operated under our code-share agreements and (ii) a reduction in the number of engine maintenance events. The following table summarizes the amount of fuel, landing fees, station rents, deice and engine overhaul reimbursements included in our passenger revenues for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2013	2012	$ Change	% Change
Passenger revenues	$ 3,239,525	$ 3,467,546	$ (228,021)	(6.6)%
Less: Fuel reimbursement from major partners	91,925	329,748	(237,823)	(72.1)%
Less: Landing fee and station rent reimbursements from major partners	95,175	152,121	(56,946)	(37.4)%
Less: Engine overhaul reimbursement from major partners	123,024	159,220	(36,196)	(22.7)%
Passenger revenue excluding fuel, landing fee, station rent and engine overhaul reimbursements	$ 2,929,401	$ 2,826,457	$ 102,944	3.6%

Passenger revenues. Passenger revenues decreased $228.0 million, or 6.6%, during year ended December 31, 2013, compared to the year ended December 31, 2012. Our passenger revenues, excluding fuel, landing fee, station rent and engine overhaul reimbursements from major partners, increased $102.9 million, or 3.6%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase in passenger revenues, excluding fuel, landing fee, station rent and engine overhaul reimbursements, was primarily due to an increase in block hours of 3.6% during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase in block hours was due primarily to an increase in total number of aircraft in operation. Block hour production is a significant revenue driver in our flying contracts with our major partners.

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Ground handling and other. Total ground handling and other revenues decreased $8.6 million, or 12.9%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. Revenue attributed to ground handling services for our aircraft is reflected in our consolidated statements of comprehensive income under the heading "Operating Revenues Passenger" and revenue attributed to ground handling services we provide for third-party aircraft is reflected in our consolidated statements of comprehensive income under the heading "Operating Revenues Ground handling and other." The decrease was primarily related to the decrease in our ground handling for other airlines and a reduction of rental revenue associated with the termination of an aircraft sub-lease we had executed with Air Mekong.

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,					
	2013 Amount	**2012 Amount**	**$ Change Amount**	**% Change Percent**	**2013 Cents Per ASM**	**2012 Cents Per ASM**
Aircraft fuel	$ 193,513	$ 426,387	$ (232,874)	(54.6)%	0.5	1.1
Salaries, wages and benefits	1,211,307	1,171,689	39,618	3.4%	3.1	3.1
Aircraft maintenance, materials and repairs	686,381	659,869	26,512	4.0%	1.8	1.8
Aircraft rentals	325,360	333,637	(8,277)	(2.5)%	0.8	0.9
Depreciation and amortization	245,005	251,958	(6,953)	(2.8)%	0.6	0.7
Station rentals and landing fees	114,688	169,855	(55,167)	(32.5)%	0.3	0.5
Ground handling services	129,119	125,148	3,971	3.2%	0.3	0.3
Other	239,241	229,842	9,399	4.1%	0.6	0.6
Total operating expenses	3,144,614	3,368,385	(223,771)	(6.6)%	8.0	9.0
Interest expense	68,658	77,380	(8,722)	(11.3)%	0.2	0.2
Total airline expenses	$ 3,213,272	$ 3,445,765	(232,493)	(6.7)%	8.2	9.2

Fuel. Fuel costs decreased $232.9 million, or 54.6%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. During the third quarter of 2012, United began purchasing the majority of the fuel for flights we operated under our United Express contracts. The resulting decrease in our fuel expense was primarily due to an increase in the number of gallons of fuel purchased by our major partners on flights we operated under our flying contracts. The following table summarizes the gallons of fuel we purchased directly and our fuel expense, for the periods indicated:

	For the year ended December,		
(in thousands, except per gallon amounts)	**2013**	**2012**	**% Change**
Fuel gallons purchased	53,825	118,765	(54.7)%
Fuel expense	$ 193,513	$ 426,387	(54.6)%

Salaries, Wages and Employee Benefits. Salaries, wages and employee benefits increased $39.6 million, or 3.4%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase in salaries, wages and employee benefits was primarily due to an increase in crew and mechanic wages attributable to increased departures and block-hour production and due to an increase in health insurance and workers compensation expenses.

Aircraft maintenance, materials and repairs. Aircraft maintenance expense increased $26.5 million, or 4.0%, during the year ended December 31, 2013, compared to the year ended December 31 2012.

