



2018 ANNUAL REPORT

Notice of 2019 Annual Meeting and Proxy Statement

SKYWEST

INCORPORATED

CURRENT SKYWEST ROUTE SYSTEM



To our Shareholders,

SkyWest, Inc. spent the 2018 year executing on our strategic business objectives to reduce risk, enhance fleet flexibility and provide long-term stability and visibility to our model. Our progress on these objectives included continued advancement on our fleet transition and placing 39 new E175s into service under long-term contracts, bringing our E175 fleet total to 146 at year-end 2018. Furthering our visibility to future cash flow, we also secured contract extensions on more than 110 aircraft in our fleet during the last part of 2018 to provide stability that is unmatched in the regional industry.

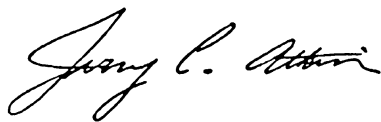
In December 2018 we also announced the sale of ExpressJet, successfully mitigating a significant risk to our model and allowing us to focus on one operating entity in SkyWest Airlines. We believe that additional focus will help us better achieve our objectives and deliver an exceptional product for our partners. This transaction closed in January of 2019.

Our ability to meet major partner demand better than any other regional airline remains a point of differentiation for SkyWest. We advanced our position as an industry leader in 2018, becoming the first airline in the world to launch an all-electronic maintenance log. Our teams also consistently produced very strong operating reliability throughout 2018, an expectation and demand of our four major airline partners and the millions of passengers we serve.

As a result of the credibility that comes from solid execution, SkyWest was named one of Fortune Magazine's Most Admired Companies in 2019, and is the only regional airline on that prestigious list. We attribute that distinction to our incredible team of professionals; we thank them for their great work across our operation each day.

As we look ahead to the rest of 2019 and beyond, we remain laser-focused on delivering on our commitments, reducing risk and continuing to capitalize on opportunity as we build for the future. SkyWest's strong and liquid balance sheet uniquely positions us to create innovative opportunities within existing scope limitations, including non-flying and lease opportunities within our current platform of assets, as we have already demonstrated.

We believe our competitive advantage is and will continue to be our ability to provide strong operations, generate strong cash flow, invest for the future, and maintain our disciplined approach to risk and flying commitments. We remain focused on sustainable opportunities that position us for long-term success, and again thank our nearly 14,000 professionals for their good work in delivering outstanding service to our more than 56 million passengers last year.



Jerry C. Atkin
Chairman
SkyWest, Inc.



Russell A. "Chip" Childs
Chief Executive Officer and President
SkyWest, Inc.

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____

Commission File No. 0-14719

SKYWEST, INC.

Incorporated under the Laws of Utah

87-0292166
(IRS Employer ID No.)

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

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

(Title of Each Class)

(Name of Exchange on which Registered)

Common Stock, No Par Value

The Nasdaq Global Select Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's common stock held by non-affiliates (based upon the closing sale price of the registrant's common stock on The Nasdaq Global Select Market) on June 29, 2018 was approximately \$2,701,175,567.

As of February 12, 2019, there were 51,635,965 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 2019 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report as specified. Such proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2018.

SKYWEST, INC.
ANNUAL REPORT ON FORM 10-K
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PART I

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

On January 22, 2019, we completed the sale of ExpressJet. Our financial and operating results for the years ended December 31, 2016, 2017 and 2018, and our financial position as of December 31, 2017 and 2018 contained in this Report, include the financial results and position of ExpressJet for those respective periods, as the sale of ExpressJet did not qualify for presentation of discontinued operations (see Note 2 in the accompanying financial statements).

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, 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 for a number of reasons, including but not limited to: the challenges of competing successfully in a highly competitive and rapidly changing industry; developments associated with fluctuations in the economy and the demand for air travel; the financial stability of United Airlines, Inc. ("United"), Delta Air Lines, Inc. ("Delta"), American Airlines, Inc. ("American") and Alaska Airlines, Inc. ("Alaska") (each, a "major airline partner") and any potential impact of their financial condition on our operations; fluctuations in flight schedules, which are determined by the major airline partners for whom SkyWest conducts flight operations; variations in market and economic conditions; significant aircraft lease and debt commitments; realization of manufacturer residual value guarantees on applicable SkyWest aircraft; residual aircraft values and related impairment charges; the impact of global instability; labor relations and costs; potential fluctuations in fuel costs, and potential fuel shortages; the impact of weather-related or other natural disasters on air travel and airline costs; new aircraft deliveries; and the ability to attract and retain qualified pilots, as well as the other factors 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

We offer scheduled passenger service with approximately 2,770 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, American Eagle or Alaska Airlines flights under code-share arrangements (commercial agreements between airlines that, among other things, allow one airline to use another airline's flight designator codes on its flights) with Delta, United, American or Alaska, respectively. We generally provide regional flying to our major airline partners under long-term, fixed-fee, code-share agreements. Under these fixed-fee agreements, our major airline partners generally pay us fixed rates for operating the aircraft primarily based on the number of completed flights, flight time and the number of aircraft under contract. The major airline partners also reimburse us for specified direct operating expenses (including fuel expense).

SkyWest has been flying since 1972. During our long operating history, we have developed an industry-leading reputation for providing quality regional airline service. As of December 31, 2018, we had 596 aircraft in scheduled service consisting of the following (which included 100 Embraer ERJ145 regional jet (“ERJ145”) aircraft and 16 Bombardier CRJ200 regional jet (“CRJ200”) aircraft that ExpressJet operated for United, and 10 Canadair CRJ700 regional jet (“CRJ700”) aircraft that ExpressJet operated for American):

	<u>CRJ200</u>	<u>CRJ700</u>	<u>CRJ900</u>	<u>ERJ145</u>	<u>E175</u>	<u>Total</u>
United	106	19	—	100	65	290
Delta	87	22	41	—	49	199
American	7	68	—	—	—	75
Alaska	—	—	—	—	32	32
Aircraft in scheduled service	200	109	41	100	146	596
Subleased to an un-affiliated entity	4	—	—	—	—	4
Other*	4	19	—	5	—	28
Total Fleet	208	128	41	105	146	628

*As of December 31, 2018, these aircraft have been removed from service and are in the process of being returned under the applicable leasing arrangement or are aircraft transitioning between code-share agreements with our major airline partners.

As of December 31, 2018, our fleet scheduled for service consisted of aircraft manufactured by Bombardier Aerospace (“Bombardier”) and Embraer S.A. (“Embraer”) summarized as follows:

<u>Manufacturer</u>	<u>Aircraft Type</u>	<u>Seat Configuration</u>
Bombardier	CRJ900s	76
Bombardier	CRJ700s	65-70
Bombardier	CRJ200s	50
Embraer	E175s	76
Embraer	ERJ145s	50

Bombardier and Embraer are the primary manufacturers of regional jets operated in the United States and offer many of the amenities of larger commercial jet aircraft, including flight attendant service, 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 major airlines, and they have a range of approximately 1,600 miles and 2,100 miles, respectively.

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 website at *inc.skywest.com*, which provides links to our annual, quarterly and current reports filed with the Securities and Exchange Commission (“SEC”). The information on our website does not constitute part of this Report. In addition, we provide electronic or paper copies of our SEC filings free of charge upon request.

Our Operating Platforms

SkyWest

We provide regional jet service to airports throughout the United States, as well as Mexico and Canada. As of December 31, 2018, we offered approximately 2,170 daily departures, of which approximately 820 were United Express flights, 920 were Delta Connection flights, 290 were American Eagle flights and 140 were Alaska Airlines flights. Our operations are conducted principally from airports located in Chicago (O’Hare), Denver, Houston, Los Angeles,

Minneapolis, Phoenix, Salt Lake City, San Francisco and Seattle. As of December 31, 2018, we operated a fleet of 470 aircraft consisting of the following:

	<u>CRJ200</u>	<u>CRJ700</u>	<u>CRJ900</u>	<u>E175</u>	<u>Total</u>
United	90	19	—	65	174
Delta	87	22	41	49	199
American	7	58	—	—	65
Alaska	—	—	—	32	32
Total	<u>184</u>	<u>99</u>	<u>41</u>	<u>146</u>	<u>470</u>

We conduct our code-share operations with our major airline partners pursuant to the following agreements:

<u>Major airline partner</u>	<u>Agreement</u>
United	“United Express Agreements” and “United Express Prorate Agreement”
Delta	“Delta Connection Agreement” and “Delta Connection Prorate Agreement”
American	“American Agreement” and “American Prorate Agreement”
Alaska	“Alaska Agreement”

A summary of the terms for each of our code-share agreements is provided under the heading “Code-Share Agreements” below on page 6.

ExpressJet

Prior to our sale of ExpressJet in January 2019, ExpressJet provided regional jet service to airports primarily located in the Eastern and Midwestern United States, as well as Mexico, Canada and the Caribbean. ExpressJet’s operations were conducted principally from airports located in Atlanta, Chicago (O’Hare), Houston, Newark and New York. During the year ended December 31, 2018, ExpressJet offered approximately 600 daily departures, of which approximately 90 were Delta Connection flights, 440 were United Express flights and 70 were American Eagle flights. As of December 31, 2018, ExpressJet operated a fleet of 126 aircraft consisting of the following:

	<u>CRJ200</u>	<u>ERJ145</u>	<u>CRJ700</u>	<u>Total</u>
United	16	100	—	116
American	—	—	10	10
Total	<u>16</u>	<u>100</u>	<u>10</u>	<u>126</u>

SkyWest Leasing

The SkyWest Leasing segment includes revenue attributed to our Embraer E175 dual-class regional jet aircraft (“E175”) ownership cost earned under the applicable fixed-fee contracts, and the depreciation and interest expense of our E175 aircraft. The SkyWest Leasing segment’s total assets and capital expenditures include the acquired E175 aircraft. The SkyWest Leasing segment additionally includes the income from CRJ200 aircraft leased to a third-party.

Competition and Economic Conditions

The airline industry is highly competitive. SkyWest competes principally with other regional airlines. Our operations extend throughout most major geographic markets in the United States. Our competition includes, therefore, nearly every other domestic regional airline. Our primary competitors include Air Wisconsin Airlines Corporation (“Air Wisconsin”); Endeavor Air, Inc. (“Endeavor”) (owned by Delta); Envoy Air Inc. (“Envoy”), PSA Airlines, Inc. (“PSA”) and Piedmont Airlines (“Piedmont”) (Envoy, PSA and Piedmont are owned by American); ExpressJet Airlines (subsequent to January 2019); Horizon Air Industries, Inc. (“Horizon”) (owned by Alaska Air Group, Inc.); Mesa Air Group, Inc. (“Mesa”); Republic Airways Holdings Inc. (“Republic”); and Trans States Airlines, Inc. (“Trans States”). Major airlines typically award code-share flying arrangements to regional airlines based primarily upon the following criteria: ability to fly contracted schedules, availability of labor resources, including pilots, low operating cost, financial

resources, geographical infrastructure, overall customer service levels relating to on-time arrival and flight completion percentages and the overall image of the regional airline.

The principal competitive factors for regional airline code-share arrangements include labor resources, code-share agreement terms, reliable flight operations, operating cost structure, ability to finance new aircraft, certification to operate certain aircraft types and geographical infrastructure and markets and routes served.

Our operations represent the largest regional airline operations in the United States. However, regional carriers owned by major airlines may have access to greater resources than we do through their parent companies.

Generally, the airline industry is sensitive to changes in general economic conditions. 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 our predominantly contract-based flying arrangements. If, however, any of our major airline partners experience a prolonged decline in the number of passengers or are negatively affected by low ticket prices or high fuel prices, they may seek rate reductions in future code-share agreements, or materially reduce scheduled flights in order to reduce their costs. In addition, adverse weather conditions can impact our ability to complete scheduled flights and can have a negative impact on our operations and financial condition.

Industry Overview

Majors, Low-Cost Carriers and Regional Airlines

The airline industry in the United States has traditionally been comprised of several major airlines, including Alaska, 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.

Regional airlines, including SkyWest, typically operate smaller aircraft on shorter distance routes than major and low-cost carriers. Several regional airlines, including Endeavor, Envoy, Horizon, Piedmont and PSA, are wholly-owned subsidiaries of major airlines.

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 the regional airline receives a percentage of applicable passenger ticket revenues, termed “prorate” or “revenue-sharing” flights, as described in more detail below.

Code-Share Agreements

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 the major airline and to market and advertise its status as a carrier for the major airline. 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 the major airline often coordinates marketing, advertising and other promotional efforts. In exchange, the regional airline provides a designated number of low-capacity (usually between 50 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 either fixed-fee arrangements or revenue-sharing arrangements as explained below:

- *Fixed-Fee Arrangements.* Under a fixed-fee arrangement (referred to as a “fixed-fee arrangement,” “fixed-fee contract,” “contract flying” or a “capacity purchase agreement”), the major airline generally pays the

regional airline a fixed-fee for each departure, flight hour (measured from takeoff to landing, excluding taxi time) and block hour (measured from takeoff to landing, including taxi time) incurred, and an amount per aircraft in service each month with additional incentives based on completion of flights, on-time performance and other operating metrics. The regional airline typically acquires or finances the aircraft used under the fixed-fee arrangement, which is considered a lease of the aircraft to our major airline partner. In addition, under a fixed fee arrangement, the major airline bears the risk of fuel price fluctuations and certain other costs. Regional airlines benefit from fixed-fee arrangements because they are protected from some of the elements that cause volatility in airline financial performance, including variations in ticket prices, number of passengers and fuel prices. However, regional airlines in fixed-fee arrangements generally do not benefit from positive trends in ticket prices, ancillary revenue, such as baggage and food and beverage fees, the number of passengers enplaned or fuel prices, because the major airlines retain passenger fare volatility risk and fuel costs associated with the regional airline flight.

- *Revenue-Sharing Arrangements.* Under a revenue-sharing arrangement (referred to as a “revenue-sharing” arrangement or “prorate” arrangement), the major airline and regional airline negotiate a passenger fare proration formula for specifically identified routes, 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. On the other hand, the regional airline receives all of the passenger fare when a passenger purchases a ticket on a route solely operated by the regional airline. Substantially all costs associated with the regional airline flight are borne by the regional airline. In a revenue-sharing arrangement, the regional airline may realize increased profits as ticket prices and passenger loads increase or fuel prices decrease and, correspondingly, the regional airline may realize decreased profits as ticket prices and passenger loads decrease or fuel prices increase.

We have code-share agreements with United, Delta, American and Alaska. ExpressJet had code-share agreements with United, Delta and American during 2018.

During the year ended December 31, 2018, approximately 84.3% of our and ExpressJet’s flying agreements revenue related to fixed-fee contract flights, where Delta, United, American and Alaska controlled scheduling, ticketing, pricing and seat inventories. The remainder of our flying agreements revenue during the year ended December 31, 2018 related to prorate flights for Delta, United or American, where we controlled scheduling, pricing and seat inventories, and shared passenger fares with Delta, United or American according to prorate formulas.

Under our fixed-fee arrangements, our major airline partners compensate us for our costs of owning or leasing the aircraft on a monthly basis. The aircraft compensation structure varies by agreement, but is intended to cover either our aircraft principal and interest debt service costs, our aircraft depreciation and interest expense or our aircraft lease expense costs while the aircraft is under contract. The number of aircraft under our fixed-fee arrangements and our prorate arrangements as of December 31, 2018 is reflected in the summary below. The following summaries of our code-share agreements with our major airline partners do not purport to be complete and are qualified in their entirety by reference to the applicable agreement.

Delta Connection Agreements

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
Delta Connection Agreement (fixed-fee arrangement)	<ul style="list-style-type: none"> • CRJ 200 • CRJ 700 • CRJ 900 • E175 	<ul style="list-style-type: none"> 58 22 41 49 	<ul style="list-style-type: none"> • Individual aircraft have scheduled removal dates from 2019 to 2029 • The average remaining term of the aircraft under contract is 4.1 years
Delta Connection Prorate Agreement (revenue-sharing arrangement)	<ul style="list-style-type: none"> • CRJ 200 	<ul style="list-style-type: none"> 29 	<ul style="list-style-type: none"> • Terminable with 30-day notice

United Express Agreements

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
United Express Agreements (fixed-fee arrangement)	<ul style="list-style-type: none">• CRJ 200• CRJ 700• E175	65 19 65	<ul style="list-style-type: none">• Individual aircraft have scheduled removal dates under the agreement between 2019 and 2029• The average remaining term of the aircraft under contract is 7.0 years
United Express Prorate Agreement (revenue-sharing arrangement)	<ul style="list-style-type: none">• CRJ 200	25	<ul style="list-style-type: none">• Terminable with 120-day notice

American Agreements

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
American Agreement (fixed-fee arrangement)	<ul style="list-style-type: none">• CRJ 700	58	<ul style="list-style-type: none">• Individual aircraft have scheduled removal dates from 2019 to 2023
American Prorate Agreement (revenue-sharing arrangement)	<ul style="list-style-type: none">• CRJ 200	7	<ul style="list-style-type: none">• Terminable with 120-day notice

Alaska Capacity Purchase Agreement

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
Alaska Agreement (fixed-fee arrangement)	<ul style="list-style-type: none">• E175	32	<ul style="list-style-type: none">• Individual aircraft have scheduled removal dates from 2027 to 2030

As of December 31, 2018, ExpressJet operated 100 ERJ145 aircraft and 16 CRJ200 aircraft under fixed-fee agreements with United and 10 CRJ700 aircraft under a fixed-fee agreement with American. We sold ExpressJet in January 2019. In conjunction with the sale of ExpressJet, SkyWest retained ownership of the 16 CRJ200 aircraft and the 10 CRJ700 aircraft operated by ExpressJet as of December 31, 2018. We agreed to lease the 16 CRJ200 aircraft to ExpressJet for up to a five-year period. We are pursuing alternative uses of the 10 CRJ700 aircraft, including but not limited to, using the aircraft under fixed-fee agreements or leasing the aircraft or related engines to third parties. ExpressJet leased 100 ERJ145 from United and the ERJ145 aircraft remained with ExpressJet in conjunction with the sale of ExpressJet.

In addition to the contractual arrangements described above, we have entered into agreements with Alaska and Delta to acquire and operate additional E175 dual-class regional jet aircraft (which are typically configured with 76 or 70 seats) for those major airline partners. As of December 31, 2018, we anticipated placing an additional three E175 aircraft with Alaska and nine E175 aircraft with Delta. The delivery dates for the new E175 aircraft are expected to take place from 2019 through 2021. Final delivery dates may be adjusted based on various factors.

We also entered into an agreement with Delta to operate 20 new Canadair CRJ900 regional jet aircraft ("CRJ900"). The aircraft will be acquired by Delta and operated by us under a fixed-fee agreement. As of December 31, 2018, we had taken delivery of five of these CRJ900 aircraft and placed them into service, and anticipate the delivery of the remaining 15 aircraft will continue through the end of 2020. These aircraft will replace 20 CRJ700 aircraft scheduled to expire under our flying contracts with Delta.

Delta Connection Agreements

We and Delta are parties to a Delta Connection Agreement (the "Delta Connection Agreement"), pursuant to which we provide contract flight services for Delta.

The Delta Connection Agreement has a latest scheduled termination date of 2029. The Delta Connection Agreement is subject to early termination in various circumstances, including:

- if we or Delta commit a material breach of the Delta Connection Agreement, subject to 30-day notice and cure rights;
- if we fail to conduct all flight operations and maintain all aircraft under the Delta Connection Agreement in compliance in all material respects with applicable government regulations;
- if we fail to satisfy certain performance and safety requirements;
- if either party files for bankruptcy, reorganization or similar action (subject to limitations imposed by the U.S. Bankruptcy Code) or makes an assignment for the benefit of creditors; or
- if we fail to maintain competitive base rate costs (provided, however, that we have the right to adjust our rates prior to any such termination).

United Express Agreements

We and United are parties to two United Express agreements: a United Express agreement to operate certain CRJ200s and CRJ700s, and a United Express agreement to operate E175 aircraft (collectively, the “United Express Agreements”).

The United Express Agreements have a latest scheduled termination date in 2027. The United Express Agreements are subject to early termination in various circumstances including:

- if we or United fail to fulfill an obligation under the United Express Agreements for a period of 60 days after written notice to cure;
- if our operations fall below certain performance levels for a period of three consecutive months;
- subject to limitations imposed by the U.S. Bankruptcy Code, if either 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
- subject to limitations imposed by the U.S. Bankruptcy Code, if bankruptcy proceedings are commenced against either party and certain specified conditions are not satisfied.

American Agreement

We and American are parties to an agreement (the “American Agreement”) for the operation of CRJ700 aircraft. The American Agreement for CRJ700 aircraft is scheduled to terminate in 2023 and is subject to early termination in various circumstances including:

- if we or American fail to fulfill any obligation under the American Agreement for a period of 30 days after written notice to cure;
- if our operations fall below certain performance levels;
- subject to limitations imposed by the U.S. Bankruptcy Code, if either party makes a general assignment for the benefit of creditors or becomes insolvent; or

- subject to limitations imposed by the U.S. Bankruptcy Code, if bankruptcy proceedings are commenced against either party and certain specified conditions are not satisfied

Alaska Agreement

We and Alaska are parties to a Capacity Purchase Agreement (the “Alaska Agreement”) for the operation of E175 aircraft. The agreement has a 12-year term for each of the aircraft subject to the agreement. The Alaska Agreement is subject to early termination in various circumstances including:

- if we or Alaska fail to fulfill an obligation under the Alaska Capacity Purchase Agreement for a period of 30 days after written notice to cure;
- if our operational performance falls below certain performance levels;
- subject to limitations imposed by the U.S. Bankruptcy Code, if either party makes a general assignment for the benefit of creditors or becomes insolvent; or
- subject to limitations imposed by the U.S. Bankruptcy Code, if bankruptcy proceedings are commenced against either party and certain specified conditions are not satisfied.

Training and Aircraft Maintenance

SkyWest provides substantially all training to our crew members and maintenance personnel at our training facilities. Our employees perform routine airframe and engine maintenance along with periodic inspections of equipment at our maintenance facilities. We also use third-party vendors for certain airframe and engine maintenance work.

Fuel

Our fixed-fee agreements with Delta, United, American and Alaska require the respective major airline partner to reimburse us for the fuel costs we incur under those agreements, thereby reducing our exposure to fuel price fluctuations. Under our prorate agreements with Delta, United and American, we are responsible for the costs to operate the flights, including fuel costs, and therefore we are exposed to fuel price fluctuations for flights operated under our prorate agreements. During the year ended December 31, 2018, United and Delta purchased the majority of the fuel for our aircraft flying under their respective fixed-fee agreements directly from their fuel vendors. 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 fuel purchase contracts generally do not provide protection against fuel price increases, nor do they ensure availability of supply. We typically purchase fuel from third-party suppliers for our prorate agreements. A substantial increase in the price of jet fuel for flights we operate under our prorate agreements, or the lack of adequate fuel supplies in the future, could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Employee Matters

Collective Bargaining

As of December 31, 2018, we had approximately 15,900 full-time equivalent employees, including 2,932 employed by ExpressJet. Approximately 85.3% of these employees were represented by a labor group. As of December 31, 2018, approximately 2,320 of ExpressJet’s 2,932 employees were represented by a national union.