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The following table summarizes the effect of engine overhaul reimbursements included in our aircraft maintenance expense for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2013	**2012**	**$ Change**	**% Change**
Aircraft maintenance, materials and repairs	$ 686,381	$ 659,869	$ 26,512	4.0%
Less: Engine overhaul reimbursement from major partners	123,024	159,220	(36,196)	(22.7)%
Less: CRJ200 engine overhauls reimbursed at fixed hourly rate	39,388	55,183	(15,795)	(28.6)%
Other aircraft maintenance, materials and repairs	$ 523,969	$ 445,466	$ 78,503	17.6%

Other aircraft maintenance, materials and repairs, increased $78.5 million, or 17.6%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase in aircraft maintenance expense excluding engine overhaul costs for the year ended December, 2013, compared to the year ended December 31, 2012, was primarily due to an increase in the number of scheduled maintenance events and the replacement and repair of aircraft parts and components at ExpressJet and SkyWest Airlines.

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, 2013, our CRJ200 engine expense under our Fixed-Rate Engine Contracts decreased $15.8 million compared to the year ended December 31, 2012. The decrease in CRJ200 engine overhauls reimbursed under our Fixed-Rate Engine Contracts was principally due to fewer scheduled engine maintenance events.

Under our Directly-Reimbursed Engine Contracts, we are reimbursed for engine overhaul costs by our applicable major partner at the time the maintenance event occurs. Such reimbursements are reflected as passenger revenue in the same amount and during the same period we recognized the expense in our consolidated statements of comprehensive income.

Aircraft rentals. Aircraft rentals decreased $8.3 million, or 2.5%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The decrease was primarily due to aircraft lease renewals at lower rates during 2013.

Depreciation and amortization. Depreciation and amortization expense decreased $7.0 million, or 2.8%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The decrease in depreciation and amortization expense was primarily due to certain rotable assets being fully depreciated during the year ended 2013 and a lower volume of capital expenditures.

Station rentals and landing fees. Station rentals and landing fees expense decreased $55.2 million, or 32.5%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. 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, rather than requiring us to make those payments and obtain reimbursement from our major partners.

Ground handling service. Ground handling service expense increased $4.0 million, or 3.2%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase in ground handling service expense was primarily due to SkyWest Airlines outsourcing the customer service and ramp functions of several pro-rate stations.

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Other expenses. Other expenses, primarily consisting of property taxes, hull and liability insurance, crew simulator training and crew hotel costs, increased $9.4 million, or 4.1%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase in other expenses during the year ended December 31, 2013 was primarily due to the increase in property tax expense due to refunds received during the year ended December 31, 2012 (primarily a pass-through cost under our flying contracts) and an increase in legal expense due to the settlement of Delta's claims related to travel by certain employees of SkyWest Airlines and ExpressJet.

Total airline expenses. Total airline expenses (consisting of total operating and interest expenses) decreased $232.5 million, or 6.7%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. 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,			
	2013	**2012**	**$ Change**	**% Change**
Total airline expense	$ 3,213,272	$ 3,445,765	$ (232,493)	(6.7)%
Less: Fuel expense	193,513	426,387	(232,874)	(54.6)%
Less: Engine overhauls Directly-Reimbursed Engine Contracts	123,024	159,220	(36,196)	(22.7)%
Less: CRJ200 engine overhauls reimbursed at fixed hourly rate	39,388	55,183	(15,795)	(28.6)%
Total airline expense excluding fuel and engine overhauls and CRJ200 engine overhauls reimbursed at fixed hourly rate	2,857,347	$ 2,804,975	$ 52,372	1.9%

Excluding fuel and engine overhaul costs and CRJ200 engine overhauls reimbursed at fixed hourly rates, our total airline expenses increased $52.4 million, or 1.9%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The percentage increase 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, net. Other, net, increased $21.0 million during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase was primarily attributable to the termination of our aircraft sub- lease with Air Mekong, and our recognition of $5.1 million of other income primarily due to the maintenance deposits we collected during the nine months ended September 30, 2013 and sale of our shares of Air Mekong. In conjunction with the sale of the Air Mekong shares, we recognized a gain of $5.0 million. During the year ended December 31, 2012, we incurred other expense primarily consisting of losses from our equity investments in TRIP and Air Mekong.

Interest Income. Interest income decreased $4.2 million during the year ended December 31, 2013, compared to the year ended December 31, 2012. The decrease was primarily due to our receipt of $49 million of cash from United for amounts previously deferred under the United Express Agreement. Prior to repayment, the deferred amounts accrued interest at 8%.

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Net Income. Primarily due to factors described above, net income increased to $59.0 million, or $1.12 per diluted share, for the year ended December 31, 2013, compared to $51.2 million, or $0.99 per diluted share, for the year ended December 31, 2012.