As of December 31, 2018, SkyWest and SkyWest Airlines collectively employed 12,968 full-time equivalent employees, consisting of 4,706 pilots, 3,843 flight attendants, 1,633 customer service personnel, 1,208 mechanics, 893 other maintenance personnel, 190 dispatchers and 495 operational support and administrative personnel. None of these employees are currently represented by a national union. Our employees are represented by in-house labor associations

that have entered into collective bargaining agreements regarding our employee compensation and work rules. Union organizing efforts among our employees do occur from time to time and may continue in the future. If unionization efforts are successful, we may be subjected to increased 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 our relationships with our employees to be good.

Our relations with labor unions in the United States are governed by the Railway Labor Act (the “RLA”). Under the RLA, a collective bargaining agreement between an airline and a labor representative does not expire, but instead becomes amendable as of a stated date. If either party wishes to modify the terms of any such agreement, it must notify the other party in the manner prescribed by the RLA and/or described in the agreement. After receipt of such notice, the parties must meet for direct negotiations, and if no agreement is reached, either party may request the National Mediation Board to initiate a process including mediation, arbitration, and a potential “cooling off” period that must be followed before either party may engage in “self-help.” “Self-help” includes, among other things, a strike by the representative 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.

Government Regulation

All interstate air carriers, including SkyWest, are subject to regulation by the U.S. Department of Transportation (the “DOT”), the U.S. Federal Aviation Administration (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, 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 is in compliance in all material respects with FAA regulations and holds all operating and airworthiness certificates and licenses which are necessary to conduct our operations. We incur substantial costs in maintaining current certifications and otherwise complying with the laws, rules and regulations to which we are subject. Our flight operations, maintenance programs, record keeping and training programs are conducted under FAA approved procedures. All air carriers operating in the United States 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 is also subject to certain federal and state laws relating to protection of the environment, labor relations and equal employment opportunity. We believe SkyWest is in compliance in all material respects with these laws and regulations.

Environmental Matters

We 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. We have taken many steps, both voluntarily and as mandated by governmental authorities, to increase the safety and security of our operations. Some of the safety and security measures we have taken with our major airline 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

We 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.

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 changes in general economic conditions. Our operations are somewhat favorably affected by pleasure travel on our prorate 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 and we typically have more scheduled flights during the summer months. We generally experience a significantly higher number of weather cancellations during the winter months, which negatively impacts our revenue during such months.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Operations

Our business model is dependent on code-share agreements with four major airline partners.

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

As of December 31, 2018, 489 out of our total 596 aircraft available for scheduled service were operating under a fixed-fee arrangement or a revenue-sharing agreement with either Delta or United. If our code-share relationship with Delta or United were 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 relationships 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 an airline independent from major airline partners would be a

significant departure from our business plan and would likely require significant time and resources, which may not be a viable alternative.

Additionally, each of our agreements with our major airline partners is subject to certain early termination provisions. For example, Delta's termination rights include the right to terminate the agreements upon the occurrence of certain force majeure events (including certain labor-related events) that prevent us from performing for certain periods and the right to terminate the agreements if we fail to maintain competitive base rate costs, subject to certain rights to take corrective action to reimburse Delta for lost revenues. United may terminate the United Express Agreements due to our uncured breach of certain operational or performance provisions, including measures and standards related to flight completions, baggage handling 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.

We are reliant on two aircraft manufacturers and one engine manufacturer.

We operate aircraft manufactured by Bombardier and Embraer. The issuance of FAA or manufacturer directives restricting or prohibiting the use of any Bombardier or Embraer aircraft types we operate could negatively impact our business and financial results. We are also dependent upon General Electric as the sole manufacturer of engines used on the aircraft we operate. Our operations could be materially and adversely affected by the failure or inability of Bombardier, Embraer or General Electric to provide sufficient parts or related maintenance and support services to us on a timely manner. Additionally, timing of aircraft deliveries could be delayed.

Our growth may be limited with our major airline partners' flight systems.

Additional growth opportunities within our major airline partners' flight systems are limited by various factors, including a limited number of regional aircraft each such major airline partner can operate in its regional network due to its own labor agreements. Except as contemplated by our existing code-share agreements, we cannot be sure that our major airline partners 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 limited growth opportunities may result in competitors accepting 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 airline partners, those opportunities may involve economic terms or financing commitments that are unacceptable to us. Additionally, our major airline partners may reduce the number of regional jets in their system by not renewing or extending existing flying arrangements with regional operators. Any one or more of these factors may reduce or eliminate our ability to expand our flight operations with our existing major airline partners.

Increases in labor costs, including pilot costs, maintenance costs and overhead costs may result in lower operating margins under our fixed-fee contracts.

Labor costs are a significant component of our total expenses. Currently, we believe our labor costs are competitive relative to other regional airlines. However, we cannot provide assurance that our labor costs going forward will remain competitive because of changes in supply and demand for labor in the regional industry. We compete against other airlines and businesses for labor in many highly skilled positions. If we are unable to hire, train and retain qualified employees at a reasonable cost, sustain employee engagement in our strategic vision, or if we are unsuccessful at implementing succession plans for our key staff, we may be unable to grow or sustain our business. Attrition beyond

normal levels could negatively impact our operating results, increase our training and labor costs and our business prospects could be harmed.

Additionally, under our fixed-fee contracts with Delta, United, American and Alaska, a portion of our compensation is based upon pre-determined rates typically applied to production statistics (such as departures, block hours, flight hours and number of aircraft in service each month). The primary operating costs intended to be compensated by the pre-determined rates include labor costs, including crew training costs, certain aircraft maintenance expenses, and overhead costs. During the year ended December 31, 2018, approximately 90.1% of our code-share operating costs were reimbursable at pre-determined rates and 9.9% of our code-share operating costs were pass-through costs. Additionally, our aircraft maintenance costs may increase annually as our fleet ages at a higher rate than our pre-determined rates allow. If our operating costs for labor, aircraft maintenance and overhead costs exceed the compensation earned from our pre-determined rates under our fixed-fee arrangements, our financial position and operating results will be negatively affected.

Information technology security breaches, hardware or software failures, or other information technology disruptions may negatively impact our operations or reputation.

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.

We may experience disruption in service with key third-party service providers.

We rely on outside vendors for a variety of services and functions critical to our business, including airframe and engine maintenance, ground handling, fueling, computer reservation system hosting, telecommunication systems and information technology infrastructure and services.

Even though we strive to formalize agreements with these vendors that define expected service levels, our use of outside vendors increases our exposure to several risks. In the event that one or more vendors goes into bankruptcy, ceases operation or fails to perform as promised, replacement services may not be readily available at competitive rates, or at all. If one of our vendors fails to perform adequately, we may experience increased costs, delays, maintenance issues, safety issues or negative public perception of our airline. Vendor bankruptcies, unionization, regulatory compliance issues or significant changes in the competitive marketplace among suppliers could adversely affect vendor services or force us to renegotiate existing agreements on less favorable terms. These events could result in disruptions in our operations or increases in our cost structure.

The Airline Safety and Pilot Training Improvement Act of 2009 may continue to negatively affect our operations and 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.

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

Under our fixed-fee arrangements with multiple major airline partners we have a total of 53 CRJ700s/CRJ900s with flying contract expirations in 2019 and 2020. Our underlying lease or debt financing obligations associated with each of these aircraft are scheduled to terminate in 2024 and 2025 on an aircraft-by-aircraft basis. We may not be successful in extending the flying contract term on these aircraft with our major airline partner at acceptable economic terms. In the event we are unsuccessful in extending the flying contract terms on these aircraft, we intend to 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 or subleasing the aircraft to another operator. Additionally, we may negotiate an early lease return agreement with the aircraft lessor. In the event we are unable to extend the flying contract terms for these aircraft at each respective contract’s expiration, we may incur cash and non-cash early lease termination costs that would negatively impact our operations and financial condition. Additionally, in the event we are unable to extend a flying contract with an existing major airline partner, but reach an agreement to place the aircraft into service with a different major airline partner, we likely will incur inefficiencies and incremental costs, such as changing the aircraft livery, which would negatively impact our financial results.

Our sale of ExpressJet may negatively impact our financial results, and we may not be successful in growing our business, revenues and profits from operations independent of ExpressJet.

Prior to the sale of ExpressJet in January 2019, 17.5% of our total revenue for the year ended December 31, 2018 was generated by regional jet service provided by ExpressJet. Following the sale of ExpressJet, we expect that our revenues will be materially reduced as we are no longer generating revenue from the operations of ExpressJet. We also expect the sale of ExpressJet to reduce the overall scale and resources of our business, which could adversely impact our ability to compete against other regional and low-cost carriers, particularly those owned by major airlines that may have

access to greater resources through their parent companies. There can be no assurance that the proceeds and other benefits from the sale of ExpressJet will be sufficient for us to grow our business, revenues and profits, and our future growth will depend on our ability to successfully implement our business strategy independent of ExpressJet going forward. If we are unable to successfully execute on this business strategy, or otherwise compete effectively with other regional and low-cost airlines, our business, financial condition, results of operations and growth prospects could be materially and adversely affected.

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. 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. This decrease has had, and may continue to have, a negative impact on our regional airline services revenue and financial results.

The residual value of our owned aircraft may be less than estimated in our depreciation policies.

As of December 31, 2018, we had approximately \$5.0 billion of property and equipment and related assets, net of accumulated depreciation. In accounting for these long-lived 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. 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. In the event the estimated residual value of any of our aircraft types is determined to be lower than the residual value assumptions used in our depreciation policies, the applicable aircraft type in our fleet may be impaired and may result in a material reduction in the book value of applicable aircraft types we operate or we may need to prospectively modify our depreciation policies. For example, during 2016 we recorded an impairment of \$465.6 million attributable to certain long-lived assets associated with our 50-seat aircraft primarily resulting from changes to our short-term and long-term fleet plans with our 50-seat aircraft. An impairment on any of our aircraft types we operate or an increased level of depreciation expense resulting from a change to our depreciation policies could result in a material negative impact to our financial results.

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

We currently operate primarily through hubs across the United States. 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 such as hurricanes or tornados can cause flight disruptions, and, during periods of storms or adverse weather, our flights may be canceled or significantly delayed. We operate a significant number of flights to and from airports with particular weather difficulties, including Atlanta, Salt Lake City, Chicago, San Francisco and Denver. A significant interruption or disruption in service at one of our hubs, due to adverse weather, system malfunctions, 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.

Negative economic or industry conditions may result in reductions to our flight schedules, which 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 may impact 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;
- price of jet fuel and oil;
- outbreaks of diseases that affect travel behavior; and
- weather and natural disasters.

The 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 and could cause our major airline partners to reduce the utilization levels of our aircraft under our code-share agreements.

The majority of our code-share agreements set forth minimum levels of flight operations which our major airline partners are required to schedule for our operations and we are required to provide. These minimum flight operating levels are intended to provide a baseline level of expected utilization of aircraft, labor, maintenance facilities and related flight operations support. Historically, our major airline partners have utilized our flight operations at levels which exceed the minimum levels set forth in our code-share agreements, however, the occurrence of any or all of the foregoing economic and industry conditions may cause our major airline partners to reduce our utilization levels. If our major airline partners schedule the utilization of our aircraft below historical levels (including taking into account the route distances 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 airline partners may change routes and frequencies of flights, which can negatively impact our operating efficiencies. Changes in schedules may increase our flight costs, which could exceed the reimbursed rates paid by our major airline 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.

We may experience an increase in fuel prices in our prorate operations.

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. Additionally, our operations may experience disruptions from temporary fuel shortages by our fuel vendors resulting from fuel quality issues, refueling disruption, or other challenges. 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 airline 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 prorate operations. As of December 31, 2018, we operated 25 CRJ200s under a prorate agreement with United, 29 CRJ200s under a prorate agreement with Delta, and seven CRJ200s under a prorate agreement with American. Our operating and financial results with respect to these prorate arrangements can be negatively affected by the price of jet fuel in the event we are unable to increase our passenger fares. Additionally in the event of prolonged low fuel prices, our competitors may lower their passenger ticket prices on routes that compete with our prorate markets, which could negatively impact our passenger load factors.

Our prorated arrangements with our major airline partners are terminable upon notice of 120 days or less.

Our prorated flying agreements with our major airline partners permit the major airline partner to terminate the agreement in its discretion by giving us notice of 120 days or less. If one of our major airline partners elects to terminate a flying agreement with notice of 120 days or less, our ability to use the aircraft under an alternative agreement with similar economics may be limited, which could negatively impact our financial results. Additionally, even if we can subsequently place the aircraft into service with a different major airline partner, of which there can be no assurance, we likely would incur inefficiencies and incremental costs, such as changing the aircraft livery, during the transition period, which would negatively impact our financial results.

We have a significant amount of contractual obligations.

As of December 31, 2018, we had a total of approximately \$3.2 billion in total long-term debt obligations. Substantially all of this long-term debt was incurred in connection with the acquisition of aircraft and engines. 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, 2018, we had 260 aircraft under lease, with remaining terms ranging up to nine years. Future minimum lease payments due under all long-term operating leases were approximately \$477.9 million at December 31, 2018. At a 5.45% discount factor, which is the average rate used to approximate the implicit rates within the applicable aircraft leases, the present value of these lease obligations was equal to approximately \$399.2 million at December 31, 2018. 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 200 CRJ200s with an average life of 16.3 years. Over the next several years, we may continue to replace the CRJ200s with larger regional jets. If we continue to add new aircraft to our fleet, we anticipate using significant amounts of capital to acquire these larger regional jets.

There can be no assurance that our operations will generate sufficient cash flow or liquidity to enable us to obtain the necessary aircraft acquisition financing to replace our current fleet, or to make required debt service payments related to our existing 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.

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, Russell A. Childs, 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.

We may decrease our dividends and/or reduce the amount of stock repurchases in the future.

Historically, we have paid dividends and repurchased shares of our common stock in varying amounts. The future payment and amount of cash dividends and 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 and results of operations 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. There also 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.

In addition, repurchases of our common stock pursuant to our share repurchase program and any future dividends could affect our stock price and increase its volatility. The existence of a share repurchase program and any future dividends could cause our stock price to be higher than it would otherwise be and could potentially reduce the market liquidity for our stock. Additionally, our share repurchase program and any future dividends may reduce our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. Further, our share repurchase program may fluctuate such that our cash flow may be insufficient to fully cover our share repurchases. Although our share repurchase program is intended to enhance long-term shareholder value, there is no assurance that it will do so because the market price of our common stock may decline below the levels at which we repurchased shares of stock and short-term stock price fluctuations could reduce the program's effectiveness.

Disagreements regarding the interpretation of our code-share agreements with our major airline 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 airline 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 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.

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.

The adoption of new tax legislation or changes to existing tax laws and regulations could adversely affect our financial condition or results of operations.

The airline industry is one of the most heavily taxed industries in the United States. We are subject to tax laws and regulations of the U.S. federal, state and local governments as well as various non-U.S. jurisdictions. Potential changes in existing tax laws, including future regulatory guidance, may impact our effective tax rate and tax payments. There can be no assurance that changes in tax laws or regulations, both within the United States and the other jurisdictions in which we operate, will not materially and adversely affect our effective tax rate, tax payments, financial condition and results of operations. Similarly, changes in tax laws and regulations that impact our major airline partners, customers or the economy generally may also impact our financial condition and results of operations.

In addition, tax laws and regulations are complex and subject to varying interpretations, and any significant failure to comply with applicable tax laws and regulations in all relevant jurisdictions could give rise to substantial penalties and liabilities. Any changes in enacted tax laws, rules or regulatory or judicial interpretations; any adverse outcome in connection with tax audits in any jurisdiction; or any change in the pronouncements relating to accounting for income taxes could materially and adversely impact our effective tax rate, tax payments, financial condition and results of operations.

Risks Related to the Airline Industry

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.

Various factors may negatively impact demand for air travel in the United States.

As is the case for other airlines, our operations often are affected by delays, cancellations and other conditions caused by factors largely beyond our control. Factors that might negatively impact our operations include:

- congestion and/or space constraints at airports or air traffic control problems;
- facility disruptions including power supplies;
- lack of operational approval (e.g. new routes, aircraft deliveries, etc.);
- adverse weather conditions;
- increased security measures or breaches in security;
- contagious illness and fear of contagion;
- changes in international treaties concerning air rights;
- international or domestic conflicts or terrorist activity; and
- other changes in business conditions.

Increased labor costs, labor disputes and unionization of our workforces may adversely affect our ability to conduct our business and reduce our profitability.

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, 2018, our salary, wage and benefit costs constituted approximately 43.7% 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 represented employees may be on terms that are not as attractive as our current agreements or comparable to agreements entered into by our competitors.

SkyWest's employees are represented by in-house associations; however, organizing efforts to join national unions 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 our employees being represented by one or more national unions. If our employees were to unionize or be deemed to be represented by one or more national unions, negotiations with these unions 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.

We are subject to significant governmental regulation and potential regulatory changes.

All interstate air carriers, including SkyWest, 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.

We cannot predict the impact, of potential regulatory changes that may affect our business or the airline industry as whole including the potential impact of tariffs on aircraft deliveries. However, it is possible that these changes could adversely affect our business. Our business may be subject to additional costs or loss of government subsidies as a result of potential regulatory changes, which could have an adverse effect on our operations and financial results.

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, Allegiant, Spirit 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 mergers between Alaska and Virgin America Inc. in 2016,

American and US Airways Group Inc. in 2013, Southwest Airlines Co. and AirTran Holdings, Inc. in 2011, United and Continental Airlines, Inc. in 2010 and Delta and Northwest Airlines, Inc. in 2008. 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 major airline 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 airline 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Flight Equipment

As of December 31, 2018, our fleet available for scheduled service consisted of the following types of owned and leased aircraft:

<u>Aircraft Type</u>	<u>Number of Owned Aircraft</u>	<u>Number of Leased Aircraft</u>	<u>Passenger Capacity</u>	<u>Scheduled Flight Range (miles)</u>	<u>Average Cruising Speed (mph)</u>	<u>Average Age (years)</u>
CRJ900s	20	21	76	1,500	530	10.2
CRJ700s	60	49	65-70	1,600	530	12.9
CRJ200s	125	75	50	1,500	530	16.3
E175s	146	—	70-76	2,100	530	2.2
ERJ145s	—	100	50	1,500	530	16.5

Several factors may impact our fleet size throughout 2019 and thereafter, including contract expirations, lease expirations, growth opportunities and opportunities to transition to an alternative major airline partner. Below is our 2019 outlook on our fleet by aircraft type. Our actual future fleet size and/or mix of aircraft types will likely vary, and may vary materially, from our current fleet size.

- CRJ900s/CRJ700s – We anticipate taking delivery of 15 new CRJ900 aircraft under a nine-year fixed-fee agreement with Delta from early 2019 through mid-2020. As these new CRJ900 aircraft are placed into service, we anticipate removing 15 used CRJ700 aircraft from service with Delta and we are pursuing alternative uses of these CRJ700 aircraft upon their removal from service.
- E175s – We anticipate taking delivery of nine new E175 aircraft under a nine-year fixed-fee agreement with Delta. We are scheduled to take delivery of five E175 aircraft during 2019 and four E175 aircraft during 2020 under the Delta Connection Agreement. As these new E175 aircraft are delivered, we expect to remove nine used CRJ900 aircraft from service with Delta, upon which we anticipate leasing five of the

nine CRJ900 aircraft to a third party and returning four of the nine CRJ900 aircraft to the lessor. Additionally, we are scheduled to take delivery of three new E175 aircraft with Alaska under a fixed-fee contract in 2021.

- ERJ145s – As of December 31, 2018, ExpressJet leased and operated 100 ERJ145 aircraft under a fixed-fee agreement and aircraft lease with United. The ERJ145 aircraft remained with ExpressJet in conjunction with the sale of ExpressJet in January 2019.
- CRJ200s – Following the sale of ExpressJet in January 2019, we have agreed to lease 16 used CRJ200 to ExpressJet beginning in January 2019. We currently do not anticipate a significant change in the total number of remaining CRJ200 aircraft scheduled for service during 2019.

Ground Facilities

SkyWest and SkyWest Airlines own or lease, and, as of December 31, 2018, ExpressJet owned or leased, 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 is scheduled to expire in January 2028.
- SkyWest Airlines owns a 180,000 square-foot aircraft maintenance hangar and office facility in Milwaukee, Wisconsin with a land lease that is scheduled to expire in November 2032.
- SkyWest Airlines owns a 135,000 square-foot aircraft maintenance hangar and office facility in Oklahoma City, Oklahoma with a land lease that is scheduled to expire in June 2027.
- SkyWest Airlines leases a 126,000 square-foot aircraft maintenance hangar and office facility in Boise, Idaho. The lease agreement is scheduled to expire in September 2040.
- SkyWest Airlines leases a 105,000 square-foot aircraft maintenance hangar and office facility in Fresno, California. The lease agreement is scheduled to expire in August 2019.
- SkyWest Airlines owns a 101,000 square-foot aircraft maintenance hangar and office facility in Colorado Springs, Colorado with a land lease that is scheduled to expire in July 2056.
- SkyWest Airlines leases a 70,000 square-foot aircraft maintenance hangar and a 30,000 square-foot aircraft maintenance hangar in Tucson, Arizona. The lease agreement is scheduled to expire in February 2022.
- SkyWest Airlines leases a 96,000 square-foot aircraft maintenance hangar and office facility in Chicago, Illinois. The lease agreement is scheduled to expire in June 2023.
- SkyWest Airlines leases a 88,000 square-foot aircraft maintenance hangar and office facility in Detroit, Michigan. The lease agreement is scheduled to expire in September 2019.
- SkyWest Airlines leases a 80,000 square-foot aircraft maintenance hangar and office facility in Nashville, Tennessee. The lease agreement is scheduled to expire in June 2022.
- SkyWest Airlines owns a 57,000 square-foot aircraft maintenance facility in Palm Springs, California with a land lease that is scheduled to expire in January 2027.
- SkyWest Airlines owns a 55,000 square-foot maintenance accessory shop and leases a 5,000 square-foot training facility in Salt Lake City, Utah. The lease agreement is scheduled to expire in May 2019.

- SkyWest Airlines leases a 42,000 square-foot aircraft maintenance facility in South Bend, Indiana. The lease agreement is scheduled to expire in November 2021.
- SkyWest Airlines leases a 40,000 square-foot aircraft maintenance facility in Fort Wayne, Indiana. The lease agreement is scheduled to expire in March 2021.

ExpressJet Facilities (as of December 31, 2018 and retained by ExpressJet following our sale of ExpressJet in January 2019)

- ExpressJet leased an 83,000 square-foot aircraft maintenance hangar, and a 15,000 square-foot shop facility in Knoxville, Tennessee.
- ExpressJet subleased a 91,000 square-foot aircraft maintenance facility in Cleveland, Ohio.
- ExpressJet leased a 69,000 square-foot aircraft maintenance hangar and office support facility in Houston, Texas.
- ExpressJet leased a 57,000 square-foot training center and support space in Houston, Texas.
- ExpressJet subleased a 50,655 square-feet of building space at Hartsfield Jackson-Atlanta International Airport.
- ExpressJet leased a 32,000 square-foot aircraft maintenance facility in Richmond, Virginia.
- ExpressJet leased a 29,000 square-foot warehouse for the purpose of parts storage in Atlanta, Georgia.

Our management deems the current facilities of SkyWest and SkyWest Airlines 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, 2018, 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.

PART II

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

Market Information

Our common stock is traded on The Nasdaq Global Select Market under the symbol “SKYW.” As of February 12, 2019, there were approximately 745 stockholders of record of our common stock. Securities held of record do not include shares held in securities position listings. The transfer agent for our common stock is Zions First National Bank, Salt Lake City, Utah.