Our Business Segments:

For the year ended December 31, 2013, we had two reportable segments which are the basis of our internal financial reporting: SkyWest Airlines and ExpressJet. The following table sets forth our segment data for the years ended December 31, 2013 and 2012 (in thousands):

	2013 Amount	2012 Amount	$ Change Amount	% Change Percent
Operating Revenues:				
SkyWest Airlines operating revenue	$ 1,827,568	$ 1,930,149	$ (102,581)	(5.3)%
ExpressJet operating revenues	1,466,341	1,593,527	(127,186)	(8.0)%
Other operating revenues	3,816	10,696	(6,880)	(64.3)%
Total Operating Revenues	$ 3,297,725	$ 3,534,372	$ (236,647)	(6.7)%
Airline Expenses:				
SkyWest airlines expense	$ 1,688,049	$ 1,824,084	$ (136,035)	(7.5)%
ExpressJet airlines expense	1,515,336	1,611,982	(96,646)	(6.0)%
Other airline expense	9,887	9,699	188	1.9%
Total Airline Expense(1)	3,213,272	$ 3,445,765	$ (232,493)	(6.7)%
Segment profit (loss):				
SkyWest Airlines segment profit	$ 139,519	$ 106,065	$ 33,454	31.5%
ExpressJet segment loss	(48,995)	(18,455)	(30,540)	(165.5)%
Other profit (Loss)	(6,071)	997	(7,068)	(708.9)%
Total Segment Profit	$ 84,453	$ 88,607	$ (4,154)	(4.7)%
Interest Income	3,689	7,928	(4,239)	(53.5)%
Other	10,390	(10,639)	21,029	(197.7)%
Consolidated Income Before Taxes	98,532	$ 85,896	$ 12,636	14.7%

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

SkyWest Airlines Segment Profit. SkyWest Airlines segment profit increased $33.5 million, or 31.5%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase in SkyWest Airlines' segment profit was due primarily to the following factors:

CRJ200 engine overhaul expense incurred under the SkyWest Airlines Fixed-Rate Engine Contracts decreased $18.1 million, or 37.6%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The decrease in CRJ200 engine overhaul expense was primarily due to a reduction in the number of scheduled engine maintenance events.

SkyWest Airlines' non-pass-through operating revenue increased by $65.9 million, or 4.6%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase in non-pass-through operating revenue, was primarily due to an increase in block hour production and our receipt of higher incentive payments from SkyWest Airlines' major airline partners.

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SkyWest Airlines' salaries, wages and employee benefits increased $20.3 million, or 3.7%, during the year ended December 31, 2013, compared to the year ended December 31, 2012, primarily due to increased block-hour production.

SkyWest Airlines' legal expense increased by $2.8 million. The increase in legal expense was primarily related to the settlement of our dispute with Delta regarding non-revenue positive space flying by employees of SkyWest Airlines and ExpressJet.

SkyWest Airlines' aircraft maintenance expense, excluding reimbursed engine overhauls, increased by $26.7 million, or 12.5%, during the year ended December 31, 2013, compared to the year ended December 31, 2012, which was primarily attributable to an increase in scheduled maintenance events and the replacement and repair of aircraft parts and components.

SkyWest Airlines' ground handling service expense increased $9.3 million, or 12.6%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase in ground handling service expense was primarily due to SkyWest Airlines outsourcing the customer service and ramp functions of several pro-rate stations.

ExpressJet Segment Loss. ExpressJet segment loss increased $30.5 million, or 165.5%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase in ExpressJet segment loss was due primarily to the following factors:

ExpressJet's aircraft maintenance expense, excluding reimbursed engine overhauls, increased by $45.7 million, or 20.6%, during the year ended December 31, 2013, compared to the year ended December 31, 2012, which was primarily attributable to an increase in scheduled maintenance events and the replacement and repair of aircraft parts and components.

ExpressJet's salaries, wages and employee benefits increased $19.4 million, or 3.1%, during the year ended December 31, 2013, compared to the year ended December 31, 2012, primarily due to increased block hour production.

ExpressJet's depreciation and amortization expense decreased $8.7 million, or 8.9%, during the year ended December 31, 2013, compared to the year ended December 31, 2012, primarily due to certain rotable assets being fully depreciated during the year ended 2013 and a lower volume of capital expenditures.

ExpressJet's non-pass-through operating revenue increased by $25.3 million, or 2.4%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase in non-pass through operating revenue was primarily due to an increase in block hour production, offset by a reduction in contract performance incentives.

Liquidity and Capital Resources

Sources and Uses of Cash 2014 Compared to 2013

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, 2014 and 2013, and our total cash and marketable securities position as of December 31, 2014 and December 31, 2013 (in thousands).