Dividends

During 2018, our Board of Directors declared regular quarterly dividends of \$0.10 per share. During 2017, our Board of Directors declared regular quarterly dividends of \$0.08 per share. We intend to continue to pay quarterly dividends subject to liquidity, capital availability and quarterly determinations that cash dividends are in the best interests of our shareholders.

Issuer Purchases of Equity Securities

Our Board of Directors has adopted a stock repurchase program which authorizes us to repurchase shares of our common stock in the public market or in private transactions, from time to time, at prevailing prices. As of December 31, 2018, our stock repurchase program authorized the repurchase of up to \$100.0 million of our common stock. The following table summarizes our purchases under our stock repurchase program during the three months ended December 31, 2018:

	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of a Publicly Announced Program (1)</u>	<u>Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program (in Thousands)</u>
October 1, 2018 – October 31, 2018	33,015	\$ 55.63	33,015	\$ 52,991
November 1, 2018 - November 30, 2018. . .	415,248	56.26	415,248	\$ 29,621
December 1, 2018 - December 31, 2018 . .	91,900	44.35	91,900	25,543
Total	<u>540,163</u>	<u>\$ 54.20</u>	<u>540,163</u>	<u>\$ 25,543</u>

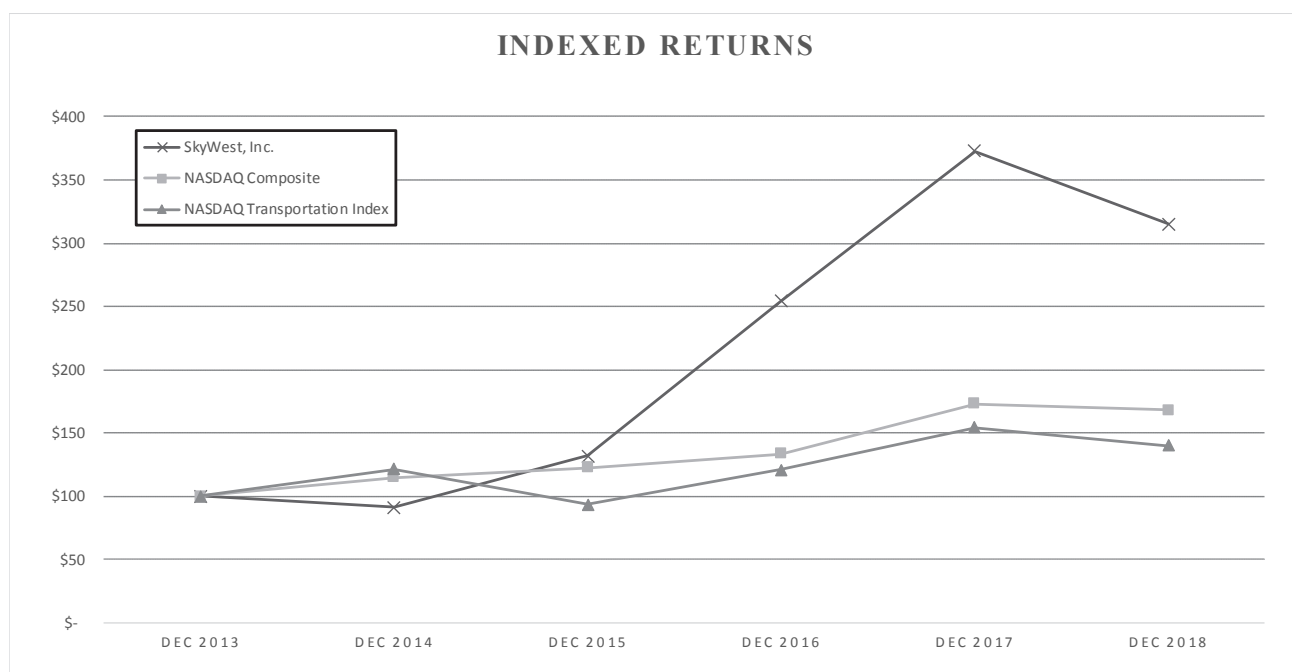
(1) On February 9, 2017, we announced that our Board of Directors authorized the repurchase of up to \$100.0 million of our common stock over the next three years. Purchases were made at management’s discretion based on market conditions and financial resources. As of December 31, 2018, we had repurchased 1,451,811 shares of our common stock for approximately \$74.5 million under this authorization.

On February 5, 2019, our Board of Directors approved a new share repurchase plan, pursuant to which we are authorized to repurchase up to \$250 million of our common stock. We are authorized to repurchase such shares of common stock at prevailing market prices in the open market, in privately negotiated transactions, or by other means in accordance with federal securities laws from time to time. This authorization superseded our previous share repurchase plan approved in February 2017.

Stock Performance Graph

The following Performance Graph and related information shall not be deemed “soliciting material” or “filed” with the SEC, 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, 2018, with the cumulative total return during such period of the Nasdaq Stock Market (U.S. Companies) and the Nasdaq Stock Market Transportation Index. 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.



INDEXED RETURNS

Company Name / Index	Base Period	Years Ending				
	2013	2014	2015	2016	2017	2018
SkyWest, Inc.	100	91.14	131.83	254.45	372.91	315.11
NASDAQ Composite.	100	114.75	122.74	133.62	173.22	168.30
NASDAQ Transportation Index.	100	121.41	93.55	120.89	154.19	140.25

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,				
	2018	2017	2016	2015	2014
Operating revenues	\$ 3,221,679	\$ 3,122,592	\$ 3,063,702	\$ 3,095,563	\$ 3,237,447
Operating income (loss)(1)	474,280	388,199	(172,684)	234,515	24,848
Net income (loss)(2)	280,372	428,907	(161,586)	117,817	(24,154)
Net income (loss) per common share:					
Basic	\$ 5.40	\$ 8.28	\$ (3.14)	\$ 2.31	\$ (0.47)
Diluted	\$ 5.30	\$ 8.08	\$ (3.14)	\$ 2.27	\$ (0.47)
Weighted average shares:					
Basic	51,914	51,804	51,505	51,077	51,237
Diluted	52,871	53,100	51,505	51,825	51,237
Total assets(3)	\$ 6,313,212	\$ 5,474,400	\$ 5,007,966	\$ 4,781,984	\$ 4,388,818
Current assets(3)	1,020,794	995,133	917,792	1,017,570	1,089,501
Current liabilities	924,826	820,825	747,265	748,026	691,065
Long-term debt, net of current maturities	2,809,768	2,377,346	2,240,051	1,659,234	1,548,390
Stockholders' equity	1,964,281	1,754,322	1,350,943	1,506,435	1,400,346
Return (loss) on average equity(4)	15.1 %	27.6 %	(12.0)%	7.8 %	(1.7)%
Cash dividends declared per common share	\$ 0.40	\$ 0.32	\$ 0.19	\$ 0.16	\$ 0.16

(1) Our operating loss for 2016 included a special charge of \$465.6 million related to an impairment on our 50-seat aircraft and related assets. Our 2014 operating income included a special charge of \$74.8 million primarily related to an impairment on our EMB120 aircraft and ERJ145 long-lived assets.

(2) Our net income for 2017 included a \$246.8 million benefit related to the revaluation of our net deferred tax liability and other tax liabilities in accordance with the Tax Cuts and Jobs Act of 2017 that was enacted into law in December 2017.

(3) Certain reclassifications were made to 2017 balances to conform to the current period presentation, which reflects the adoption of ASC 606. See Note 1 to our Consolidated Financial Statements included in Item 8 of this Report.

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

Selected Operating Data

	Year ended December 31,				
	2018	2017	2016	2015	2014
Block hours	1,757,047	1,839,779	1,938,492	2,074,804	2,275,562
Departures	1,010,053	1,087,052	1,153,480	1,226,897	1,357,454
Passengers carried	48,350,470	51,483,552	53,539,438	56,228,593	58,962,010
Average passenger trip length	523	512	523	528	534
Number of operating aircraft at end of year(1)	596	595	652	660	717

(1) 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, 2018, 2017 and 2016. Also discussed is our financial position as of December 31, 2018 and 2017. 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

We have the largest regional airline operation in the United States. As of December 31, 2018, we offered scheduled passenger and air freight service with approximately 2,770 total daily departures to destinations in the United States, Canada, Mexico and the Caribbean. As of December 31, 2018, we had 596 aircraft available for scheduled service consisting of the following (which included 100 ERJ145s and 16 CRJ200s that ExpressJet operated for United and 10 Canadair CRJ700s that ExpressJet operated for American):

	CRJ200	CRJ700	CRJ900	ERJ145	E175	Total
United	106	19	—	100	65	290
Delta	87	22	41	—	49	199
American	7	68	—	—	—	75
Alaska	—	—	—	—	32	32
Aircraft in scheduled service	200	109	41	100	146	596
Subleased to an un-affiliated entity	4	—	—	—	—	4
Other*	4	19	—	5	—	28
Total Fleet	208	128	41	105	146	628

*As of December 31, 2018, these aircraft have been removed from service and are in the process of being returned under the applicable leasing arrangement or are aircraft transitioning between code-share agreements with our major airline partners.

Our business model is based on providing scheduled regional airline service under code-share agreements (commercial agreements between airlines that, among other things, allow one airline to use another airline’s flight designator codes on its flights) with our major airline partners. Our success is principally centered on our ability to meet the needs of our major airline partners through providing a reliable and safe operation at attractive economics. Over the last several years, our business has evolved as we have added 39 new E175 aircraft and five new CRJ900 aircraft to our fleet since December 31, 2017, and removed 12 ERJ145 aircraft, 20 CRJ700 aircraft and 16 CRJ900 aircraft that were operating under less profitable or unprofitable flying agreements.

We anticipate our fleet will continue to evolve, as we are scheduled to add 12 new E175 and 15 new CRJ900 aircraft to existing fixed-fee agreements by the end of 2021. We anticipate these new aircraft will be replacing older CRJ900 and CRJ700 aircraft currently operating under fixed-fee agreements. Our primary objective in the fleet changes is to improve our profitability by adding new aircraft to fixed-fee agreements at improved economics, including the E175 aircraft, while removing aircraft that were operating under less profitable or unprofitable arrangements.

As of December 31, 2018, ExpressJet operated 100 ERJ145 aircraft and 16 CRJ200 aircraft under fixed-fee agreements with United and 10 CRJ700 aircraft under a fixed-fee agreement with American. On January 22, 2019, we completed the sale of ExpressJet. In conjunction with the sale of ExpressJet, we retained ownership of the 16 CRJ200 aircraft and the 10 CRJ700 aircraft operated by ExpressJet as of December 31, 2018. ExpressJet retained operation of the 100 ERJ145 aircraft that ExpressJet leased from United. We agreed to lease the 16 CRJ200 aircraft to ExpressJet for up to a five-year period. We are pursuing alternative uses of the 10 CRJ700 aircraft, including but not limited to, using the aircraft under fixed-fee agreements or leasing the aircraft or related engines to third parties.

For the year ended December 31, 2018, approximately 48.6% of our aircraft in scheduled service were operated for United, approximately 33.4% were operated for Delta, approximately 12.6% were operated for American and approximately 5.4% were operated for Alaska.

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 arrangements and our prorate flying arrangements. For the year ended December 31, 2018, contract flying revenue and prorate revenue represented approximately 84.3% and 15.7%, respectively, of our total flying agreements revenue. 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 (measured from takeoff to landing, including taxi time), flight departures and other operating measures.

Our financial and operating results for the years ended December 31, 2016, 2017 and 2018, and our financial position as of December 31, 2017 and 2018 contained in this Report, include the financial results and position of ExpressJet for those respective periods.

Financial Highlights

We had total operating revenues of \$3.2 billion for the year ended December 31, 2018, a 3.2% increase, compared to total operating revenues of \$3.1 billion for the year ended December 31, 2017. We had a net income of \$280.4 million, or \$5.30 per diluted share, for the year ended December 31, 2018, compared to net income of \$428.9 million, or \$8.08 per diluted share, for the year ended December 31, 2017. Our results for 2017 included a \$246.8 million benefit related to the revaluation of our net deferred tax liability and other tax liabilities in accordance with the Tax Cuts and Jobs Act that was enacted into law in December 2017.

The significant items affecting our financial performance during the year ended December 31, 2018 are outlined below:

Revenue

The number of aircraft we have in scheduled service and the number of block hours we generate on our flights are primary drivers to our flying agreements revenue under our fixed-fee arrangements. During 2018, we had a net increase in the number of aircraft operating under fixed-fee agreements. As summarized under the Fleet Activity section below, from December 31, 2017 to December 31, 2018, we removed 48 aircraft from service that were operating under less profitable flying contracts and added 49 aircraft to new or existing fixed-fee arrangements at improved economics. The number of aircraft available for scheduled service increased from 595 aircraft at December 31, 2017 to 596 at December 31, 2018. Our completed block hours decreased 4.5% primarily due to the timing of our fleet transition during 2018. The majority of the aircraft removed from service during 2018 were removed during the first half of the year, whereas the majority of the aircraft added into service were added during the second half of the year.

Despite the reduction in our block hour production since 2017, our total flying agreements revenue increased 3.2% from 2017 to 2018 primarily due to higher compensation we earned on aircraft, including new aircraft added in 2018, partially offset by a decrease in revenue associated with the aircraft removed from our fleet.

Operating Expenses

The increase in our operating expense from 2017 to 2018 of \$13.0 million, or 0.5%, was primarily related to increased compensation paid to our crews since December 31, 2017, an increase in our average fuel costs per gallon on our prorate flying arrangements and an increase in other operating expenses, including pilot recruitment and training costs. Additional details regarding the increase in our operating expenses are described in the section of this Report entitled "Results of Operations."

Fleet Activity

The following table summarizes our fleet activity for 2018:

<u>Aircraft in Service</u>	<u>December 31, 2017</u>	<u>Additions</u>	<u>Removals</u>	<u>December 31, 2018</u>
E175s.....	107	39	—	146
CRJ900s	52	5	(16)	41
CRJ700s	129	—	(20)	109
CRJ200s	195	5	—	200
ERJ145/135s.....	112	—	(12)	100
Total	595	49	(48)	596

During 2018, we took delivery of 39 new E175 aircraft and five new CRJ900 aircraft and placed the aircraft into service under fixed-fee flying agreements. We removed 16 CRJ900 aircraft from service and returned the aircraft to the lessor. We also removed 20 CRJ700 aircraft from service during 2018 that we either returned to the lessor, are in the process of transitioning to another major airline partner, or are pursuing alternative uses of the aircraft, including, but not limited to, leasing the aircraft or related engines to third parties. The five CRJ200 aircraft added to service during 2018 were temporarily out of service at December 31, 2017. We removed 12 ERJ145s from service and returned the aircraft to the lessor.

Critical Accounting Policies and Estimates

Our significant accounting policies are summarized in Note 1 to our Consolidated Financial Statements 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, 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

Flying agreements and airport customer service and other revenues are recognized when service is provided. Under our fixed-fee and prorate flying agreements with our major airline partners, revenue is considered earned when each flight is completed. A portion of our compensation under our fixed-fee flying agreements is designed to reimburse us for the use of the aircraft we provide under such agreements. This compensation is deemed to be lease revenue, inasmuch as the agreements identify the “right of use” or a specific type and number of aircraft over the agreement term. The amount of compensation deemed to be lease revenue is determined from the agreed upon rates for the use of the aircraft included in each fixed-fee agreement, which we believe approximates fair value for the aircraft leases. Under our airport customer service agreements, revenue is considered earned when each flight we provide customer service for departs. Our agreements with our major airline 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 or our estimate of rates that will be implemented upon completion of negotiations. Also, in the event we have a reimbursement dispute with a major airline 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

For the majority of our engines, we have an agreement with a third-party vendor to provide long-term engine maintenance covering scheduled and unscheduled engine repairs, including engine overhauls, 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.

For engines not covered under a Power-by-the-Hour-Agreement 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.

Aircraft Leases

As of December 31, 2018, our fleet of aircraft in scheduled service included 245 aircraft under lease (including 108 aircraft leased by ExpressJet). 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. Under some of our fixed-fee arrangements, our major airline partners may acquire aircraft from third-parties and lease the aircraft to us for a de minimis amount, and in such cases, no related lease revenue or lease expense is recognized. Under the majority of our operating leases, we are required to meet half-time lease return conditions with the aircraft, which presumes at least 50 percent of the eligible flight time for certain components since the last overhaul remains when the aircraft is returned to the lessor. A liability for probable lease return costs is recorded after the aircraft has completed its last maintenance cycle prior to being returned. 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. See “Recent Accounting Pronouncements” set forth below for a discussion of a new accounting standard that is likely to have an impact on our aircraft lease accounting beginning in 2019.

Long-Lived Assets

As of December 31, 2018, we had approximately \$5.0 billion of property and equipment and related assets net of accumulated depreciation. In accounting for these long-lived, 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. 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. We did not have any impairment charges during the year ended December 31, 2018.

Stock-Based Compensation Expense

Restricted stock units (“RSUs”) are awarded to eligible employees and entitle the grantee to receive shares of common stock at the end of the vest period. Performance Share Units (“PSUs”) are awarded to certain employees to receive shares of common stock if specific performance targets are achieved. At the end of each performance period, the number of shares awarded can range from 0% to 200% of the original 2018 and 2017 grant amounts for performance share units and can range from 0% to 150% of the original 2016 grant amount for performance shares, depending on the performance against the pre-established targets. The fair value of the RSUs and PSUs are based on the stock price as of the date of grant and “cliff vest” after three years. We are required to use judgment and estimates in determining compensation expense for the PSUs based on projected performance compared to the pre-established targets over the measurement period for unvested PSU awards.

Fair value

We hold certain assets that are required to be measured at fair value in accordance with U.S. Generally Accepted Accounting Principles. 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.

Recent Accounting Pronouncements

See Note 1 to the Consolidated Financial Statements included in Item 8 of this Report for a description of recent accounting pronouncements.

Results of Operations

2018 Compared to 2017

Operational Statistics. The following table sets forth our major operational statistics and the associated percentages of change for the periods identified below. The decrease in block hours, departures and passengers carried during the year ended December 31, 2018, compared to the year ended December 31, 2017, was primarily due to the timing of our fleet transition during 2018. Although our total number of aircraft in service did not significantly change from December 31, 2017 to December 31, 2018, the majority of the aircraft removed from service were removed during the first half of 2018 while the majority of the aircraft added into service were added during the second half of 2018.

	For the year ended December 31,		
	2018	2017	% Change
Block hours	1,757,047	1,839,779	(4.5)%
Departures	1,010,053	1,087,052	(7.1)%
Passengers carried	48,350,470	51,483,552	(6.1)%
Passenger load factor	80.5 %	80.4 %	0.1 pts
Average passenger trip length (miles)	523	512	2.1 %

Operating Revenues

The following table summarizes our operating revenue for the periods indicated (dollar amounts in thousands):

	For the year ended December 31,			
	2018	2017	\$ Change	% Change
Flying agreements	\$ 3,169,520	\$ 3,078,297	\$ 91,223	3.0 %
Airport customer service and other	52,159	44,295	7,864	17.8 %
Total operating revenues	\$ 3,221,679	\$ 3,122,592	\$ 99,087	3.2 %

Flying agreements revenue primarily consists of revenue earned on flights we operate under our capacity purchase agreements and prorate agreements with our major airline partners. Airport customer service and other revenues primarily consist of revenue earned from providing airport counter, gate and ramp services. Changes in our flying agreements revenue are summarized below (dollar amounts in thousands).

	For the year ended December 31,			
	2018	2017	\$ Change	% Change
Capacity purchase agreements revenue: flight operations	\$ 1,856,253	\$ 1,805,510	\$ 50,743	2.8 %
Capacity purchase agreements revenue: aircraft lease	814,518	834,366	(19,848)	(2.4)%
Prorate agreements revenue	498,749	438,421	60,328	13.8 %
Flying agreements revenue	\$ 3,169,520	\$ 3,078,297	\$ 91,223	3.0 %

The increase in “Capacity purchase agreements revenue: flight operations” of \$50.7 million was primarily due to incremental revenue generated from 39 new E175 aircraft and five new CRJ900 aircraft added to our fleet and economic improvements made to certain existing fixed-fee agreements that were renewed or extended since December 31, 2017, partially offset by the timing of the removal of 48 ERJ145, CRJ700 and CRJ900 aircraft from flying arrangements with a lower revenue per aircraft since December 31, 2017. The decrease in “Capacity purchase agreement revenue: aircraft lease” of \$19.8 million was primarily due to the timing and number of leased aircraft removed from fixed-fee contracts for the year ended December 31, 2017 compared to the year ended December 31, 2018. The increase in prorate agreement revenue of \$60.3 million was primarily due to the incremental revenue generated from seven CRJ200 aircraft added to our prorate agreements and new prorate agreements at improved economics since December 31, 2017.

The \$7.9 million increase in airport customer service and other revenues was primarily related to a combination of an increase in volume of airport service agreements and contract rate increases on agreements that were renewed since December 31, 2017.

Individual expense components attributable to our operations are set forth in the following table (dollar amounts in thousands).

	For the year ended December 31,			
	2018	2017	\$ Change	% Change
	Amount	Amount	Amount	Percent
Salaries, wages and benefits	\$ 1,201,518	\$ 1,192,067	\$ 9,451	0.8 %
Aircraft maintenance, materials and repairs	556,259	579,463	(23,204)	(4.0)%
Depreciation and amortization	334,589	292,768	41,821	14.3 %
Aircraft rentals	154,945	215,807	(60,862)	(28.2)%
Aircraft fuel	117,657	85,136	32,521	38.2 %
Airport-related expenses	109,605	118,374	(8,769)	(7.4)%
Other operating expenses	272,826	250,778	22,048	8.8 %
Total operating expenses	<u>\$ 2,747,399</u>	<u>\$ 2,734,393</u>	<u>\$ 13,006</u>	<u>0.5 %</u>
Interest expense	120,409	104,925	15,484	14.8 %
Total airline expenses	<u>\$ 2,867,808</u>	<u>\$ 2,839,318</u>	<u>\$ 28,490</u>	<u>1.0 %</u>

Salaries, wages and benefits. The \$9.5 million, or 0.8%, decrease in salaries, wages and benefits during the year ended December 31, 2018, compared to the year ended December 31, 2017, was primarily due to higher flight crew compensation costs resulting from labor agreements executed during the second half of 2018, which was partially offset by a decrease in direct labor costs resulting from a reduction in departures and block hours.

Aircraft maintenance, materials and repairs. The \$23.2 million, or 4.0%, decrease in aircraft maintenance expense during the year ended December 31, 2018, compared to the year ended December 31, 2017, was primarily due to a decrease in scheduled maintenance events and the replacement and repair of aircraft parts and components partially offset by an increase in the percentage of our fleet that is under long-term Power-by-the-Hour maintenance agreements, including the additional 39 E175 aircraft added since December 31, 2017.

Depreciation and amortization. The \$41.8 million, or 14.3%, increase in depreciation and amortization expense during the year ended December 31, 2018, compared to the year ended December 31, 2017, was primarily due to the purchase of 39 additional E175 aircraft and related long-lived aircraft parts in 2018.