	For the year ended December 31,			
	2014	**2013**	**$ Change**	**% Change**
Net cash provided by operating activities	$ 285,539	$ 289,890	$ (4,351)	(1.5)%
Net cash used in investing activities	(585,226)	(65,961)	(519,265)	787.2%
Net cash provided by (used in) financing activities	261,326	(187,065)	448,391	(239.7)%

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	December 31, 2014	December 31, 2013	$ Change	% Change
Cash and cash equivalents	$ 132,275	$ 170,636	$ (38,361)	(22.5)%
Restricted cash	11,582	12,219	(637)	(5.2)%
Marketable securities	415,273	487,239	(71,966)	(14.8)%
Total	$ 559,130	$ 670,094	(110,964)	(16.6)%

Cash Flows from Operating Activities. Net cash provided by operating activities decreased $4.4 million, or 1.5%, during 2014, compared to 2013. The primary factors impacting our cash provided from operating activities include: our income before income taxes was $58.4 million, excluding special items of $74.8 million, in 2014, compared to income before income taxes of $98.5 million for 2013, resulting in a decrease in cash flows from operating activities of $40.1 million. This reduction in cash from operating activities was substantially offset by an increase in non-cash depreciation expense of $14.6 million from 2013 to 2014, primarily due to 20 E175 aircraft purchased in 2014; a reduction in capitalized EMB120 engine overhaul events, which are reflected as an operating activity, of $10.8 million from 2013 to 2014 primarily due to a reduction in the number of overhaul events; and other changes in working capital accounts.

Cash Flows from Investing Activities. Net cash used in investing activities increased $519.3 million, or 787.2% during 2014, compared to 2013. The increase in cash used in investing activities was primarily due to the acquisition of 20 E175 aircraft, one used CRJ700 aircraft and related rotable spare assets in 2014, which in total represented an increase of $563.4 million compared to the aircraft acquisition and related rotable spare aircraft purchases from 2013. This amount was offset by $40.0 million in aircraft deposits paid in 2013 associated with the order of 40 E175 aircraft. No additional aircraft deposits were made and no aircraft deposits were received during 2014.

Cash Flows from Financing Activities. Net cash provided by financing activities increased $448.4 million, or 239.7%, during 2014, compared to 2013. The increase was primarily related to proceeds from the issuance of long-term debt of $460.6 million associated with 20 E175 aircraft acquired during 2014. The remaining change in cash flows from financing activities was primarily due to increased principal payments on long-term debt and a reduction in treasury stock purchase activity.

Sources and Uses of Cash 2013 Compared to 2012

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, 2013 and 2012, and our total cash and marketable securities position as of December 31, 2013 and December 31, 2012 (in thousands).

	For the year ended December 31,			
	2013	2012	$ Change	% Change
Net cash provided by operating activities	$ 289,890	$ 288,824	1,066	0.4%
Net cash used in investing activities	(65,961)	(108,360)	42,399	39.1%
Net cash used in financing activities	(187,065)	(176,218)	(10,847)	(6.2)%

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	December 31, 2013	December 31, 2012	$ Change	% Change
Cash and cash equivalents	$ 170,636	$ 133,772	36,864	27.6%
Restricted cash	12,219	19,553	(7,334)	(37.5)%
Marketable securities	487,239	556,117	(68,878)	(12.4)%
Total	670,094	$ 709,442	(39,348)	(5.5)%

Cash Flows from Operating Activities. Net cash provided by operating activities increased $1.1 million, or 0.4%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase was primarily due to our receipt of $49 million of cash from United during the year ended December 31, 2013 for amounts previously deferred under the United Express Agreement. This increase was mostly offset by changes in our working capital accounts.

Cash Flows from Investing Activities. Net cash used in investing activities decreased $42.4 million, or 39.1% during the year ended December 31, 2013, compared to the year ended December 31, 2012. During the year ended December 31, 2013, net sales of marketable securities increased $127.4 million as compared to the year ended December 31, 2012. This change was partially offset by an increase in deposits on aircraft of $40 million and an increase in purchases of aircraft and rotable spares of $45.2 million during the year ended December 31, 2013, compared to the year ended December 31, 2012.

Cash Flows from Financing Activities. Net cash used in financing activities increased $10.8 million, or 6.2%, during the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase was primarily related to increased expense attributable to the increase in purchase of treasury shares of $10.8 million during the year ended December 31, 2013, compared to the year ended December, 2012.