Aircraft rentals. The \$60.9 million, or 28.2%, decrease in aircraft rentals during the year ended December 31, 2018, compared to the year ended December 31, 2017, was primarily due to a decrease in leased aircraft from 319 leased aircraft for the year ended December 31, 2017, to 260 leased aircraft for the year ended December 31, 2018.

Aircraft fuel. The \$32.5 million, or 38.2%, increase in fuel cost during the year ended December 31, 2018, compared to the year ended December 31, 2017, was primarily due to an increase in our average fuel cost per gallon from \$2.06 for the year ended December 31, 2017 to \$2.60 for the year ended December 31, 2018, along with an increase in the number of prorate flights we operated and the corresponding additional gallons of fuel we purchased. We purchase and incur expense for all fuel on flights operated under our prorate agreements. All fuel costs incurred under our fixed-fee contracts are either purchased directly by our major airline partner, or if purchased by us, we record the direct reimbursement as a reduction to our fuel expense. The following table summarizes the gallons of fuel we purchased under our prorate agreements, for the periods indicated:

(in thousands)	For the year ended December 31,		
	2018	2017	% Change
Fuel gallons purchased	45,299	41,234	9.9 %
Fuel expense	\$ 117,657	\$ 85,136	38.2 %

Airport-related expenses. Airport-related expenses include airport-related customer service costs such as outsourced airport gate and ramp agent services, airport security fees, passenger interruption costs, deicing, landing fees and station rents (our employee customer service labor costs are reflected in salaries, wages and benefits). The \$8.8 million, or 7.4%, decrease in airport-related expenses during the year ended December 31, 2018, compared to the year

ended December 31, 2017, was primarily due to a decrease in airport terminal rents during the year ended December 31, 2018.

Other operating expenses. Other operating expenses primarily consist of property taxes, hull and liability insurance, simulator costs, crew per diem, and crew hotel costs. The \$22.0 million, or 8.8%, increase in other operating expenses was primarily related to increased pilot recruitment cost, crew training costs, including the cost of hotel rooms, and property tax on additional aircraft added since December 31, 2017.

Interest Expense. The \$15.5 million, or 14.8%, increase in interest expense during the year ended December 31, 2018, compared to the year ended December 31, 2017, was primarily due to the purchase of 39 additional E175 aircraft in 2018 financed through debt.

Total airline expenses. Total airline expenses (consisting of total operating and interest expenses) increased \$28.5 million, or 1.0%, during the year ended December 31, 2018, compared to the year ended December 31, 2017 primarily related to an increase in our average fuel cost per gallon incurred under our prorate agreements, an increase in flight crew compensation costs and other operating expenses, partially offset by a reduction in departures and block hour production of 4.5% during the year ended December 31, 2018 compared to the year ended December 31, 2017.

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

Interest income. Interest income increased \$4.3 million, or 95.7%, during the year ended December 31, 2018, compared to the year ended December 31, 2017. The increase in interest income was primarily related to an increase in interest rates subsequent to December 31, 2017.

Other Income, net. During the year ended December 31, 2018, we had other income of \$3.6 million primarily related to a mark-to-market gain on trading securities and a gain on rotatable spare parts sold during the year ended December 31, 2018.

Summary of provision for income taxes:

Provision for income taxes. For the year ended December 31, 2018, we recorded an income tax provision of 23%, which includes the statutory federal income tax rate of 21% and other reconciling income tax items, including state income taxes. We recorded a \$246.8 million benefit in 2017 related to the revaluation of its net federal, state and other deferred tax liabilities based on the tax effects of the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). We also recorded a \$4.5 million and \$5.4 million benefit in 2018 and 2017, respectively, relating to ASU 2016-09 which requires excess tax benefits and deficiencies to be recognized in the income tax provision during the period stock options are vested/exercised.

Net Income. Primarily due to the factors described above, we generated net income of \$280.4 million, or \$5.30 per diluted share, for the year ended December 31, 2018, compared to a net income of \$428.9 million, or \$8.08 per diluted share, for the year ended December 31, 2017.

2017 Compared to 2016

Operational Statistics. The following table sets forth our major operational statistics and the associated percentages of change for the periods identified below. The decrease in block hours, departures and passengers carried during the year ended December 31, 2017, compared to the year ended December 31, 2016, was primarily due to a net reduction in our operating fleet from 652 aircraft to 595 aircraft between December 31, 2016 and December 31, 2017.

	For the year ended December 31,		
	2017	2016	% Change
Block hours	1,839,779	1,938,492	(5.1)%
Departures	1,087,052	1,153,480	(5.8)%
Passengers carried	51,483,552	53,539,438	(3.8)%
Passenger load factor	80.4 %	82.1 %	(1.7)pts
Average passenger trip length (miles)	512	523	(2.1)%

Operating Revenues

The following table summarizes our operating revenue for the periods indicated (dollar amounts in thousands):

	For the year ended December 31,			
	2017	2016	\$ Change	% Change
Flying agreements	\$3,078,297	\$3,010,738	\$ 67,559	2.2 %
Airport customer service and other	44,295	52,964	(8,669)	(16.4)%
Total operating revenues	\$3,122,592	\$3,063,702	\$ 58,890	1.9 %

Flying agreements revenue primarily consists of revenue earned on flights we operate under our capacity purchase agreements and prorate agreements with our major airline partners. Airport customer service and other revenues primarily consist of revenue earned from providing airport counter, gate and ramp services. Changes in our flying agreements revenue are summarized below (dollar amounts in thousands).

	For the year ended December 31,			
	2017	2016	\$ Change	% Change
Capacity purchase agreements revenue: flight operations	\$ 1,805,510	\$ 1,792,868	\$ 12,642	0.7 %
Capacity purchase agreements revenue: aircraft lease	834,366	763,406	70,960	9.3 %
Prorate agreements revenue	438,421	454,464	(16,043)	(3.5)%
Flying agreements revenue	\$ 3,078,297	\$ 3,010,738	\$ 67,559	2.2 %

The increase in “Capacity purchase agreements revenue: flight operations” of \$12.6 million was primarily due to 21 E175 aircraft added to our fleet and improved economics on flying contract renewals, partially offset by a reduction in revenue from aircraft removed from unprofitable or less profitable flying contracts since 2016. The increase in “Capacity purchase agreement revenue: aircraft lease” of \$70.1 million was primarily due to higher aircraft ownership costs. The decrease in prorate agreements revenue of \$16.0 million was primarily due to a change in markets from prorate agreements to capacity purchase agreements with higher revenue yields during the year ended December 31, 2017.

The \$8.7 million decrease in airport customer service and other revenues was primarily related to a decrease in the volume of airport service agreements since December 31, 2016.

Individual expense components attributable to our operations are set forth in the following table (dollar amounts in thousands).

	For the year ended December 31,			
	2017 Amount	2016 Amount	\$ Change Amount	% Change Percent
Salaries, wages and benefits	\$ 1,192,067	\$ 1,205,459	\$ (13,392)	(1.1)%
Aircraft maintenance, materials and repairs	579,463	569,306	10,157	1.8 %
Depreciation and amortization	292,768	284,969	7,799	2.7 %
Aircraft rentals	215,807	262,602	(46,795)	(17.8)%
Aircraft fuel	85,136	70,701	14,435	20.4 %
Airport-related expenses	118,374	122,141	(3,767)	(3.1)%
Special items	—	465,649	(465,649)	(100.0)%
Other operating expenses	250,778	255,559	(4,781)	(1.9)%
Total operating expenses	2,734,393	3,236,386	(501,993)	(15.5)%
Interest expense	104,925	78,177	26,748	34.2 %
Total airline expenses	\$ 2,839,318	\$ 3,314,563	\$ (475,245)	(14.3)%

Salaries, wages and benefits. The \$13.4 million, or 1.1%, decrease in salaries, wages and benefits during the year ended December 31, 2017, compared to the year ended December 31, 2016, was primarily due to a decrease in direct labor costs resulting from a net reduction in our fleet size and related level of departures and block hours, which was partially offset by higher crew compensation costs resulting from labor agreements executed since 2016.

Aircraft maintenance, materials and repairs. The \$10.2 million, or 1.8%, increase in aircraft maintenance expense during the year ended December 31, 2017, compared to the year ended December 31, 2016, was primarily due to an increase in the number of scheduled maintenance events and an increase in the percentage of our fleet that is under long-term Power-by-the-Hour maintenance agreements, including the additional 21 E175 aircraft added since December 31, 2016, which was partially offset by a decrease in other direct maintenance costs resulting from a reduced fleet size and departures since 2016.

Depreciation and amortization. The \$7.8 million, or 2.7%, increase in depreciation and amortization expense during the year ended December 31, 2017, compared to the year ended December 31, 2016, was primarily due to the purchase of 21 additional E175 aircraft and related long-lived aircraft parts in 2017. Additionally, we acquired 19 E175 aircraft in the fourth quarter of 2016 that only had a partial year of depreciation in 2016.

Aircraft rentals. The \$46.8 million, or 17.8%, decrease in aircraft rentals during the year ended December 31, 2017, compared to the year ended December 31, 2016, was primarily due to a decrease in leased aircraft from 415 leased aircraft for the year ended to December 31, 2016, to 319 leased aircraft for the year ended December 31, 2017.

Aircraft fuel. The \$14.4 million, or 20.4%, increase in fuel cost during the year ended December 31, 2017, compared to the year ended December 31, 2016, was primarily due to an increase in our average fuel cost per gallon from \$1.72 for the year ended December 31, 2016 to \$2.06 for the year ended December 31, 2017. The following table summarizes the gallons of fuel we purchased under our prorate agreements, for the periods indicated:

(in thousands, except per gallon amounts)	For the year ended December 31,		
	2017	2016	% Change
Fuel gallons purchased	41,234	41,074	0.4 %
Fuel expense	\$ 85,136	\$ 70,701	20.4 %

Airport-related expenses. The \$3.8 million, or 3.1%, decrease in airport-related expenses during the year ended December 31, 2017, compared to the year ended December 31, 2016, was primarily due to a reduction in passenger interruption related costs during the year ended December 31, 2017.

Special items. Special items for the year ended December 31, 2016 included impairment charges and inventory valuation charges related to our 50-seat aircraft and related assets. We did not have comparable special items in 2017.

Other operating expenses. The \$4.8 million, or 1.9%, decrease in other operating expenses was primarily related to the decrease in our fleet size and in other operating costs that resulted from the reduction in block hour production of 5.1%, partially offset by additional training costs associated with E175 aircraft deliveries, including the use of simulators and hotels.

Interest Expense. The \$26.7 million, or 34.2%, increase in interest expense during the year ended December 31, 2017, compared to the year ended December 31, 2016, was primarily due to the purchase of 21 additional E175 aircraft in 2017 financed through debt and an annualized impact of 41 E175 aircraft added throughout 2016 financed through debt.

Total airline expenses. Total airline expenses (consisting of total operating and interest expenses) decreased \$475.3 million, or 14.3%, during the year ended December 31, 2017, compared to the year ended December 31, 2016 primarily due to the special items of \$465.6 million relating to the 50-seat aircraft for the year ended December 31, 2016, and the reduction in fleet size and related block hour production of 5.1% during the year ended December 31, 2017, compared to the year ended December 31, 2016.

Summary of provision for income taxes:

Provision for income taxes. On December 22, 2017, the Tax Act was signed into law, which reduced the statutory federal income tax rate from 35% to 21% effective January 1, 2018. We recorded a \$246.8 million benefit during 2017 related to the revaluation of our net federal, state and other deferred tax liabilities based on our reasonable estimate of the effects of the Tax Act. We also recorded a \$5.4 million benefit in 2017 relating excess tax benefits resulting from vesting employee equity awards and stock options exercised during 2017.

Net Income (loss). Primarily due to the factors described above, we generated net income of \$428.9 million, or \$8.08 per diluted share, for the year ended December 31, 2017, compared to a net loss of \$(161.6) million, or \$(3.14) per diluted share, for the year ended December 31, 2016.

Our Business Segments 2018 compared to 2017:

For the year ended December 31, 2018, we had three reportable segments which were the basis of our internal financial reporting. Our segment disclosure relates to components of our business for which separate financial information was available to, and regularly evaluated by our chief operating decision maker. For the years ended December 31, 2018 and 2017, our operating segments were SkyWest Airlines, ExpressJet and SkyWest Leasing. Corporate overhead expense was allocated to the operating expenses of SkyWest Airlines and ExpressJet.

The following table sets forth our segment data for the years ended December 31, 2018 and 2017 (in thousands):

	For the year ended December 31, (dollar amounts in thousands)			
	2018 Amount	2017 Amount	\$ Change Amount	% Change Percent
Operating Revenues:				
SkyWest Airlines operating revenue.	\$ 2,346,251	\$ 2,092,368	\$ 253,883	12.1 %
ExpressJet operating revenues.	564,202	790,282	(226,080)	(28.6)%
SkyWest Leasing operating revenues.	311,226	239,942	71,284	29.7 %
Total Operating Revenues.	\$ 3,221,679	\$ 3,122,592	\$ 99,087	3.2 %
Airline Expenses:				
SkyWest Airlines airline expense	\$ 2,039,581	\$ 1,829,084	\$ 210,497	11.5 %
ExpressJet airline expense	579,948	822,810	(242,862)	(29.5)%
SkyWest Leasing segment expense.	248,279	187,424	60,855	32.5 %
Total Airline Expense(1).	\$ 2,867,808	\$ 2,839,318	\$ 28,490	1.0 %
Segment profit (loss):				
SkyWest Airlines segment profit.	\$ 306,670	\$ 263,284	\$ 43,386	16.5 %
ExpressJet segment loss.	(15,746)	(32,528)	16,782	(51.6)%
SkyWest Leasing segment profit	62,947	52,518	10,429	19.9 %
Total Segment Profit (loss).	\$ 353,871	\$ 283,274	\$ 70,597	24.9 %
Interest Income	8,823	4,509	4,314	95.7 %
Other Income (Expense), net	3,620	400	3,220	805.0 %
Consolidated Income (loss) Before Taxes.	\$ 366,314	\$ 288,183	\$ 78,131	27.1 %

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

SkyWest Airlines Segment Profit. SkyWest Airlines segment profit increased \$43.4 million, or 16.5%, during the year ended December 31, 2018, compared to the year ended December 31, 2017. SkyWest Airlines 2018 segment profit was partially impacted by additional profitability from adding 39 E175 aircraft during 2018.

SkyWest Airlines block hour production increased to 1,380,420, or 11.5%, for 2018 from 1,237,547 for 2017, primarily due to the additional block hour production from the new E175 aircraft added subsequent to December 31, 2017. Significant items contributing to the SkyWest Airlines segment profit are set forth below.

The \$253.9 million, or 12.1%, increase to SkyWest Airlines operating revenue during 2018, compared to 2017, was primarily due to 39 E175 aircraft placed into service in 2018 and additional aircraft operating under prorate agreements since 2017.

The \$210.5 million, or 11.5%, increase in the SkyWest Airlines airline expense during 2018, compared to 2017, was primarily due to the following factors:

- SkyWest Airlines' salaries, wages and benefits expense increased by \$111.4 million, or 14.7%, primarily due to the additional block hour production along with higher crew compensation costs resulting from labor agreements executed since 2017.
- SkyWest Airlines' aircraft maintenance, materials and repairs expense increased by \$30.5 million, or 8.0%, primarily attributable to the additional aircraft engines being placed under Power-by-the-Hour engine maintenance contracts and direct maintenance costs related to the increased volume of block hours, partially offset by a decrease in non-engine scheduled maintenance events and a decrease in the replacement of aircraft parts.
- SkyWest Airlines fuel expense increased \$33.4 million, or 39.7%. The increase in fuel cost was primarily due to an increase in the volume of gallons purchased, and an increase in the average fuel cost per gallon in 2017 of \$2.60, compared to 2017 of \$2.06.

- SkyWest Airlines other operating expense increased \$46.5 million, or 27.5%. The increase in other operating expense was primarily related to an increase in pilot recruitment costs, crew training costs including the cost of hotel rooms and crew per diems, and property tax on additional aircraft added since December 31, 2017.

ExpressJet Segment Loss. ExpressJet segment loss decreased \$16.8 million, or 51.6%, during the year ended December 31, 2018, compared to the year ended December 31, 2017.

ExpressJet's block hour production decreased to 376,627, or 37.5%, for the year ended December 31, 2018 from 602,232 for the year ended December 31, 2017, primarily due to the reduction in CRJ700, CRJ900 and ERJ145 aircraft from ExpressJet's operations as aircraft were removed from service under its fixed-fee agreements with Delta and American. Significant items contributing to the ExpressJet segment loss are set forth below:

The \$226.1 million, or 28.6%, decrease in ExpressJet Operating Revenues during 2018, compared to 2017, was primarily due to a 37.5% reduction in block hour production due to a reduced fleet size since 2017.

The \$242.9 million, or 29.5%, decrease in ExpressJet Airline Expense during 2018, compared to 2017, was primarily due to the following factors:

- ExpressJet's salaries, wages and benefits decreased \$100.3 million, or 23.7%. The decrease was primarily due to a decrease in scheduled production subsequent to 2017 that resulted from the decreased number of ERJ145, CRJ700 and CRJ900 aircraft in operation.
- ExpressJet's aircraft maintenance, materials and repairs expense decreased \$56.6 million, or 28.4%. The decrease was primarily due to the reduced fleet size and related production subsequent to 2017.
- ExpressJet's aircraft rental expenses decreased \$26.7 million, or 77.6%, primarily due to the termination of aircraft leases on CRJ700 and CRJ900 aircraft since 2017.
- ExpressJet's depreciation expense decreased \$14.7 million, or 28.3%, primarily due to a reduction in owned 50-seat aircraft and related long-lived assets since December 31, 2017.
- ExpressJet's other airline expenses decreased \$24.4 million, or 29.9%, primarily due to a decrease in scheduled production subsequent to 2017.

SkyWest Leasing Segment Profit. SkyWest Leasing profit increased \$10.4 million during the year ended December 31, 2018, compared to the year ended December 31, 2017, primarily due to the additional E175 aircraft revenue attributed to the ownership costs of the E175 aircraft earned under the applicable fixed-fee contract and profitability offset by the E175 aircraft depreciation and interest expense.

Our Business Segments 2017 compared to 2016:

For the year ended December 31, 2017, we had three reportable segments which were the basis of our internal financial reporting. Our segment disclosure relates to components of our business for which separate financial information was available to, and regularly evaluated by our chief operating decision maker. For the years ended

December 31, 2017 and 2016, our operating segments were SkyWest Airlines, ExpressJet and SkyWest Leasing. Corporate overhead expense is allocated to the operating expenses of SkyWest Airlines and ExpressJet.

The following table sets forth our segment data for the years ended December 31, 2017 and 2016 (in thousands):

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Percent</u>
Operating Revenues:				
SkyWest Airlines operating revenue	\$ 2,092,368	\$ 1,878,725	\$ 213,643	11.4 %
ExpressJet operating revenues	790,282	1,043,977	(253,695)	(24.3)%
SkyWest Leasing operating revenues	239,942	141,000	98,942	70.2 %
Total Operating Revenues	<u>\$ 3,122,592</u>	<u>\$ 3,063,702</u>	<u>\$ 58,890</u>	<u>1.9 %</u>
Airline Expenses:				
SkyWest airlines expense	\$ 1,829,084	\$ 1,855,731	\$ (26,647)	(1.4)%
ExpressJet airlines expense	822,810	1,345,491	(522,681)	(38.8)%
SkyWest Leasing airline expense	187,424	113,341	74,083	65.4 %
Total Airline Expense(1)	<u>2,839,318</u>	<u>\$ 3,314,563</u>	<u>\$ (475,245)</u>	<u>(14.3)%</u>
Segment profit (loss):				
SkyWest Airlines segment profit	\$ 263,284	\$ 22,994	\$ 240,290	1,045.0 %
ExpressJet segment loss	(32,528)	(301,514)	268,986	(89.2)%
SkyWest Leasing profit (Loss)	52,518	27,659	24,859	89.9 %
Total Segment Profit	<u>\$ 283,274</u>	<u>\$ (250,861)</u>	<u>\$ 534,135</u>	<u>(212.9)%</u>
Interest Income	4,509	2,413	2,096	86.9 %
Other	400	(94)	494	(525.5)%
Consolidated Income Before Taxes	<u>\$ 288,183</u>	<u>\$ (248,542)</u>	<u>\$ 536,725</u>	<u>(215.9)%</u>

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

SkyWest Airlines Segment Profit. SkyWest Airlines segment profit increased \$240.3 million, or 1,045.0%, during the year ended December 31, 2017, compared to the year ended December 31, 2016. The SkyWest Airlines 2016 segment included \$184.3 million of special item expenses associated with the impairment charge of CRJ200 aircraft and related assets. SkyWest Airlines segment profit was also partially impacted by additional profitability from adding 21 E175 aircraft during 2017 and 19 E175 aircraft during the fourth quarter of 2016, which only contributed for a partial year to the 2016 results. SkyWest Airlines also had various flying contract extensions at favorable economics in 2017 compared to 2016.

SkyWest Airlines block hour production increased to 1,237,547, or 12.0%, for 2017 from 1,105,031 for 2016 primarily due to the additional block hour production from the new E175 aircraft added subsequent to December 31, 2016. Significant items contributing to the SkyWest Airlines segment profit are set forth below.

The \$213.6 million, or 11.4%, increase to SkyWest Airlines operating revenue during 2017, compared to 2016, was primarily due to 21 E175 aircraft placed into service in 2017 and 19 E175 aircraft added during the fourth quarter of 2016, which only had a partial year impact in 2016 results.

The \$26.6 million, or 1.4%, decrease in the SkyWest Airlines airline expense during 2017, compared to 2016, was primarily due to the following factors:

- SkyWest Airlines' salaries, wages and benefits expense increased by \$80.6 million, or 11.9%, primarily due to the additional block hour production along with higher crew compensation costs resulting from labor agreements executed since 2016.
- SkyWest Airlines' aircraft maintenance, materials and repairs expense increased by \$67.8 million, or 21.7%, primarily attributable to the additional aircraft engines being placed under Power-by-the-Hour

engine maintenance contracts, and an increase in the number of engine events and direct maintenance costs related to the increased volume of block hours.

- SkyWest Airlines aircraft rentals expense decreased \$19.2 million, or 9.6%, primarily due to an expiration of 15 aircraft leases subsequent to 2016.
- SkyWest Airlines fuel expense increased \$15.1 million, or 21.9%. The increase in fuel cost was primarily due to an increase in the average fuel cost per gallon in 2017 of \$2.06, compared to 2016 of \$1.72.
- SkyWest Airlines other operating expense increased \$21.4 million, or 14.5%. The increase in other operating expense was primarily related to the increased volume of block hours.
- SkyWest Airlines airline expense in 2016 included special items of \$184.3 million for impairment charges on its CRJ200 aircraft and write down of certain related assets. SkyWest Airlines did not have any similar special item charges in 2017.

ExpressJet Segment Loss. ExpressJet segment loss decreased \$269.0 million, or 89.2%, during the year ended December 31, 2017, compared to the year ended December 31, 2016. The ExpressJet 2016 segment included \$281.4 million of special item expenses associated with the CRJ200 and ERJ145 aircraft and write-down of certain assets.

ExpressJet's block hour production decreased to 602,232, or 27.7%, for the year ended December 31, 2016 from 833,461 for the year ended December 31, 2016, primarily due to the removal of CRJ200, CRJ900 and ERJ145 aircraft from operations. Significant items contributing to the ExpressJet segment loss are set forth below:

The \$253.7 million decrease in ExpressJet Operating Revenues during 2017, compared to 2016, was primarily due to a 24.3% reduction in block hour production due to a reduced fleet size since 2016.

The \$522.7 million decrease in ExpressJet Airline Expense during 2017, compared to 2016, was primarily due to the following factors:

- ExpressJet's salaries, wages and benefits decreased \$94.5 million, or 18.0%. The decrease was primarily due to a decrease in scheduled production subsequent to 2016 that resulted from the decreased number of ERJ145, CRJ200 and CRJ900 aircraft in operation.
- ExpressJet's aircraft maintenance, materials and repairs expense decreased \$52.8 million, or 21.0%. The decrease was primarily due to the reduced fleet size and related production subsequent to 2016.
- ExpressJet's aircraft rental expenses decreased \$27.6 million, or 44.5%, primarily due to the termination of aircraft leases on CRJ200 and CRJ900 aircraft since 2016.
- ExpressJet's depreciation expense decreased \$32.0 million, or 38.1%, primarily due to a reduction in owned 50-seat aircraft and related long-lived assets since December 31, 2016.
- ExpressJet's other airline expenses decreased \$26.2 million, or 24.3%, primarily due to a decrease in scheduled production subsequent to 2016.
- ExpressJet's airline expense in 2016 included special items of \$281.4 million for impairment charges on certain CRJ200 and ERJ145 long-lived assets and write down of certain related assets. ExpressJet did not have any similar special item charges in 2017.

SkyWest Leasing Segment Profit. SkyWest Leasing profit increased \$52.5 million during the year ended December 31, 2017, compared to the year ended December 31, 2016, primarily due to the additional E175 aircraft

Sources and Uses of Cash—2017 Compared to 2016

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, 2017 and 2016, and our total cash and marketable securities position as of December 31, 2017 and December 31, 2016 (in thousands).

	For the year ended December 31,			
	2017	2016	\$ Change	% Change
Net cash provided by operating activities	\$ 684,124	\$ 506,665	\$ 177,459	35.0 %
Net cash used in investing activities	(751,337)	(1,177,078)	425,741	(36.2)%
Net cash provided by financing activities	102,239	614,144	(511,905)	(83.4)%
	December 31, 2017	December 31, 2016	\$ Change	% Change
Cash and cash equivalents	\$ 181,792	\$ 146,766	\$ 35,026	23.9 %
Restricted cash	—	8,243	(8,243)	(100.0)%
Marketable securities	503,503	409,898	93,605	22.8 %
Total	\$ 685,295	\$ 564,907	\$ 120,388	21.3 %

Cash Flows from Operating Activities. Net cash provided by operating activities increased \$177.5 million, or 35.0%, during 2017, compared to 2016, primarily due to an increase in pre-tax income from 2017 to 2016 and changes in our working capital accounts. Our pre-tax income was \$288.2 million in 2017. Our pre-tax loss was \$248.8 million in 2016, however our 2016 pre-tax loss included \$465.6 million of special charges.

Cash Flows from Investing Activities. Net cash used in investing activities decreased \$425.7 million, or 36.2%, during 2017, compared to 2016, primarily due to the acquisition of 21 E175 aircraft and the related spare aircraft assets during 2017, compared to 41 E175 aircraft and the related spare aircraft assets purchased during 2016, partially offset by the proceeds from the sale of 15 CRJ200 aircraft, eleven EMB120 aircraft, one CRJ700 aircraft and related spare aircraft assets during 2017.

Cash Flows from Financing Activities. Net cash provided by financing activities decreased \$511.9 million, or 83.4%, during 2017, compared to 2016, primarily related to proceeds from the issuance of long-term debt associated with 21 E175 aircraft acquired during 2017, compared to proceeds from the issuance of debt associated with 41 E175 aircraft acquired during 2016. This decrease in cash provided by financing activities was partially offset by \$20.0 million and \$5.1 million used in 2017 for the repurchase of common stock and cash paid for income tax withholdings on vested employee equity awards, respectively.

Liquidity and Capital Resources as of December 31, 2018 and 2017

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, 2018, our total capital mix was 41.1% equity and 58.9% long-term debt, compared to 42.5% equity and 57.5% long-term debt at December 31, 2017.

At December 31, 2018, we had \$9.7 million in letters of credit issued under our line of credit facility, which reduced the amount available under the facility to \$65.3 million. The facility expires on September 1, 2021 and has a variable interest rate of LIBOR plus 2.5% at December 31, 2018.

As of December 31, 2018 and 2017, we had \$78.7 million and \$87.4 million, respectively, in letters of credit and surety bonds outstanding with various banks and surety institutions.

As of December 31, 2018 and 2017, we had no restricted cash.

Significant Commitments and Obligations

General

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

	<u>Total</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Thereafter</u>
Operating lease payments for aircraft and facility obligations . . .	\$ 477,946	\$ 87,256	\$ 101,741	\$ 90,787	\$ 72,593	\$ 65,749	\$ 59,820
Firm aircraft and spare engine commitments	364,023	122,498	127,585	113,940	—	—	—
Interest commitments(A)	660,342	129,164	113,675	98,512	84,204	68,399	166,388
Principal maturities on long-term debt	3,185,438	354,072	351,738	347,835	353,935	359,677	1,418,181
Total commitments and obligations	<u>\$ 4,687,749</u>	<u>\$ 692,990</u>	<u>\$ 694,739</u>	<u>\$ 651,074</u>	<u>\$ 510,732</u>	<u>\$ 493,825</u>	<u>\$ 1,644,389</u>

(A) At December 31, 2018, we had variable rate notes representing less than 0.2% of our total long-term debt. Actual interest commitments will change based on the actual variable interest.

Purchase Commitments and Options

As of December 31, 2018, we had a firm purchase commitment for 12 E175 aircraft from Embraer, S.A. with scheduled delivery dates through the end of 2021.

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 cash on hand and debt financing. 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. We intend to finance the firm purchase commitment for 12 E175 aircraft with approximately 85% debt and the remaining balance with cash.

Aircraft Lease and Facility Obligations

We also have significant long-term lease obligations, primarily relating to our aircraft fleet. At December 31, 2018, we had 260 aircraft under lease with remaining terms ranging from less than one to nine years. Future minimum lease payments due under all long-term operating leases were approximately \$477.9 million at December 31, 2018. Assuming a 5.45% 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 \$399.2 million at December 31, 2018.

Long-term Debt Obligations

As of December 31, 2018, we had \$3.2 billion of long-term debt obligations related to the acquisition of aircraft and certain spare engines. The average effective interest rate on those long-term debt obligations was approximately 4.2% at December 31, 2018.

Under our fixed-fee arrangements, the major airline partners compensate us for our costs of owning or leasing the aircraft on a monthly basis. The aircraft compensation structure varies by agreement, but is intended to cover either our aircraft principal and interest debt service costs, our aircraft depreciation and interest expense or our aircraft lease expense costs while the aircraft is under contract.

Guarantees

We have guaranteed the obligations of SkyWest Airlines under the Delta Connection Agreement and the United Express Agreement for the E175 aircraft. In addition, we have guaranteed certain other obligations under aircraft financing and leasing agreements.

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, American and Alaska 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 prorate operations. For each of the years ended December 31, 2018, 2017 and 2016, approximately 16%, 14% and 15% of our total flying agreements revenue was derived from prorate arrangements. For the years ended December 31, 2018, 2017 and 2016, the average price per gallon of aircraft fuel was \$2.60, \$2.06 and \$1.72, respectively. For illustrative purposes only, we have estimated the impact of the market risk of fuel on our prorate 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 \$29.4 million, \$21.3 million and \$17.6 million in fuel expense for the years ended December 31, 2018, 2017 and 2016, respectively.

Interest Rates

Our earnings are affected by changes in interest rates due to the amount of variable rate long-term debt held. The interest rates applicable to variable rate notes may rise and increase our interest expense. At December 31, 2018, 2017 and 2016, we had variable rate notes representing 0.2%, 2.5% and 5.1% of our total long-term debt, respectively. Changes in interest rates are not expected to have a material adverse effect on our earnings. Additionally, we anticipate we would recover significant increases in interest expense from our major airline partners under our fixed-fee flying agreements. For illustrative purposes only, we have estimated the impact of market risk using a hypothetical increase in interest rates of one percentage point for variable rate long-term debt. Based on this hypothetical assumption, we estimate the annual interest expense would not have exceeded \$2.0 million for any of the years ended December 31, 2018, 2017 and 2016.

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, Alaska or other carriers, our code-share agreements currently provide that reimbursement rates will be adjusted higher or lower to reflect changes in our aircraft financing interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of SkyWest, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of SkyWest, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, 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, 2018, and the related notes and the financial statement schedule listed in the Index at Item 15(a)2 (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, 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 21, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2003.

Salt Lake City, Utah
February 21, 2019

SKYWEST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

ASSETS

	December 31, 2018	December 31, 2017
CURRENT ASSETS:		
Cash and cash equivalents	\$ 328,384	\$ 181,792
Marketable securities	360,945	503,503
Income tax receivable	25,936	5,316
Receivables, net	64,194	42,731
Inventories, net	127,690	119,755
Prepaid aircraft rents	87,031	115,098
Other current assets	26,614	26,938
Total current assets	1,020,794	995,133
PROPERTY AND EQUIPMENT:		
Aircraft and rotatable spares	6,433,916	5,335,870
Deposits on aircraft	42,012	49,000
Buildings and ground equipment	291,544	265,608
	6,767,472	5,650,478
Less-accumulated depreciation and amortization	(1,761,728)	(1,467,475)
Total property and equipment, net	5,005,744	4,183,003
OTHER ASSETS		
Long-term prepaid assets	181,830	230,923
Other long-term assets	104,844	65,341
Total other assets	286,674	296,264
Total assets	\$ 6,313,212	\$ 5,474,400

See accompanying notes to consolidated financial statements.

SKYWEST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
(Dollars in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 350,206	\$ 309,678
Accounts payable	331,982	288,904
Accrued salaries, wages and benefits	161,606	154,367
Taxes other than income taxes	16,024	19,228
Other current liabilities	65,008	48,648
Total current liabilities	<u>924,826</u>	<u>820,825</u>
OTHER LONG-TERM LIABILITIES	<u>66,870</u>	<u>58,662</u>
LONG-TERM DEBT, net of current maturities	<u>2,809,768</u>	<u>2,377,346</u>
DEFERRED INCOME TAXES PAYABLE	<u>518,159</u>	<u>419,020</u>
DEFERRED AIRCRAFT CREDITS	<u>29,308</u>	<u>44,225</u>
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDERS' EQUITY:		
Preferred stock, 5,000,000 shares authorized; none issued	—	—
Common stock, no par value, 120,000,000 shares authorized; 81,239,289 and 80,398,104 shares issued, respectively	690,910	672,593
Retained earnings	1,776,585	1,516,957
Treasury stock, at cost, 29,850,999 and 28,643,535 shares, respectively	(503,182)	(435,178)
Accumulated other comprehensive loss	<u>(32)</u>	<u>(50)</u>
Total stockholders' equity	<u>1,964,281</u>	<u>1,754,322</u>
Total liabilities and stockholders' equity	<u>\$ 6,313,212</u>	<u>\$ 5,474,400</u>

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2018	2017 (a)	2016 (a)
OPERATING REVENUES:			
Flying agreements	\$ 3,169,520	\$ 3,078,297	\$ 3,010,738
Airport customer service and other	52,159	44,295	52,964
Total operating revenues	<u>3,221,679</u>	<u>3,122,592</u>	<u>3,063,702</u>
OPERATING EXPENSES:			
Salaries, wages and benefits	1,201,518	1,192,067	1,205,459
Aircraft maintenance, materials and repairs	556,259	579,463	569,306
Depreciation and amortization	334,589	292,768	284,969
Aircraft rentals	154,945	215,807	262,602
Aircraft fuel	117,657	85,136	70,701
Airport-related expenses	109,605	118,374	122,141
Special items	—	—	465,649
Other operating expenses	272,826	250,778	255,559
Total operating expenses	<u>2,747,399</u>	<u>2,734,393</u>	<u>3,236,386</u>
OPERATING INCOME (LOSS)	<u>474,280</u>	<u>388,199</u>	<u>(172,684)</u>
OTHER INCOME (EXPENSE):			
Interest income	8,823	4,509	2,143
Interest expense	(120,409)	(104,925)	(78,177)
Other, net	3,620	400	(94)
Total other expense, net	<u>(107,966)</u>	<u>(100,016)</u>	<u>(76,128)</u>
INCOME (LOSS) BEFORE INCOME TAXES	366,314	288,183	(248,812)
PROVISION (BENEFIT) FOR INCOME TAXES	85,942	(140,724)	(87,226)
NET INCOME (LOSS)	<u>\$ 280,372</u>	<u>\$ 428,907</u>	<u>\$ (161,586)</u>
BASIC EARNINGS (LOSS) PER SHARE			
	<u>\$ 5.40</u>	<u>\$ 8.28</u>	<u>\$ (3.14)</u>
DILUTED EARNINGS (LOSS) PER SHARE			
	<u>\$ 5.30</u>	<u>\$ 8.08</u>	<u>\$ (3.14)</u>
Weighted average common shares:			
Basic	51,914	51,804	51,505
Diluted	52,871	53,100	51,505
COMPREHENSIVE INCOME (LOSS):			
Net income (loss)	\$ 280,372	\$ 428,907	\$ (161,586)
Net unrealized appreciation on marketable securities, net of taxes	18	21	189
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ 280,390</u>	<u>\$ 428,928</u>	<u>\$ (161,397)</u>

(a) Amounts adjusted due to the adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. See Note 1 to the financial statements of this report for additional information.

See accompanying notes to consolidated financial statements.

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

	Common Stock		Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount		Shares	Amount		
Balance at December 31, 2015	79,020	\$ 641,643	\$ 1,275,142	(28,015)	\$ (410,090)	\$ (260)	\$ 1,506,435
Net loss	—	—	(161,586)	—	—	—	(161,586)
Net unrealized appreciation on marketable securities, net of tax of \$98	—	—	—	—	—	189	189
Exercise of common stock options and vested restricted stock units	609	4,979	—	—	—	—	4,979
Sale of common stock under employee stock purchase plan	152	3,163	—	—	—	—	3,163
Stock based compensation expense related to the issuance of stock options and restricted stock units	—	7,568	—	—	—	—	7,568
Cash dividends declared (\$0.19 per share)	—	—	(9,805)	—	—	—	(9,805)
Balance at December 31, 2016	79,781	657,353	1,103,751	(28,015)	(410,090)	(71)	1,350,943
Net income	—	—	428,907	—	—	—	428,907
Net unrealized appreciation on marketable securities, net of tax of \$7	—	—	—	—	—	21	21
Exercise of common stock options and vested restricted stock units	529	1,658	—	—	—	—	1,658
Treasury shares acquired from vested employee stock awards for income tax withholdings	—	—	—	(145)	(5,080)	—	(5,080)
Sale of common stock under employee stock purchase plan	88	3,002	—	—	—	—	3,002
Stock based compensation expense related to the issuance of stock options and restricted stock units	—	10,580	—	—	—	—	10,580
Impact of adoption of Accounting Standards Update (ASU) 2016-09 (See Note 1)	—	—	867	—	—	—	867
Treasury stock purchases	—	—	—	(484)	(20,008)	—	(20,008)
Cash dividends declared (\$0.32 per share)	—	—	(16,568)	—	—	—	(16,568)
Balance at December 31, 2017	80,398	672,593	1,516,957	(28,644)	(435,178)	(50)	1,754,322
Net income	—	—	280,372	—	—	—	280,372
Net unrealized appreciation on marketable securities, net of tax of \$6	—	—	—	—	—	18	18
Exercise of common stock options and vested restricted stock units	780	2,174	—	—	—	—	2,174
Treasury shares acquired from vested employee stock awards for income tax withholdings	—	—	—	(239)	(13,556)	—	(13,556)
Sale of common stock under employee stock purchase plan	61	3,038	—	—	—	—	3,038
Stock based compensation expense related to the issuance of stock options and restricted stock units	—	13,105	—	—	—	—	13,105
Treasury stock purchases	—	—	—	(968)	(54,448)	—	(54,448)
Cash dividends declared (\$0.40 per share)	—	—	(20,744)	—	—	—	(20,744)
Balance at December 31, 2018	81,239	\$ 690,910	\$ 1,776,585	(29,851)	\$ (503,182)	\$ (32)	\$ 1,964,281

See accompanying notes to consolidated financial statements.

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

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 280,372	\$ 428,907	\$ (161,586)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	334,589	292,768	284,969
Stock based compensation expense	13,105	10,580	7,568
Gain from early extinguishment of debt	—	—	(1,279)
Special items	—	—	465,649
Net increase (decrease) in deferred income taxes	99,139	(145,517)	(83,441)
Changes in operating assets and liabilities:			
Decrease (increase) in restricted cash	—	8,243	(27)
Decrease (increase) in receivables	(21,464)	4,201	15,260
Decrease (increase) in income tax receivable	(20,620)	1,673	(4,118)
Increase in inventories	(7,935)	(1,246)	(1,986)
Decrease in other current assets	77,484	26,017	37,569
Decrease in deferred aircraft credits	(14,243)	(8,520)	(8,108)
Increase (decrease) in accounts payable and accrued aircraft rents	56,076	46,934	(47,563)
Increase in other current liabilities	6,031	20,084	3,758
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>802,534</u>	<u>684,124</u>	<u>506,665</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of marketable securities	(2,308,768)	(1,533,867)	(2,511,388)
Sales of marketable securities	2,451,344	1,440,283	2,388,168
Proceeds from the sale of aircraft, property and equipment	—	51,994	3,008
Proceeds from settlement of residual value guarantee aircraft agreements	—	—	90,000
Acquisition of property and equipment:			
Aircraft and rotatable spare parts	(1,062,380)	(661,176)	(1,138,963)
Deposits on aircraft	(41,937)	(46,733)	(650)
Buildings and ground equipment	(34,397)	(27,467)	(14,350)
Return of deposits applied towards acquired aircraft	49,550	36,533	—
Decrease (increase) in other assets	(36,816)	(10,904)	7,097
NET CASH USED IN INVESTING ACTIVITIES	<u>(983,404)</u>	<u>(751,337)</u>	<u>(1,177,078)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	784,665	471,677	926,069
Principal payments on long-term debt	(370,775)	(330,258)	(302,158)
Proceeds from issuance of common stock	5,212	4,660	8,142
Purchase of treasury stock	(54,448)	(20,008)	—
Employee income tax paid on vested equity awards	(13,556)	(5,080)	—
Decrease (increase) in debt issuance cost	(3,892)	(3,737)	(8,653)
Payment of cash dividends	(19,744)	(15,015)	(9,256)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>327,462</u>	<u>102,239</u>	<u>614,144</u>
Increase (decrease) in cash and cash equivalents	146,592	35,026	(56,269)
Cash and cash equivalents at beginning of period	181,792	146,766	203,035
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 328,384</u>	<u>\$ 181,792</u>	<u>\$ 146,766</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Non-cash investing activities:			
Acquisition of rotatable spare parts	\$ 367	\$ 755	\$ 5,688
Debt assumed on aircraft acquired off lease	\$ 59,132	—	—
Cash paid during the period for:			
Interest, net of capitalized amounts	\$ 118,268	\$ 105,639	\$ 76,589
Income taxes	\$ 2,661	\$ 5,010	\$ 1,212

See accompanying notes to consolidated financial statements.

SKYWEST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

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

SkyWest, Inc. (the “Company”), through its subsidiaries, SkyWest Airlines, Inc. (“SkyWest Airlines”) and ExpressJet Airlines, Inc. (“ExpressJet”), operates the largest regional airlines in the United States. As of December 31, 2018, SkyWest Airlines and ExpressJet offered scheduled passenger service under code-share agreements with United, Delta, American and Alaska with approximately 2,770 total daily departures to different destinations in the United States, Canada, Mexico and the Caribbean. Additionally, the Company provides airport customer service and ground handling services for other airlines throughout its system. Subsequent to December 31, 2018, the Company sold ExpressJet to a third party. See Note 12, *Subsequent Events*, for additional information regarding the sale of ExpressJet. As of December 31, 2018, the Company had 596 aircraft in scheduled service out of a combined fleet of 628 aircraft consisting of the following (which included 100 Embraer ERJ145 regional jet (“ERJ145s”) aircraft, 16 Bombardier CRJ200 regional jet (“CRJ200s”) aircraft and 10 Bombardier CRJ700 regional jet (“CRJ700”) aircraft operated by ExpressJet):

	<u>CRJ200</u>	<u>CRJ700</u>	<u>CRJ900</u>	<u>ERJ145</u>	<u>E175</u>	<u>Total</u>
United	106	19	—	100	65	290
Delta	87	22	41	—	49	199
American	7	68	—	—	—	75
Alaska	—	—	—	—	32	32
Aircraft in scheduled service	200	109	41	100	146	596
Subleased to an un-affiliated entity	4	—	—	—	—	4
Other*	4	19	—	5	—	28
Total Fleet	208	128	41	105	146	628

* As of December 31, 2018, these aircraft have been removed from service and are in the process of being returned under the applicable leasing arrangement or are aircraft transitioning between code-share agreements with the Company’s major airline partners.

For the year ended December 31, 2018, approximately 48.6% of the Company’s aircraft in scheduled service operated for United, approximately 33.4% was operated for Delta, approximately 12.6% was operated for American and approximately 5.4% was operated for Alaska.

SkyWest Airlines has been a code-share partner with Delta since 1987, United since 1997, Alaska since 2011 and American since 2012. As of December 31, 2018, SkyWest Airlines operated as a Delta Connection carrier primarily in Salt Lake City and Minneapolis, a United Express carrier primarily in Los Angeles, San Francisco, Denver, Houston, Chicago and the Pacific Northwest, an American carrier primarily in Chicago, Los Angeles and Phoenix and an Alaska carrier primarily in the Pacific Northwest.

As of December 31, 2018, ExpressJet operated as a United Express carrier primarily in Chicago (O’Hare), Cleveland, Newark and Houston and an American carrier primarily in Dallas.

The Company’s subsidiaries operate the following aircraft manufactured by Bombardier Aerospace (“Bombardier”) and Embraer S.A. (“Embraer”): CRJ200s, CRJ700s, Bombardier CRJ900 regional jets (“CRJ900s”), “ERJ145s and Embraer E175 dual-class regional jet aircraft (which are typically configured with 70 or 76 seats) (“E175s”).

Basis of Presentation

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

In preparing the accompanying consolidated financial statements, the Company has reviewed, as determined necessary by the Company's management, events that have occurred after December 31, 2018, through the filing date of the Company's annual report with the U.S. Securities and Exchange Commission. The Company reclassified certain prior period amounts to conform to the current period presentation (see Recent Accounting Pronouncements).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company had no restricted cash as of December 31, 2018 and 2017.