Liquidity and Capital Resources as of December 31, 2014 and 2013

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, 2014, our total capital mix was 47.7% equity and 52.3% long-term debt, compared to 52.6% equity and 47.4% long-term debt at December 31, 2013.

As of December 31, 2014 and 2013, SkyWest Airlines had a $25 million line of credit. As of December 31, 2014 and 2013, SkyWest Airlines had no amount outstanding under the facility. The facility is scheduled to expire on March 31, 2015 and has a variable interest rate of Libor plus 3%.

As of December 31, 2014 and 2013, we had $79.9 million and $88.5 million, respectively, in letters of credit and surety bonds outstanding with various banks and surety institutions.

As of December 31, 2014 and 2013, we classified $11.6 million and $12.2 million as restricted cash, respectively, related to our workers compensation policies.

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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):

	Total	2015	2016	2017	2018	2019	Thereafter
Operating lease payments for aircraft and facility obligations	$ 1,536,321	$ 342,984	$ 269,210	$ 199,009	$ 153,338	$ 118,273	$ 453,507
Firm aircraft commitments	572,498	562,526	9,972				
Interest commitments(A)	395,677	69,978	62,218	54,273	46,875	40,084	122,249
Principal maturities on long-term debt	1,745,811	211,821	216,340	190,648	168,769	161,329	796,904
Total commitments and obligations	$ 4,250,307	$ 1,187,309	$ 557,740	$ 443,930	$ 368,982	$ 319,686	$ 1,372,660

(A) At December 31, 2014, we had variable rate notes representing 41.3% of our total long-term debt. Actual interest commitments will change based on the actual variable interest.

Purchase Commitments and Options

On May 21, 2013, we announced our execution of an agreement with Embraer, S.A. for the purchase of 100 new E175 dual-class regional jet aircraft. Of the 100 aircraft, 47 are considered firm deliveries and the remaining 53 aircraft are considered conditional deliveries until we enter into capacity purchase agreements with other major airlines to operate the aircraft. As of December 31, 2014, we took delivery of 20 E175 aircraft and we anticipate taking delivery of the remaining 27 firm delivery aircraft through the first quarter of 2016.

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. 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.

Aircraft Lease and Facility Obligations

We also have significant long-term lease obligations, primarily relating to our aircraft fleet. At December 31, 2014, we had 554 aircraft under lease with remaining terms ranging from one to 11 years. Future minimum lease payments due under all long-term operating leases were approximately $1.5 billion at December 31, 2014. Assuming a 4.8% 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 $1.3 billion at December 31, 2014.

Long-term Debt Obligations

As of December 31, 2014, we had $1.7 billion of long-term debt obligations related to the acquisition of CRJ200, CRJ700, CRJ900 and E175 aircraft. The average effective interest rate on those long-term debt obligations was approximately 4.1% at December 31, 2014.

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Guarantees

We have guaranteed the obligations of SkyWest Airlines under the SkyWest Airlines Delta Connection Agreement and the SkyWest Airlines United Express Agreement for the E175 aircraft. We have also guaranteed the obligations of ExpressJet under the ExpressJet Delta Connection Agreement and the ExpressJet United ERJ Agreement.

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 each of the years ended December 31, 2014, 2013 and 2012, approximately 3%, 3% and 3% of our ASMs were flown under pro-rate arrangements. For the years ended December 31, 2014, 2013 and 2012, the average price per gallon of aircraft fuel was $3.33, $3.45 and $3.59, respectively. 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 $29.1 million, $25.3 million and $24.3 million in fuel expense for the years ended December 31, 2014, 2013 and 2012, respectively.

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, 2014, 2013 and 2012, we had variable rate notes representing 41.3%, 29.5% and 31.7% of our total long-term debt, respectively. 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 $5.8 million in interest expense and received $5.5 million in additional interest income for the year ended December 31, 2014; we would have incurred an additional $4.8 million in interest expense and received $6.7 million in additional interest income for the year ended December 31, 2013; and 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. 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.

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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, 2014, we had investments in auction rate securities valued at a total of $2.3 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 6 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.

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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, 2014 and 2013, 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, 2014. 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, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have 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, 2014, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 18, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 18, 2015

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SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

ASSETS

	December 31, 2014	December 31, 2013
CURRENT ASSETS:		
Cash and cash equivalents	$ 132,275	$ 170,636
Marketable securities	415,273	487,239
Restricted cash	11,582	12,219
Income tax receivable	2,779	840
Receivables, net	83,099	111,186
Inventories, net	137,452	138,094
Prepaid aircraft rents	397,850	360,781
Deferred tax assets	94,385	156,050
Other current assets	16,308	27,392
Total current assets		