Marketable Securities

The Company's investments are classified as available-for-sale and are reported at fair market value with the net unrealized appreciation reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. At the time of sale, any realized appreciation or depreciation, calculated by the specific identification method, is recognized in other income and expense. The Company's position in marketable securities as of December 31, 2018 and 2017 was as follows (in thousands):

	<u>Amortized Cost</u>	<u>Gross unrealized holding gains</u>	<u>Gross unrealized holding losses</u>	<u>Fair market value</u>
At December 31, 2018				
Total cash and cash equivalents	<u>\$ 328,384</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 328,384</u>
Marketable securities:				
Bond and bond funds	<u>\$ 229,825</u>	<u>\$ —</u>	<u>\$ (42)</u>	<u>\$ 229,783</u>
Commercial Paper	<u>131,163</u>	<u>—</u>	<u>(1)</u>	<u>131,162</u>
Total marketable securities	<u>\$ 360,988</u>	<u>\$ —</u>	<u>\$ (43)</u>	<u>\$ 360,945</u>
Total assets measured at fair value	<u>\$ 689,372</u>	<u>\$ —</u>	<u>\$ (43)</u>	<u>\$ 689,329</u>
	<u>Amortized Cost</u>	<u>Gross unrealized holding gains</u>	<u>Gross unrealized holding losses</u>	<u>Fair market value</u>
At December 31, 2017				
Total cash and cash equivalents	<u>\$ 181,792</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 181,792</u>
Marketable securities:				
Bond and bond funds	<u>\$ 344,479</u>	<u>\$ —</u>	<u>\$ (228)</u>	<u>\$ 344,251</u>
Commercial Paper	<u>159,252</u>	<u>—</u>	<u>—</u>	<u>159,252</u>
Total marketable securities	<u>\$ 503,731</u>	<u>\$ —</u>	<u>\$ (228)</u>	<u>\$ 503,503</u>
Total assets measured at fair value	<u>\$ 685,523</u>	<u>\$ —</u>	<u>\$ (228)</u>	<u>\$ 685,295</u>

As of December 31, 2018 and 2017, the Company had classified \$360.9 million and \$503.5 million of marketable securities, respectively, as short-term since it had the ability to redeem the securities within one year.

Inventories

Inventories include expendable parts, fuel and supplies and are valued at cost (FIFO basis) less an allowance for obsolescence based on historical results, excess parts and management's expectations of future operations. Expendable inventory parts are charged to expense as used. An obsolescence allowance for flight equipment expendable parts is accrued based on estimated lives of the corresponding fleet types and salvage values. The inventory allowance as of December 31, 2018 and 2017 was \$22.1 million and \$17.1 million, respectively. These allowances are based on management estimates.

Property and Equipment

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

<u>Assets</u>	<u>Depreciable Life</u>	<u>Current Residual Value</u>
Aircraft, rotatable spares, and spare engines	up to 22 years	up to 20 %
Ground equipment.	up to 10 years	0 %
Office equipment.	up to 7 years	0 %
Leasehold improvements	Shorter of 15 years or lease term	0 %
Buildings	20 - 39.5 years	0 %

Impairment of Long-Lived Assets

As of December 31, 2018, the Company had approximately \$5.0 billion of property and equipment and related assets. In accounting for these long-lived and intangible assets, the Company makes estimates about the expected useful lives of the assets, the expected residual values of certain of these assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the long-lived assets, a significant change in the condition of the long-lived assets and operating cash flow losses associated with the use of the long-lived assets. On a periodic basis, the Company evaluates whether impairment indicators are present. When considering whether or not impairment of long-lived assets exists, the Company groups similar assets together at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and compare the undiscounted cash flows for each asset group to the net carrying amount of the assets supporting the asset group. Asset groupings are done at the fleet or contract level.

The Company did not recognize any impairment charges of long-lived assets during the years ended December 31, 2018 and 2017.

During the year ended December 31, 2016, the Company impaired certain long-lived assets relating to the CRJ200 aircraft and ERJ145 aircraft type specific assets. See Note 7, *Special Items*.

Capitalized Interest

Interest is capitalized on aircraft purchase deposits as a portion of the cost of the asset and is depreciated over the estimated useful life of the asset. During the years ended December 31, 2018, 2017 and 2016, the Company capitalized interest costs of approximately \$1.5 million, \$1.4 million, and \$1.5 million, respectively.

Maintenance

The Company operates under a U.S. Federal Aviation Administration approved continuous inspection and maintenance program. The Company uses the direct expense method of accounting for its regional jet engine overhauls wherein the expense is recorded when the overhaul event occurs. The Company has engine services agreements with third-party vendors to provide long-term engine services covering the scheduled and unscheduled repairs for most of its CRJ200 aircraft, CRJ700 aircraft, ERJ145 aircraft and E175 aircraft. Under the terms of the agreements, the Company

pays a fixed dollar amount per engine hour flown on a monthly basis and the third-party vendors will assume the responsibility to repair the engines at no additional cost to the Company, subject to certain specified exclusions. Maintenance costs under these contracts are recognized when the engine hour is flown pursuant to the terms of each contract.

The costs of maintenance for airframe and avionics components, landing gear and other recurring maintenance are expensed as incurred.

Flying Agreements and Airport Customer Service and Other Revenues

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers, (Topic 606)” (“Topic 606”). Under Topic 606, 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. The Company adopted this standard as of January 1, 2018, utilizing the full retrospective method of adoption allowed by the standard, in order to provide for comparative results in all periods presented. Under the new standard, the Company concluded that the individual flights are distinct services and the flight services promised in a capacity purchase agreement represent a series of services that should be accounted for as a single performance obligation, recognized over time as the flights are completed. Performance obligations are deemed met upon the completion of each individual flight. The major airline partners make provisional cash payments to the Company during each month of service based on monthly flight schedules and the provisional cash payments are reconciled based on actual completed flights after each month’s flight activity is completed. The compensation associated with the use of the aircraft under the Company’s fixed-fee agreements is considered lease revenue as the agreements identify the “right of use” of a specific type and number of aircraft over the agreement term and was not impacted by the adoption of ASC 606. The adoption of Topic 606 did not have a material impact on recorded amounts when applied to the opening balance sheet as of January 1, 2018. The adoption of Topic 606 only affected the Company’s consolidated balance sheets and statements of comprehensive income classification, with no impact on the Company’s operating income (loss), net income (loss), earnings (loss) per share or cash flows, however the principal versus agent considerations under Topic 606 resulted in the Company recording directly reimbursed fuel expense under its fixed-fee contracts as a reduction to the applicable operating expense (net) rather than revenue (gross). This classification change resulted in a reduction to total revenue and a reduction to operating expenses by the same amount, resulting in no change to operating income. Additionally, under the nonrefundable up-front fees and contract costs considerations of Topic 606, reimbursements from the Company’s major airline partners for up-front contract costs will be deferred and amortized over the contract term. The related up-front costs to obtain the contract will also be capitalized and amortized over the contract term. As the amount of the up-front reimbursement is determined from the Company’s actual costs to fulfill the contract, this change did not impact the Company’s operating income (loss) as the amount of deferred revenue and the amount of capitalized costs will be recognized over the same period. This change also resulted in a deferred revenue liability and a capitalized contract cost on the balance sheet of the same amount.

The Company recognizes flying agreements and airport customer service and other revenues when the service is provided under its code-share agreements. Under the Company’s fixed-fee arrangements (referred to as “fixed-fee arrangements, “fixed-fee contracts” or “capacity purchase agreements”) with Delta, United, American and Alaska (each, a “major airline partner”), the major airline partner generally pays the Company a fixed-fee for each departure, flight hour (measured from takeoff to landing, excluding taxi time) or block hour (measured from takeoff to landing, including taxi time) incurred, and an amount per aircraft in service each month with additional incentives based on flight completion and on-time performance. The major airline partner also directly reimburses the Company for certain direct expenses incurred under the fixed-fee arrangement, such as airport landing fees and airport rents. Under the fixed-fee arrangements, revenue is earned when each flight is completed and is reflected in flying agreements revenue. The transaction price for the fixed-fee agreements is determined from the fixed-fee consideration, incentive consideration and directly reimbursed expenses earned as flights are completed over the agreement term.

A portion of the Company’s compensation under its fixed-fee agreements is designed to reimburse the Company for certain aircraft ownership costs. The consideration for aircraft ownership costs varies by agreement, but is intended to cover either the Company’s aircraft principal and interest debt service costs, its aircraft depreciation and interest expense or its aircraft lease expense costs while the aircraft is under contract. The consideration received for the

use of the aircraft under the Company's fixed-fee agreements is reflected as lease revenue, inasmuch as the agreements identify the "right of use" of a specific type and number of aircraft over a stated period of time. The amount of compensation deemed to be lease revenue is determined from the agreed upon rates for the use of aircraft included each fixed-fee agreement. The lease revenue associated with the Company's fixed-fee agreements is accounted for as an operating lease and is reflected as flying agreements revenue on the Company's consolidated statements of comprehensive income.

For the year ended December 31, 2018, fixed-fee arrangements represented approximately 84.3% of the Company's flying agreements revenue.

Under the Company's revenue-sharing arrangements (referred to as a "revenue-sharing" or "prorate" arrangement), the major airline partner and the Company negotiate a passenger fare proration formula, pursuant to which the Company receives a percentage of the ticket revenues for those passengers traveling for one portion of their trip on a Company airline and the other portion of their trip on the major airline partner. Revenue is recognized under the Company's prorate flying agreements when each flight is completed based upon the portion of the prorate passenger fare the Company anticipates that it will receive for each completed flight. The transaction price for the prorate agreements is determined from the proration formula derived from each passenger ticket amount on each completed flight over the agreement term. For the year ended December 31, 2018, prorate flying arrangements represented approximately 15.7% of the Company's flying agreements revenue.

In the event that the contractual rates under the agreements have not been finalized at quarterly or annual financial statement dates, the Company records revenues based on the lower of prior period's approved rates, as adjusted to reflect any contract negotiations and the Company's estimate of rates that will be implemented in accordance with revenue recognition guidelines. In the event the Company has a reimbursement dispute with a major airline partner, the Company evaluates the dispute under Topic 606 and, provided the revenue recognition criteria have been met, the Company recognizes revenue based on management's estimate of the resolution of the dispute subject to the variable constraint guidance under Topic 606.

Other ancillary revenues commonly associated with airlines, such as baggage fee revenue, ticket change fee revenue and the marketing component of the sale of mileage credits, are retained by the Company's major airline partners on flights that the Company operates under its code-share agreements.

The following table represents the Company's flying agreements revenue by type for the year ended December 31, 2018 and 2017 (in thousands):

	For the year ended December 31,		
	2018	2017	2016
Capacity purchase agreements revenue: flight operations	\$ 1,856,253	\$ 1,805,510	\$ 1,792,868
Capacity purchase agreements revenue: aircraft lease	814,518	834,366	763,406
Prorate agreements revenue	498,749	438,421	454,464
Flying agreements revenue	<u>\$ 3,169,520</u>	<u>\$ 3,078,297</u>	<u>\$ 3,010,738</u>

The Company's fixed-fee and prorate agreements include weekly provisional cash payments from the respective major airline partner based on a projected level of flying each month. The Company and each major airline partner subsequently reconcile these payments to the actual completed flight activity on a monthly or quarterly basis. In the event a flying agreement includes a mid-term rate reset to adjust rates prospectively and the contractual rates under the Company's flying agreements have not been finalized at quarterly or annual financial statement dates, the Company applies the variable constraint guidance under Topic 606, where the Company records revenue to the extent it believes that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

In several of the Company's agreements, the Company is eligible to receive incentive compensation upon the achievement of certain performance criteria. The incentives are defined in the agreements and are measured and determined on a monthly, quarterly or semi-annual basis. At the end of each period during the term of an agreement, the

Company calculates the incentives achieved during that period and recognizes revenue attributable to that agreement accordingly, subject to the variable constraint guidance under Topic 606.

The following summarizes the significant provisions of each code-share agreement the Company has with each major airline partner through SkyWest Airlines:

Delta Connection Agreements

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
Delta Connection Agreement (fixed-fee arrangement)	<ul style="list-style-type: none"> • CRJ 200 • CRJ 700 • CRJ 900 • E175 	58 22 41 49	<ul style="list-style-type: none"> • Individual aircraft have scheduled removal dates from 2019 to 2029 • The average remaining term of the aircraft under contract is 4.1 years
Delta Connection Prorate Agreement (revenue-sharing arrangement)	<ul style="list-style-type: none"> • CRJ 200 	29	<ul style="list-style-type: none"> • Terminable with 30-day notice

United Express Agreements

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
United Express Agreements (fixed-fee arrangement)	<ul style="list-style-type: none"> • CRJ 200 • CRJ 700 • E175 	65 19 65	<ul style="list-style-type: none"> • Individual aircraft have scheduled removal dates under the agreement between 2019 and 2029 • The average remaining term of the aircraft under contract is 7.0 years
United Express Prorate Agreement (revenue-sharing arrangement)	<ul style="list-style-type: none"> • CRJ 200 	25	<ul style="list-style-type: none"> • Terminable with 120-day notice

American Agreements

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
American Agreement (fixed-fee arrangement)	<ul style="list-style-type: none"> • CRJ 700 	58	<ul style="list-style-type: none"> • Individual aircraft have scheduled removal dates from 2019 to 2023
American Prorate Agreement (revenue-sharing arrangement)	<ul style="list-style-type: none"> • CRJ 200 	7	<ul style="list-style-type: none"> • Terminable with 120-day notice

Alaska Capacity Purchase Agreement

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
Alaska Agreement (fixed-fee arrangement)	<ul style="list-style-type: none"> • E175 	32	<ul style="list-style-type: none"> • Individual aircraft have scheduled removal dates from 2027 to 2030

The following summarizes the code-share agreement activity the Company had with each major airline partner through ExpressJet Airlines:

As of December 31, 2018, ExpressJet operated 100 ERJ145 aircraft and 16 CRJ200 aircraft under fixed-fee agreements with United, and 10 CRJ700 aircraft under a fixed-fee agreement with American. ExpressJet's fixed-fee agreements with United and American were terminated in connection with our sale of ExpressJet in January 2019. ExpressJet also completed the wind down of its flying agreement with Delta by the end of 2018. The Company sold ExpressJet subsequent to December 31, 2018, however the Company retained ownership of the 16 CRJ200 aircraft and the 10 CRJ700 aircraft operated by ExpressJet as of December 31, 2018. The Company agreed to lease the 16 CRJ200 aircraft to ExpressJet for up to a five-year period. The Company is pursuing alternative uses of the 10 CRJ700 aircraft including, but not limited to, using the aircraft under fixed-fee agreements under a short-term basis or leasing the aircraft

or aircraft engines to third parties. See Note 12, *Subsequent Events*, for additional information regarding the sale of ExpressJet.

In addition to the contractual arrangements described above, SkyWest Airlines has entered into fixed-fee agreements with Alaska and Delta to place additional E175 aircraft into service for those major airline partners. As of December 31, 2018, the Company anticipated placing an additional three E175 aircraft with Alaska and nine E175 aircraft with Delta. The delivery dates for the new E175 aircraft are currently scheduled to take place by the end 2021. Final delivery dates may adjust based on various factors.

SkyWest Airlines also entered into an agreement with Delta in the second quarter of 2018 to operate 20 CRJ900 aircraft under a fixed-fee agreement. As of December 31, 2018, SkyWest Airlines took delivery of five of these CRJ900 aircraft and placed the aircraft into service with Delta. The delivery dates for the remaining 15 aircraft are expected to continue through the end of 2020. These aircraft will replace 20 CRJ700 aircraft scheduled to expire under SkyWest's flying contracts with Delta.

When an aircraft is scheduled to be removed from a fixed-fee arrangement, the Company may, as practical under the circumstances, negotiate an extension with the respective major airline partner, negotiate the placement of the aircraft with another major airline partner, return the aircraft to the lessor if the aircraft is leased and the lease is expiring, place owned aircraft for sale, or pursue other uses for the aircraft. Other uses for the aircraft may include placing the aircraft in a prorate arrangement, leasing the aircraft to a third party or parting out the aircraft to use the engines and parts as spare inventory or to lease the engines to a third party.

Airport customer service and other revenues primarily consist of ground handling functions, such as gate and ramp agent services at applicable airports where the Company provides such services. The transaction price for airport service agreements is determined from an agreed-upon rate by location applied to the applicable number of flights handled (measured by departures) by the Company over the agreement term.

The Company's operating revenues could be impacted by a number of factors, including changes to the Company's code-share agreements with its major airline partners, contract modifications resulting from contract renegotiations, the Company's ability to earn incentive payments contemplated under the Company's code-share agreements and settlement of reimbursement disputes with the Company's major airline partners.

Deferred Aircraft Credits

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

Income Taxes

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

Net Income (Loss) Per Common Share

Basic net income (loss) per common share ("Basic EPS") excludes dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share ("Diluted EPS") reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net income (loss) per common share. During the year ended December 31, 2018, 207,000 performance share units (at target performance) were

excluded in the computation of Diluted EPS since the Company had not achieved the minimum target thresholds as of December 31, 2018. During the year ended December 31, 2017, 284,000 performance share units (at target performance) were excluded in the computation of Diluted EPS since the Company had not achieved the minimum target thresholds as of December 31, 2017. During the year ended December 31, 2016, 2,077,000 shares reserved for the issuance upon the exercise of outstanding options, performance shares and restricted stock units were excluded from the computation of Diluted EPS due to the net loss in 2016. The calculation of the weighted average number of common shares outstanding for Basic EPS and Diluted EPS are as follows for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Numerator:			
Net Income (Loss)	\$ 280,372	\$ 428,907	\$ (161,586)
Denominator:			
Basic earnings per share weighted average shares	51,914	51,804	51,505
Dilution due to stock options and restricted stock units . . .	957	1,296	—
Diluted earnings per share weighted average shares.	52,871	53,100	51,505
Basic earnings (loss) per share	\$ 5.40	\$ 8.28	\$ (3.14)
Diluted earnings (loss) per share	\$ 5.30	\$ 8.08	\$ (3.14)

Comprehensive Income (Loss)

Comprehensive income (loss) includes charges and credits to stockholders' equity that are not the result of transactions with the Company's shareholders, including changes in unrealized appreciation on marketable securities.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for receivables and accounts payable approximate fair values because of the immediate or short-term maturity of these financial instruments. Marketable securities are reported at fair value based on market quoted prices in the consolidated balance sheets. If quoted prices in active markets are no longer available, the Company has estimated the fair values of these securities utilizing a discounted cash flow analysis as of December 31, 2018. These analyses consider, among other items, the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the expectation of the next time the security is expected to have a successful auction. The fair value of the Company's long-term debt is estimated based on current rates offered to the Company for similar debt and was approximately \$3,157.3 million as of December 31, 2018, as compared to the carrying amount of \$3,185.4 million as of December 31, 2018. The Company's fair value of long-term debt as of December 31, 2017 was \$2,698.4 million as compared to the carrying amount of \$2,712.4 million as of December 31, 2017.

Segment Reporting

Generally accepted accounting principles require disclosures related to components of a company for which separate financial information is available to, and regularly evaluated by, the Company's chief operating decision maker when deciding how to allocate resources and in assessing performance. The Company's three operating segments consist of the operations conducted by SkyWest Airlines, ExpressJet and SkyWest Leasing. Information pertaining to the Company's reportable segments is presented in Note 2, *Segment Reporting*.

Recent Accounting Pronouncements

Standards Effective in Future Years and Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases (Topic 842)" ("Topic 842"). Topic 842 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. Topic 842 became effective

beginning in the first quarter of 2019. In July 2018, the FASB issued ASU No. 2018-11, “Targeted Improvements - Leases (Topic 842).” This update provides an optional transition method that allows entities to elect to apply the standard prospectively at its effective date, versus recasting the prior periods presented. The Company anticipates electing this adoption method and expects to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

Lease payments will include fixed and in-substance fixed payments, variable payments based on an index or rate, reasonably certain purchase options, termination penalties, and probable amounts the lessee will owe under a residual value guarantee. Lease payments will not include variable lease payments other than those that depend on an index or rate, any guarantee by the lessee of the lessor’s debt, or any amount allocated to non-lease components.

Based on the Company’s initial assessment, the adoption of Topic 842 will significantly increase the Company’s assets and liabilities primarily to reflect its aircraft operating lease liability and related right-of-use asset. As of December 31, 2018, the Company had 260 leased aircraft under operating leases in its fleet. The Company also has operating leases related to terminal operations space and other real estate leases. The Company does not expect the adoption of the New Lease Standard to impact any of its existing debt covenants. Additionally, the Company does not expect the adoption to have a significant impact on the recognition, measurement or presentation of lease revenue and lease expenses within the condensed consolidated statements of operations and comprehensive income or the condensed consolidated statements of cash flows. The Company does not anticipate the adoption of Topic 842 will have a material impact on the timing or amount of the Company’s lease revenue as a lessor. The Company adopted Topic 842 on January 1, 2019.

The Company expects to elect the several practical expedients available under the transition provisions of Topic 842, including (i) not reassessing whether expired or existing contracts contain leases, (ii) lease classification, and (iii) not revaluing initial direct costs for existing leases. Also, the Company plans to elect the practical expedient which will allow aggregation of non-lease components with the related lease components when evaluating accounting treatment. Lastly, the Company currently plans to apply the modified retrospective adoption method, utilizing the simplified transition option available in Topic 842, which allows entities to continue to apply the legacy guidance in ASC 840, including its disclosure requirements, in the comparative periods presented in the year of adoption.

Upon adoption, the Company anticipates it will reflect a lease liability in the range of \$450 to \$500 million and a right-of-use asset of \$600 to \$650 million. Upon adoption, the right-of-use asset is expected to include prepaid aircraft rents, accrued aircraft rents and deferred rent credits that were separately stated in the Company’s December 31, 2018 balance sheet. These estimates are subject to revision based upon the Company’s adoption of Topic 842 in 2019.

Recently Adopted Standards

The Company adopted Topic 606 as of January 1, 2018, utilizing the full retrospective method of adoption allowed by the standard, in order to provide for comparative results in all periods presented. The adoption of Topic 606 did not have a material impact on recorded amounts when applied to the opening balance sheet as of January 1, 2018. The adoption of Topic 606 only affected the Company’s consolidated balance sheets and statements of comprehensive income classification, with no impact on the Company’s operating income (loss), net income (loss), earnings (loss) per share or cash flows, however the principal versus agent considerations under Topic 606 resulted in the Company recording directly reimbursed fuel expense under its fixed-fee contracts as a reduction to the applicable operating expense (net) rather than revenue (gross). This classification change resulted in a reduction to total revenue and a reduction to operating expenses by the same amount, resulting in no change to operating income. Additionally, under the nonrefundable up-front fees and contract costs considerations of Topic 606, reimbursements from the Company’s major airline partners for up-front contract costs will be deferred and amortized over the contract term. The related up-front costs to obtain the contract will also be capitalized and amortized over the contract term. As the amount of the up-front reimbursement is determined from the Company’s actual costs to fulfill the contract, this change did not impact the Company’s operating income (loss) as the amount of deferred revenue and the amount of capitalized costs will be recognized over the same period. This change also resulted in a deferred revenue liability and a capitalized contract cost on the balance sheet of the same amount.

Prior to the Company's adoption of Topic 606, the Company segregated its revenue into two categories: "Passenger revenue" and "Ground handling and other revenue." "Passenger revenue" included revenue from fixed-fee contracts, prorate flying agreements and airport customer service agreements for flights operated by the Company. "Ground handling and other revenue" included revenue from airport customer service agreements for flights operated by third parties and other revenue. Under the disaggregated revenue disclosure considerations in Topic 606, the Company segregated its revenue into the following categories: "Flying agreements revenue" and "Airport customer service and other revenues." "Flying agreements revenue" includes revenue from fixed-fee contracts, prorate flying agreements and other revenue (primarily lease revenue for the use of the aircraft). "Airport customer service and other revenues" includes revenue from airport customer services agreements. This change reclassifies amounts previously reported as "Passenger revenue" and "Ground handling and other revenue". Additionally, in connection with the Company's adoption of Topic 606, the Company renamed the operating expense "Ground handling services" to "Airport-related expenses." Certain airport-related expenses, such as landing fees and airport facility rents, were previously reported as "Other operating expenses" and have been reclassified as "Airport-related expenses."

In 2016, the FASB issued Accounting Standards Update 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" and Accounting Standard Update 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" related to the classification of certain cash receipts and cash payments and the presentation of restricted cash within an entity's statement of cash flows, respectively. These standards are effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted this standard in the first quarter of 2018 and modified the presentation to include changes in restricted cash in the Company's Consolidated Statement of Cash Flows, which had an immaterial impact.

Impact of Recently Adopted Standards

The Company recast certain prior period amounts to conform with the adoption of Topic 606, as shown in the tables below (in thousands):

	Year ended December 31, 2017		
	Previously Reported	Adjustments	As Adjusted
Income Statement:			
OPERATING REVENUES:			
Flying agreements (1)	\$ 3,126,708	\$ (48,411)	\$ 3,078,297
Airport customer service and other (2)	77,560	(33,265)	44,295
Total operating revenues	\$ 3,204,268	\$ (81,676)	\$ 3,122,592
OPERATING EXPENSES:			
Salaries, wages and benefits	\$ 1,196,227	\$ (4,160)	\$ 1,192,067
Aircraft fuel	162,653	(77,517)	85,136
Airport-related expenses (3)	69,848	48,526	118,374
Other operating expenses	299,303	(48,525)	250,778
Total operating expenses	2,816,069	(81,676)	2,734,393
OPERATING INCOME	\$ 388,199	\$ —	\$ 388,199

1. In previously reported periods, this line item was presented as passenger revenue.
2. In previously reported periods, this line item was presented as ground handling and other.
3. In previously reported periods, this line item was presented as ground handling services.

Income Statement:	Year ended December 31, 2016		
	Previously Reported	Adjustments	As Adjusted
OPERATING REVENUES:			
Flying agreements (1)	\$ 3,051,414	\$ (40,676)	\$ 3,010,738
Airport customer service and other (2)	69,792	(16,828)	52,964
Total operating revenues	\$ 3,121,206	\$ (57,504)	\$ 3,063,702
OPERATING EXPENSES:			
Salaries, wages and benefits	\$ 1,211,380	\$ (5,921)	\$ 1,205,459
Aircraft fuel	122,284	(51,583)	70,701
Airport-related expenses (3)	72,659	49,482	122,141
Other operating expenses	305,041	(49,482)	255,559
Total operating expenses	3,293,890	(57,504)	3,236,386
OPERATING INCOME	\$ (172,684)	\$ —	\$ (172,684)

1. In previously reported periods, this line item was presented as passenger revenue.
2. In previously reported periods, this line item was presented as ground handling and other.
3. In previously reported periods, this line item was presented as ground handling services.

Balance Sheet:	Previously Reported December 31, 2017	Adjustments	Current Presentation December 31, 2017
ASSETS:			
Other long-term assets	\$ 49,220	\$ 16,121	\$ 65,341
LIABILITIES:			
Other long-term liabilities . . .	\$ 42,541	\$ 16,121	\$ 58,662

The \$16.1 million adjustment to other long-term assets and other long-term liabilities reflects the amount of capitalized up-front contract costs and the amount of deferred revenue for up-front reimbursements as of December 31, 2017. The \$16.1 million capitalized contract costs and deferred revenue is expected to be amortized over the applicable remaining contract term. For the year ended December 31, 2018 and 2017, the Company recognized \$2.0 million and \$1.5 million, respectively, of revenue and operating expense associated with the amortization of the up-front contract reimbursements.

As of December 31, 2018, the Company had \$64.2 million in accounts receivable of which \$52.7 million related to flying agreements. As of December 31, 2017, the Company had \$42.7 million in accounts receivable of which \$33.9 million related to flying agreements.

(2) Segment Reporting

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

The Company's three reporting segments consisted of the operations of SkyWest Airlines, ExpressJet and SkyWest Leasing activities. Corporate overhead expenses incurred by the Company were allocated to the operating expenses of SkyWest Airlines and ExpressJet. The Company sold ExpressJet in January 2019. The Company concluded the sale of ExpressJet did not meet the significant shift criteria for a discontinued operation under Discontinued Operations, Accounting Standards Codification 205-20, primarily as the Company continued to provide regional airline service through SkyWest Airlines in similar geographic regions, without a removal of a major airline partner, and with similar sized regional aircraft, upon the sale of ExpressJet.

The Company's chief operating decision maker analyzes the profitability of operating the E175 aircraft (including operating costs and associated revenue) separately from the profitability of the Company's ownership, financing costs and associated revenue of the Company's E175 aircraft (including depreciation expense, interest expense and associated revenue). The SkyWest Leasing segment includes revenue attributed to the Company's E175 aircraft ownership cost earned under the applicable fixed-fee contracts and the depreciation and interest expense of the Company's E175 aircraft. The SkyWest Leasing segment's total assets and capital expenditures include the acquired E175 aircraft. The SkyWest Leasing segment additionally includes the activity of four CRJ200 aircraft leased to a third-party.

The following represents the Company's segment data for the years ended December 31, 2018, 2017 and 2016 (in thousands).

	Year Ended December 31, 2018			
	SkyWest			Consolidated
	Airlines	ExpressJet	SkyWest Leasing	
Operating revenues	\$ 2,346,251	\$ 564,202	\$ 311,226	\$ 3,221,679
Operating expense	2,022,560	577,608	147,231	2,747,399
Depreciation and amortization expense	155,511	37,290	141,788	334,589
Interest expense	17,021	2,340	101,048	120,409
Segment profit (loss) (1)	306,670	(15,746)	62,947	353,871
Total assets	2,531,707	279,303	3,502,202	6,313,212
Capital expenditures (including non-cash)	149,731	10,137	996,408	1,156,276
	Year Ended December 31, 2017			
	SkyWest			
	Airlines	ExpressJet	SkyWest Leasing	Consolidated
Operating revenues	\$ 2,092,368	\$ 790,282	\$ 239,942	\$ 3,122,592
Operating expense	1,807,540	818,683	108,170	2,734,393
Depreciation and amortization expense	134,563	51,982	106,223	292,768
Interest expense	21,544	4,127	79,254	104,925
Segment profit (loss) (1)	263,284	(32,528)	52,518	283,274
Identifiable intangible assets, other than goodwill	—	4,896	—	4,896
Total assets	2,245,051	599,122	2,630,227	5,474,400
Capital expenditures (including non-cash)	124,955	14,278	550,165	689,398
	Year Ended December 31, 2016			
	SkyWest			
	Airlines	ExpressJet	SkyWest Leasing	Consolidated
Operating revenues	\$ 1,878,725	\$ 1,043,977	\$ 141,000	\$ 3,063,702
Operating expense	1,829,520	1,338,718	68,148	3,236,386
Depreciation and amortization expense	139,159	83,935	61,875	284,969
Special items	184,295	281,354	—	465,649
Interest expense	26,211	6,773	45,193	78,177
Segment profit (loss) (1)	22,994	(301,514)	27,659	(250,861)
Identifiable intangible assets, other than goodwill	—	8,249	—	8,249
Total assets	2,250,276	582,890	2,174,800	5,007,966
Capital expenditures (including non-cash)	57,761	15,396	1,085,844	1,159,001

(1) Segment profit is operating income less interest expense

(3) Long-term Debt

Long-term debt consisted of the following as of December 31, 2018 and 2017 (in thousands):

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Notes payable to banks, due in semi-annual installments, variable interest based on LIBOR, or with an interest rate of 4.00% through 2019, secured by aircraft	\$ 6,429	\$ 34,905
Notes payable to a financing company, due in semi-annual installments, variable interest based on LIBOR, or with an interest rate of 3.25% through 2021, secured by aircraft	36,324	97,612
Notes payable to banks, due in semi-annual installments plus interest at 6.10% to 6.51% through 2021, secured by aircraft	41,592	63,090
Notes payable to banks, due in monthly installments plus interest of 2.68% to 6.86% through 2025, secured by aircraft	371,300	372,157
Notes payable to banks, due in monthly installments, plus interest at 4.07% to 6.05% through 2029, secured by aircraft	105,069	49,001
Notes payable to banks, due in quarterly installments, plus interest at 3.39% to 5.08% through 2030, secured by aircraft	2,621,416	2,085,822
Notes payable to banks due in monthly installments, interest at 3.30% through 2019, secured by spare engines	3,308	9,763
Long-term debt	<u>\$ 3,185,438</u>	<u>\$ 2,712,350</u>
Current portion of long-term debt	(354,072)	(313,243)
Less long-term portion of unamortized debt issue cost, net	(21,598)	(21,761)
Long-term debt, net of current maturities and debt issue costs	<u>\$ 2,809,768</u>	<u>\$ 2,377,346</u>
Current portion of long-term debt	354,072	313,243
Less current portion of unamortized debt issue cost, net	(3,866)	(3,565)
Current portion of long-term debt, net of debt issue costs	<u>\$ 350,206</u>	<u>\$ 309,678</u>

During the year ended December 31, 2018, the Company acquired 39 new E175 aircraft. Approximately 85% of the aircraft purchase price was financed through the issuance of debt and 15% of the aircraft purchase price was paid with cash.

As of December 31, 2018 and 2017, the Company had \$3.2 billion and \$2.7 billion, respectively, of long-term debt obligations primarily related to the acquisition of aircraft and certain spare engines. The average effective interest rate on the debt related to those long-term debt obligations at December 31, 2018 and 2017, was approximately 4.2% and 3.9%, respectively.

During the year ended December 31, 2018, the Company used \$43.5 million in cash to extinguish \$43.5 million in debt early. The payment did not result in a pre-tax gain or loss in the consolidated statements of comprehensive income (loss). The Company did not extinguish any debt early during 2017. During the year ended December 31, 2016, the Company used \$16.5 million in cash to extinguish \$18.4 million in debt early. The payment resulted in a pre-tax gain of \$1.3 million, reflected as other income in the consolidated statements of comprehensive income (loss).

The aggregate amounts of principal maturities of long-term debt as of December 31, 2018 were as follows (in thousands):

2019	\$	354,072
2020		351,738
2021		347,835
2022		353,935
2023		359,677
Thereafter		1,418,181
	\$	<u>3,185,438</u>

As of December 31, 2018 and 2017, SkyWest Airlines had a \$75 million line of credit. The line of credit includes minimum liquidity and profitability covenants and is secured by certain assets. As of December 31, 2018 and 2017, SkyWest Airlines had no amount outstanding under the facility. However, at December 31, 2018 and 2017 the Company had \$9.7 million and \$14.8 million, respectively, in letters of credit issued under the facility which reduced the amount available under the facility to \$65.3 million and \$60.2 million, respectively. The facility expires on September 1, 2021 and has a variable interest rate of LIBOR plus 2.5% at December 31, 2018.

As of December 31, 2018 and 2017, the Company had \$78.7 million and \$87.4 million, respectively, in letters of credit and surety bonds outstanding with various banks and surety institutions in addition to the letters of credit outstanding under the line of credit.

(4) Income Taxes

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

	<u>Year ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current tax provision (benefit):			
Federal	\$ (21,598)	\$ 5,853	\$ (3,801)
State	1,465	180	111
Foreign	1,575	—	—
	<u>(18,558)</u>	<u>6,033</u>	<u>(3,690)</u>
Deferred tax provision (benefit):			
Federal	92,250	(166,890)	(77,430)
State	12,250	20,133	(6,106)
	<u>104,500</u>	<u>(146,757)</u>	<u>(83,536)</u>
Provision (benefit) for income taxes	<u>\$ 85,942</u>	<u>\$ (140,724)</u>	<u>\$ (87,226)</u>

The following is a reconciliation between a federal income tax rate of 21% for 2018 and 35% for 2017 and 2016 of income (loss) before income taxes and the effective tax rate which is derived by dividing the provision (benefit) for income taxes by the income (loss) before the provision for income (loss) taxes (in thousands):

	Year ended December 31,		
	2018	2017	2016
Computed provision (benefit) for income taxes at the statutory rate	\$ 76,926	\$ 100,864	\$ (87,084)
Increase (decrease) in income taxes resulting from:			
State income tax provision (benefit), net of federal income tax benefit	12,711	7,778	(5,768)
Non-deductible expenses	1,956	3,230	3,552
Valuation allowance changes affecting the provision for income taxes	(1,187)	505	751
Foreign income taxes, net of federal & state benefit . .	1,192	—	—
Excess tax benefits from share-based compensation . .	(4,548)	(5,377)	—
Revaluation of net deferred taxes for the Tax Act . . .	—	(246,845)	—
Other, net	(1,108)	(879)	1,323
Provision (benefit) for income taxes	<u>\$ 85,942</u>	<u>\$ (140,724)</u>	<u>\$ (87,226)</u>

For the year ended December 31, 2018, the Company released \$1.2 million of valuation allowance against certain deferred tax assets primarily associated with ExpressJet state net operating losses and Company capital loss carry forwards. For the years ended December 31, 2017 and 2016, the Company recorded a \$0.5 million and \$0.8 million valuation allowance, respectively against certain deferred tax assets primarily associated with ExpressJet state net operating losses with a limited carry forward period. The decrease in the valuation allowance for 2018 was primarily based on changes in the Company's income tax projections and capital gains generated which reduced the amount of deferred tax assets that are anticipated to expire before the deferred tax assets may be utilized.

The Company recorded a \$4.5 million and \$5.4 million benefit from share-based compensation in 2018 and 2017, respectively, relating to ASU 2016-09 which, beginning in 2017, requires excess tax benefits and deficiencies to be recognized in the income tax provision during the period stock options are exercised and when stock awards vest.

The significant components of the Company's net deferred tax assets and liabilities as of December 31, 2018 and 2017 are as follows (in thousands):

	As of December 31,	
	2018	2017
Deferred tax assets:		
Accrued benefits	\$ 32,462	\$ 31,651
Net operating loss carryforward	344,375	122,648
AMT credit carryforward	15,744	23,443
Aircraft credits	35,924	53,870
Accrued reserves and other	18,710	26,647
Total deferred tax assets	<u>447,215</u>	<u>258,259</u>
Valuation allowance	<u>(9,455)</u>	<u>(10,642)</u>
Deferred tax liabilities:		
Accelerated depreciation	<u>(955,919)</u>	<u>(666,637)</u>
Total deferred tax liabilities	<u>(955,919)</u>	<u>(666,637)</u>
Net deferred tax liability	<u>\$ (518,159)</u>	<u>\$ (419,020)</u>

The Company's deferred tax liabilities were primarily generated through accelerated depreciation, combined with shorter depreciable tax lives, allowed under the IRS tax code for purchased aircraft and support equipment compared to the Company's depreciation policy under GAAP for such assets using the straight-line method (see note 1 Nature of Operations and Summary of Significant Accounting Policies).

The Company's valuation allowance is related to certain deferred tax assets with a limited carry forward period where the Company does not anticipate utilizing these deferred tax assets prior to the lapse of the carry forward period. The Company's AMT credit carryforward includes credits from prior acquisitions.

At December 31, 2018 and 2017, the Company had federal net operating losses of approximately \$1,504.9 million and \$491.4 million and state net operating losses of approximately \$562.0 million and \$302.5 million, respectively. The estimated effective tax rate applicable to the federal and state net operating losses at December 31, 2018 was 21.0% and 3.36%, respectively. The Company anticipated that the federal and state net operating losses will start to expire in 2030 and 2019, respectively. The Company has recorded a valuation allowance for state net operating losses the Company anticipates will expire before the benefit will be realized due to the limited carry forward periods. As of December 31, 2018 and 2017, the Company also had an alternative minimum tax credit of approximately \$8.8 million and \$23.4 million, respectively, which does not expire. Under the new Tax Cuts and Jobs Act of 2017 ("Tax Act"), the Company anticipates it will realize the alternative minimum tax credit either by offsetting regular tax due or as a refundable credit over the next three years.

Under ASC Topic 740, the accounting guidance related to uncertainty in tax positions requires that the impact of a tax position be recognized in the financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. A reconciliation of the beginning and ending amount of unrecognized tax benefits for the year ended December 31, 2018 is as follows (in thousands):

Unrecognized tax benefits at the beginning of year	\$	2,223
Gross increases - current year tax positions		13,899
Gross increases - prior year tax positions		-
Gross decreases - prior year tax positions		(1,569)
Unrecognized tax benefits at end of year	\$	<u>14,553</u>
Interest and penalties in year-end balance		-

The Company has not accrued any interest or penalties related to uncertain tax positions as of December 31, 2018, as the Company's tax attributes would offset the estimated interest and penalties.

(5) Commitments and Contingencies

Lease Obligations

The Company leases 260 aircraft, as well as airport facilities, office space, and various other property and equipment under non-cancelable operating leases which are generally on a long-term net rent basis where the Company pays taxes, maintenance, insurance and certain other operating expenses applicable to the leased property. The following table summarizes future minimum rental payments required under operating leases that have non-cancelable lease terms as of December 31, 2018 (in thousands):

2019	\$	87,256
2020		101,741
2021		90,787
2022		72,593
2023		65,749
Thereafter		59,820
	\$	<u>477,946</u>

The majority of the Company's leased aircraft are owned and leased through trusts whose sole purpose is to purchase, finance and lease these aircraft to the Company ("Leveraged Lease Agreements"). The Company is not a

beneficiary of such trusts and the Company does not have an ownership interest in such trusts. The Company's leveraged leases do not require the Company to guarantee a portion of the residual values of the leased assets held by the trust and the Company's leveraged lease agreements do not contain a fixed purchase option or have any other terms that represent variable interests in such trusts. As a result, the Company has not consolidated any of these trusts.

Total rental expense for non-cancelable aircraft operating leases was approximately \$154.9 million, \$215.8 million and \$262.6 million for the years ended December 31, 2018, 2017 and 2016, respectively. The minimum rental expense for airport station rents was approximately \$19.6 million, \$30.3 million and \$31.4 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Self-insurance

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

Legal Matters

The Company is subject to certain legal actions which it considers routine to its business activities. As of December 31, 2018, 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 the Company's financial position, liquidity or results of operations.

Concentration Risk and Significant Customers

The Company requires no collateral from its major airline partners or customers, but monitors the financial condition of its major airline partners. Under the majority of the Company's code-share agreements, the Company receives weekly payments from its major code-share partners that approximate a significant percentage of the compensation earned for such period. Additionally, the Company provides certain customer service functions at multiple airports for various airlines and the Company maintains an allowance for doubtful accounts receivable based upon expected collectability of all accounts receivable. The Company's allowance for doubtful accounts totaled \$158,000 and \$157,000 as of December 31, 2018 and 2017, respectively. For the years ended December 31, 2018, 2017 and 2016, the Company's contractual relationships with Delta and United combined accounted for approximately 81.4%, 82.9% and 88.7%, respectively of the Company's total revenues.

Employees Under Collective Bargaining Agreements

As of December 31, 2018, the Company had approximately 15,900 full-time equivalent employees. As of December 31, 2018, ExpressJet had 2,932 full-time equivalent employees of which approximately 2,320 employees were represented by a union. Although no SkyWest Airlines employees are represented by a union, certain SkyWest Airline employees are covered under a stable and binding collective bargaining agreement that is administered by employee representatives.

(6) Fair Value Measurements

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

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Some of the Company’s marketable securities primarily utilize broker quotes in a non-active market for valuation of these securities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, therefore requiring an entity to develop its own assumptions.

As of December 31, 2018, the Company held certain assets that are required to be measured at fair value on a recurring basis. Assets measured at fair value on a recurring basis are summarized below (in thousands):

	Fair Value Measurements as of December 31, 2018			
	Total	Level 1	Level 2	Level 3
Marketable Securities				
Bonds and bond funds	\$ 229,783	\$ —	\$ 229,783	\$ —
Commercial paper	131,162	—	131,162	—
	<u>\$ 360,945</u>	<u>\$ —</u>	<u>\$ 360,945</u>	<u>\$ —</u>
Cash, Cash Equivalents and Restricted Cash	328,384	328,384	—	—
Total Assets Measured at Fair Value	<u>\$ 689,329</u>	<u>\$ 328,384</u>	<u>\$ 360,945</u>	<u>\$ —</u>

	Fair Value Measurements as of December 31, 2017			
	Total	Level 1	Level 2	Level 3
Marketable Securities				
Bonds and bond funds	\$ 344,251	\$ —	\$ 344,251	\$ —
Commercial paper	159,252	—	159,252	—
	<u>\$ 503,503</u>	<u>\$ —</u>	<u>\$ 503,503</u>	<u>\$ —</u>
Cash, Cash Equivalents and Restricted Cash	181,792	181,792	—	—
Total Assets Measured at Fair Value	<u>\$ 685,295</u>	<u>\$ 181,792</u>	<u>\$ 503,503</u>	<u>\$ —</u>

The Company’s “Marketable Securities” classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities.

No significant transfers between Level 1, Level 2 and Level 3 occurred during the year ended December 31, 2018. The Company’s policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

(7) Special Items

The following table summarizes the components of the Company's special items, for the year ended December 31, 2018, 2017 and 2016 (in thousands):

	Year ended December 31,		
	2018	2017	2016
Special items:			
CRJ200 aircraft related items ¹	\$ —	\$ —	\$ 424,466
ERJ145 aircraft related items ²	—	—	41,183
Total special items.	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 465,649</u>

- (1) Consists primarily of inventory valuation charges and impairment charges to write-down CRJ200 aircraft including related long-lived assets to their estimated fair value. The estimated fair value of the long-lived assets, including the aircraft and fixed asset spare parts inventory, was based on third-party appraisals on the assets. These values were estimated based on listed market values or recent third-party market transactions for similar assets. Additionally, the

Company estimated the fair value of certain long-lived prepaid lease assets using the net present value of estimated current CRJ200 lease rates. All fair values are considered to be Level 3 within the fair value hierarchy. Of the special items \$184.3 million related to SkyWest Airlines and \$240.2 million related to ExpressJet. These charges are net of \$90 million in cash proceeds and other considerations from the Bombardier termination agreement. These special items are reflected in the SkyWest Airlines and ExpressJet operating expenses under Note 2 Segment Reporting.

- (2) The ERJ145 aircraft related items recorded in the 2016 special charge consist primarily of inventory valuation charges and impairment charges to write-down certain ERJ145 long-lived assets, which primarily consisted of spare engines and ERJ145 spare aircraft parts, to their estimated fair value of \$41.2 million. The estimated fair value of the long-lived assets was based on third-party appraisals and valuations for similar assets which is considered an unobservable input (Level 3) under the fair value hierarchy. These special items are reflected in the ExpressJet operating expenses under Note 2 *Segment Reporting*.

(8) Capital Transactions

Preferred Stock

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

Stock Compensation

On May 4, 2010, the Company's shareholders approved the adoption of the SkyWest, Inc. 2010 Long-Term Incentive Plan, which provides for the issuance of up to 5,150,000 shares of common stock to the Company's directors, employees, consultants and advisors (the "2010 Incentive Plan"). The 2010 Incentive Plan provides for awards in the form of options to acquire shares of common stock, stock appreciation rights, restricted stock grants, restricted stock units and performance awards. The 2010 Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee"), which is authorized to designate option grants as either incentive stock options for income tax purposes ("ISO") or non-statutory stock options. ISOs are granted at not less than 100% of the market value of the underlying common stock on the date of grant. Non-statutory stock options are granted at a price as determined by the Compensation Committee. As of December 31, 2018 the 2010 Incentive Plan had 2.0 million shares remaining available for future issuance.

Stock Options

The fair value of stock options awarded under the Company's stock option plans has been estimated as of the grant date using the Black-Scholes option pricing model. The Company uses historical data to estimate option exercises and employee termination in the option pricing model. The expected term of options granted is derived from the output of the option pricing model and represents the period of time that options granted are expected to be outstanding. The expected volatilities are based on the historical volatility of the Company's traded stock and other factors. During the years ended December 31, 2018 and 2017, the Company did not grant any options to purchase shares of common stock. The Company granted 206,021 stock options to employees under the 2010 Incentive Plan during the years ended December 31, 2016. Stock options granted in 2016 vest in three equal installments over a three-year period. The

following table shows the assumptions used and weighted average fair value for grants in the years ended December 31, 2016.

	<u>2016</u>
Expected annual dividend rate	1.08 %
Risk-free interest rate	1.15 %
Average expected life (years)	5.7
Expected volatility of common stock	0.412
Forfeiture rate	0.0 %
Weighted average fair value of option grants	\$ 5.27

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

Options are exercisable for a period as defined by the Compensation Committee on the date granted; however, no stock option will be exercisable before six months have elapsed from the date of grant and no stock option shall be exercisable after seven years from the date of grant. The following table summarizes the stock option activity for all of the Company's plans for the years ended December 31, 2018, 2017 and 2016.

	<u>2018</u>				<u>2017</u>		<u>2016</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value (\$000)</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of year .	458,103	\$ 13.73	4.0 years	\$ 18,034.1	819,981	\$ 13.58	1,064,429	\$ 13.64
Granted	—	—			—	—	206,021	14.90
Exercised	(157,523)	13.80			(356,209)	13.36	(351,296)	14.17
Cancelled	—	—			(5,669)	14.33	(99,173)	14.90
Outstanding at end of year	<u>300,580</u>	13.70	3.0 years	\$ 9,249.4	<u>458,103</u>	13.73	<u>819,981</u>	13.58
Exercisable at December 31, 2018	235,672	13.36	2.7 years	\$ 7,330.7				
Exercisable at December 31, 2017	254,192	13.17	3.4 years	\$ 10,150.8				

The total intrinsic value of options to acquire shares of the Company's common stock that were exercised during the years ended December 31, 2018, 2017 and 2016 was \$7,100,000, \$9,940,000 and \$4,250,000, respectively.

The following table summarizes the status of the Company's non-vested stock options as of December 31, 2018:

	<u>Number of Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Non-vested shares at beginning of year	203,911	\$ 5.17
Granted	—	—
Vested	(139,003)	5.10
Cancelled	—	—
Non-vested shares at end of year	<u>64,908</u>	<u>\$ 5.32</u>

The following table summarizes information about the Company's stock options outstanding at December 31, 2018:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted Average	Weighted Average	Number	Weighted Average
	Outstanding	Remaining Contractual Life	Exercise Price	Exercisable	Exercise Price
\$12.00 to \$13.99	193,231	2.4 years	\$ 13.04	193,231	\$ 13.04
\$14.00 to \$15.99	104,159	4.1 years	14.78	41,292	14.78
\$16.00 to \$19.00	3,190	3.8 years	18.31	1,149	17.25
\$12.00 to \$19.00	300,580	3.0 years	\$ 13.70	235,672	\$ 13.36

Restricted Stock Units ("RSUs")

During the year ended December 31, 2018, the Company granted 115,044 restricted stock units to certain of the Company's employees under the 2010 Incentive Plan. The restricted stock units granted during the year ended December 31, 2018 have a three-year cliff-vesting period, during which the recipient must remain employed with the Company or its subsidiaries. The weighted average fair value of the restricted stock units at the date of grants made during the year ended December 31, 2018 was \$53.40 per share.

The following table summarizes the activity of restricted stock units granted to certain Company employees for the years ended December 31, 2018, 2017 and 2016:

	Number of RSUs	Weighted-Average
		Grant-Date Fair Value
Non-vested RSUs outstanding at December 31, 2015 .	809,299	\$ 13.13
Granted	384,148	14.81
Vested	(215,146)	13.29
Cancelled	(51,370)	13.72
Non-vested RSUs outstanding at December 31, 2016 .	926,931	\$ 13.65
Granted	160,137	35.81
Vested	(230,903)	12.01
Cancelled	(40,575)	15.78
Non-vested RSUs outstanding at December 31, 2017 .	815,590	\$ 18.35
Granted	115,044	53.40
Vested	(330,580)	13.57
Cancelled	(24,273)	27.77
Non-vested RSUs outstanding at December 31, 2018 .	575,781	\$ 27.71

Performance Stock Units ("PSUs")

During the year ended December 31, 2018, the Compensation Committee granted performance share units, which are performance based restricted stock units, to certain Company employees with three-year performance-based financial metrics that the Company must meet before those awards may be earned and the performance period is measured for the three years ending December 31, 2020. The Company's compensation expense for performance share units is based upon the projected number of performance share units estimated to be awarded at the conclusion of the performance period. During 2018, the Compensation Committee awarded 92,335 additional shares of stock related to the performance share grant in 2015 based on the Company's performance for the three years ended December 31, 2017 measured against the pre-established targets for the same period. The Compensation Committee will determine the achievement of performance results and corresponding vesting of performance shares for each year's grant in 2016, 2017 and 2018. At the end of each performance period, the number of shares awarded can range from 0% to 200% of the original granted amount for performance share units granted in 2018 and 2017. Performance shares granted in 2016 can

range from 0% to 150% of the original granted amount, depending on the performance against the pre-established targets.

The following table summarizes the activity of performance share units granted at target as of December 31, 2018.

	<u>Number of PSUs</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Non-vested PSUs outstanding at December 31, 2015	202,829	\$ 13.62
Granted	183,577	14.89
Vested	—	—
Cancelled	(22,413)	14.16
Non-vested PSUs outstanding at December 31, 2016	363,993	\$ 14.23
Granted	119,315	35.81
Vested	—	—
Cancelled	(14,732)	15.00
Non-vested PSUs outstanding at December 31, 2017	468,576	\$ 19.70
Granted	90,264	53.41
Additional PSUs awarded from the 2015 grant	92,335	13.62
Vested	(277,029)	13.62
Cancelled	(3,229)	30.09
Non-vested PSUs outstanding at December 31, 2018	370,917	\$ 30.84

During the years ended December 31, 2018, 2017 and 2016 the Company granted fully-vested shares of common stock to the Company’s directors in the amounts of 15,165, 22,617 and 42,624 shares, respectively, with a weighted average grant-date fair value of \$53.40, \$35.81, and \$14.78 respectively.

During the year ended December 31, 2018, 2017 and 2016, the Company recorded equity-based compensation expense of \$13.1 million, \$10.6 million and \$7.6 million, respectively.

As of December 31, 2018, the Company had \$12.7 million of total unrecognized compensation cost related to non-vested stock options, non-vested restricted stock grants and non-vested performance stock units. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. The Company expects to recognize this cost over a weighted average period of 1.7 years.

Taxes

The Company’s treatment of stock option grants of non-qualified options, restricted stock units and performance shares results in the creation of a deferred tax asset, which is a temporary difference, until the time that the option is exercised or the restrictions lapse.

(9) Retirement Plans and Employee Stock Purchase Plans

SkyWest Retirement Plan

The Company sponsors the SkyWest, Inc. Employees’ Retirement Plan (the “SkyWest Plan”). Employees who have completed 90 days of service and are at least 18 years of age are eligible for participation in the SkyWest Plan. Employees may elect to make contributions to the SkyWest Plan. Generally, the Company matches 100% of such contributions up to levels ranging from 2% to 12% of compensation, based on position and years of service. Additionally, a discretionary contribution may be made by the Company. The Company’s combined contributions to the SkyWest Plan were \$35.6 million, \$26.1 million and \$23.2 million for the years ended December 31, 2018, 2017 and 2016, respectively.

ExpressJet and Atlantic Southeast Retirement Plans

ExpressJet (formerly Atlantic Southeast) sponsors the Atlantic Southeast Airlines, Inc. Investment Savings Plan (the “Atlantic Southeast Plan”). Employees who have completed 90 days of service and are 18 years of age are eligible for participation in the Atlantic Southeast Plan. Employees may elect to make contributions to the Atlantic Southeast Plan, ExpressJet will match up to 6% of each participant’s total compensation, based on years of service and other provisions included in the Atlantic Southeast Plan. Additionally, participants are 100% vested in their elective deferrals and rollover amounts in company matching contributions.

ExpressJet additionally sponsors the ExpressJet Airlines, Inc. 401(k) Savings Plan (the “ExpressJet Retirement Plan”). Substantially all of ExpressJet’s domestic employees were covered by this plan at the time the Company acquired ExpressJet in 2010. Effective January 1, 2009, the ExpressJet Retirement Plan was amended such that certain matching payment amounts have been reduced or eliminated depending on the terms of the collective bargaining unit or work group, as applicable.

ExpressJet’s contribution to the Atlantic Southeast and the ExpressJet Retirement Plans was \$15.4 million, \$17.8 million and \$21.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Employee Stock Purchase Plans

In May 2009, the Company’s Board of Directors approved the SkyWest, Inc. 2009 Employee Stock Purchase Plan (the “2009 Stock Purchase Plan”). All employees who have completed 90 days of employment with the Company or one of its subsidiaries are eligible to participate in the 2009 Stock Purchase Plan, except employees who own five percent or more of the Company’s common stock. The 2009 Stock Purchase Plan enables employees to purchase shares of the Company’s common stock at a five percent discount, through payroll deductions. Employees can contribute up to 15% of their base pay, not to exceed \$25,000 each calendar year, for the purchase of shares. Shares are purchased semi-annually at a five percent discount based on the end of the period price. Employees can terminate their participation in the 2009 Stock Purchase Plan at any time upon written notice.

The following table summarizes purchases made under the 2009 Employee Stock Purchase Plans during the years ended December 31, 2018, 2017 and 2016:

	Year ended December 31,		
	2018	2017	2016
Number of shares purchased	60,950	88,362	151,531
Average price of shares purchased.	\$ 49.85	\$ 33.96	\$ 20.87

The 2009 Stock Purchase Plan is a non-compensatory plan under the accounting guidance. Therefore, no compensation expense was recorded for the years ended December 31, 2018, 2017 and 2016.

(10) Stock Repurchase

The Company’s Board of Directors has adopted a stock repurchase program which authorizes the Company to repurchase shares of the Company’s common stock in the public market or in private transactions, from time to time, at prevailing prices. The Company’s stock repurchase program authorizes the repurchase of up to \$100.0 million of the Company’s common stock, over a three year period commencing on February 9, 2017, of which \$25.5 million remained available at December 31, 2018.

During the years ended December 31, 2018 and 2017, the Company repurchased 1.0 million and 0.5 million shares of common stock for approximately \$54.4 million and \$20.0 million, respectively at a weighted average price per share of \$56.25 and \$41.36, respectively. The Company did not repurchase any shares of its common stock during the year ended December 31, 2016. Additionally, during the year ended December 31, 2018 and 2017, the Company paid \$13.6 million and \$5.1 million, respectively, for a net settlement of the income tax obligation on employee equity awards that vested during the applicable periods.

(11) Related-Party Transactions

During the year ended December 31, 2018, the Company purchased \$206,000 of spare aircraft parts from an entity affiliated with a director of the Company.

(12) Subsequent Events

ExpressJet Sale

On January 22, 2019, the Company completed the previously announced sale of its wholly owned subsidiary ExpressJet. The Company anticipates the sale of ExpressJet will result in a gain in 2019. The closing of the transaction was completed in two parts, through an asset sale and stock sale, as further described below.

Asset Sale

On January 11, 2019, pursuant to the terms and conditions of the Asset Purchase Agreement, dated as of December 17, 2018 (the "Asset Purchase Agreement"), by and among the Company, ExpressJet and United, United acquired certain specified assets and liabilities of ExpressJet, including, among other things, aircraft engines, auxiliary power units, rotatable spare parts, ground support equipment and flight training equipment for \$60.0 million in cash, subject to certain purchase price adjustments (the "Asset Sale"). Certain assets and liabilities of ExpressJet were expressly excluded from the Asset Sale.

Stock Sale

Additionally, on January 22, 2019, pursuant to the terms and conditions of the Stock Purchase Agreement, dated as of December 17, 2018, by and among the Company and ManaAir, LLC, a company in which United owns a minority interest (the "Buyer"), the Buyer acquired all of the outstanding shares of capital stock of ExpressJet from the Company for \$16.0 million in cash, subject to certain purchase price adjustments (the "Stock Sale," and collectively with the Asset Sale, the "ExpressJet Sale"). To facilitate payment of the purchase price for the Stock Sale, at the closing of the Stock Sale, the Company loaned \$26 million to Kair Enterprises, Inc., the majority owner of the Buyer. The Company agreed to lease 16 CRJ200 aircraft to ExpressJet for up to a five year term as part of the transaction.

Early Lease Buyout

Subsequent to December 31, 2018, the Company entered into an agreement with a lessor for an early lease buyout of 16 CRJ700s and 36 CRJ200s. The Company anticipates using \$111.7 million in cash to acquire the aircraft off lease and not assuming any debt associated with these aircraft in conjunction with the lease buyout. The Company anticipates completing the transaction during the three months ending March 31, 2019.

Share Repurchase Plan

In February 2019, the Company's Board of Directors approved a new share repurchase plan, pursuant to which the Company is authorized to repurchase up to \$250 million of the Company's common stock. This authorization superseded the previous share repurchase plan approved in February 2017.

(13) Quarterly Financial Data (Unaudited)

Unaudited summarized financial data by quarter for 2018 and 2017 is as follows (in thousands, except per share data):

	Year ended December 31, 2018				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues	\$ 783,400	\$ 805,515	\$ 829,275	\$ 803,489	\$ 3,221,679
Operating income	88,175	126,678	137,925	121,502	474,280
Net income	54,362	75,859	83,046	67,105	280,372
Net income per common share:					
Basic	1.05	1.46	1.60	1.30	5.40
Diluted	1.03	1.43	1.57	1.28	5.30
Weighted average common shares:					
Basic:	51,921	52,046	52,039	51,650	51,914
Diluted:	53,033	52,913	52,981	52,556	52,871

	Year ended December 31, 2017				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues	\$ 747,166	\$ 791,512	\$ 812,673	\$ 771,241	\$ 3,122,592
Operating income	76,295	106,596	112,369	92,939	388,199
Net income (1)	34,786	50,477	53,716	289,928	428,907
Net income per common share:					
Basic	0.67	0.98	1.04	5.60	8.28
Diluted	0.65	0.95	1.01	5.46	8.08
Weighted average common shares:					
Basic:	51,820	51,751	51,833	51,811	51,804
Diluted:	53,202	52,977	53,080	53,140	53,100

(1) Net income for 2017 included a \$246.8 million benefit related to the revaluation of the Company's deferred tax liability and other tax liabilities in accordance with the Tax Act.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, performed an evaluation of our disclosure controls and procedures, which have been designed to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported accurately and within the time periods specified in the SEC rules and forms. Our management, including our Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2018, those controls and procedures were effective to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control

During the most recently completed fiscal quarter, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

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

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

Management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018 using the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on that evaluation, management believes that our internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of our internal control over financial reporting as of December 31, 2018, has been audited by Ernst & Young LLP (“Ernst & Young”), the independent registered public accounting firm who also has audited our Consolidated Financial Statements included in this Report. Ernst & Young’s report on our internal control over financial reporting appears on the following page.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of SkyWest, Inc.

Opinion on Internal Control over Financial Reporting

We have audited SkyWest, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, SkyWest, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of SkyWest, Inc. and subsidiaries as of December 31, 2018 and 2017, 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, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a)2 and our report dated February 21, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 21, 2019

ITEM 9B. OTHER INFORMATION

None.

PART III

Items 10, 11, 12, 13 and 14 in Part III of this Report are incorporated herein by reference to our definitive proxy statement for our 2018 Annual Meeting of Shareholders scheduled for May 7, 2019. We intend to file our definitive proxy statement with the SEC not later than 120 days after December 31, 2018, pursuant to Regulation 14A of the Exchange Act.

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed:

1. Financial Statements: Reports of Independent Auditors, Consolidated Balance Sheets as of December 31, 2018 and 2017, Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2018, 2017 and 2016, Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2017 and 2016, Consolidated Statements of Stockholders’ Equity for the years ended December 31, 2018, 2017, 2016 and 2015 and Notes to Consolidated Financial Statements.
2. Financial Statement Schedule. The following consolidated financial statement schedule of our company is included in this Item 15.
 - Schedule II—Valuation and qualifying accounts

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

(b) Exhibits

Number	Exhibit	Incorporated by Reference
2.1	Asset Purchase Agreement, dated as of December 17, 2018, between ExpressJet Airlines, Inc. and United Airlines, Inc.	(1)
2.2	Stock Purchase Agreement, dated as of December 17, 2018, between SkyWest, Inc. and ManaAir, LLC	(1)
3.1	Restated Articles of Incorporation	(2)
3.2	Amended and Restated Bylaws	(12)
4.1	Specimen of Common Stock Certificate	(3)
10.1	Amended and Restated Delta Connection Agreement, dated as of September 8, 2005, between SkyWest Airlines, Inc. and Delta Air Lines, Inc.	(4)
10.2	Second Amended and Restated Delta Connection Agreement, dated as of September 8, 2005, between Atlantic Southeast Airlines, Inc. and Delta Air Lines, Inc.	(4)
10.3	United Express Agreement dated July 31, 2003, between United Air Lines, Inc., and SkyWest Airlines, Inc.	(5)
10.4	Lease Agreement dated December 1, 1989 between Salt Lake City Corporation and SkyWest Airlines, Inc.	(6)
10.5	Master Purchase Agreement dated November 7, 2000 between Bombardier, Inc. and SkyWest Airlines, Inc.	(7)
10.6	Supplement to Master Purchase Agreement dated November 7, 2000 between Bombardier, Inc. and SkyWest Airlines, Inc.	(5)
10.7	SkyWest, Inc. 2002 Deferred Compensation Plan, as amended and restated, effective January 1, 2008	(6)
10.8	First Amendment to the Amended and Restated SkyWest, Inc. 2002 Deferred Compensation Plan	(6)
10.9	SkyWest, Inc. 2009 Employee Stock Purchase Plan	(6)
10.10	SkyWest, Inc. 2010 Long-Term Incentive Plan	(7)
10.11	Form of Restricted Stock Unit Award Agreement	(17)
10.12	Form of Performance Share Award Agreement	(17)
10.13	Capacity Purchase Agreement, dated November 12, 2010, by and among ExpressJet Airlines, Inc. and Continental Airlines, Inc.	(10)
10.14	Aircraft Purchase Agreement, dated December 7, 2012, between Mitsubishi Aircraft Corporation and SkyWest, Inc.	(11)
10.15	Letter Agreement dated December 7, 2012, between Mitsubishi Aircraft Corporation and SkyWest, Inc.	(11)
10.16	Purchase Agreement COM0028-13, between Embraer S.A. and SkyWest Inc. dated February 15, 2013	(13)
10.17	Purchase Agreement COM0344-13, between Embraer S.A. and SkyWest Inc. dated June 17, 2013	(13)
10.18	Form of Indemnification Agreement by and between SkyWest, Inc. and each of Jerry C. Atkin, W. Steve Albrecht, Henry J. Eyring, Steven F. Udvar-Hazy, James L. Welch, Eric J. Woodward and Russell A. Childs, as of August 6, 2013	(13)
10.19	Form of Indemnification Agreement by and between SkyWest, Inc. and each of Ronald J. Mittelstaedt and Keith E. Smith, as of October 1, 2013	(13)
10.20	Amended and Restated Capacity Purchase Agreement, dated as of November 7, 2014, by and between ExpressJet Airlines, Inc. and United Airlines*	(14)
10.21	Indemnification Agreement by and between SkyWest, Inc. and Robert J. Simmons, as of March 16, 2015	(16)

Number	Exhibit	Incorporated by Reference
10.22	Form of Indemnification Agreement by and between SkyWest, Inc. and each of Meredith S. Madden and Andrew C. Roberts, as of May 5, 2015	(16)
21.1	Subsidiaries of the Registrant	(12)
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification of Chief Executive Officer	Filed herewith
31.2	Certification of Chief Financial Officer	Filed herewith
32.1	Certification of Chief Executive Officer	Filed herewith
32.2	Certification of Chief Financial Officer	Filed herewith
101.INS**	XBRL Instance Document	
101.SCH**	XBRL Taxonomy Extension Schema Document	
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document	
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document	
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document	

* Certain portions of this exhibit have been omitted pursuant to Rule 24b-2 and are subject to a confidential treatment request.

** Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statement of Comprehensive Income (Loss) for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, (ii) the Consolidated Balance Sheet at December 31, 2018 and December 31, 2017, and (iii) the Consolidated Statement of Cash Flows for the years ended December 31, 2018, December 31, 2017 and December 31, 2016

- (1) Incorporated by reference to Registrant's Current Report on Form 8-K filed on December 18, 2018
- (2) Incorporated by reference to the exhibits to a Registration Statement on Form S -3 (File No. 333-129831) filed on November 18, 2005
- (3) Incorporated by reference to a Registration Statement on Form S- 3 (File No. 333-42508) filed on July 28, 2000
- (4) Incorporated by reference to Registrant's Current Report on Form 8-K filed on September 13, 2005, as amended by Amendment No. 2 on Form 8-K/A filed on February 21, 2006
- (5) Incorporated by reference to exhibits to Registrant's Quarterly Report on Form 10-Q filed on November 14, 2003
- (6) Incorporated by reference to the exhibits to Registrant's Quarterly Report on Form 10-Q filed for the quarter ended December 31, 1986
- (7) Incorporated by reference to the exhibits to Registrant's Quarterly Report on Form 10-Q filed on February 13, 2001
- (8) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 23, 2009
- (9) Incorporated by reference to Appendix A to Registrant's Definitive Proxy Statement on Schedule 14A (File No. 000-14719) filed on March 12, 2010
- (10) Incorporated by reference to the exhibits to Registrant's Current Report on Form 8-K filed on November 18, 2010

- (11) Incorporated by reference to the exhibits to Registrant's Current Report on Form 8-K filed on December 13, 2012, as amended by Amendment No. 1 to Current Report on Form 8-K/A filed on June 25, 2013
- (12) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 24, 2012
- (13) Incorporated by reference to the exhibits to Registrant's Quarterly Report on Form 10-Q filed on August 7, 2013, as amended by Amendment No. 1 to Quarterly Report on Form 10-Q/A filed on November 4, 2013
- (14) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 14, 2014
- (15) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 18, 2015
- (16) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 26, 2016
- (17) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 27, 2017
- (18) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 26, 2018

ITEM 16. FORM 10-K SUMMARY

None.

SKYWEST, INC. AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2018, 2017 and 2016
(Dollars in thousands)

<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance at End of Year</u>
Year ended December 31, 2018:				
Allowance for inventory obsolescence	\$ 17,098	5,043	—	\$ 22,141
Allowance for doubtful accounts receivable . . .	157	1	—	158
	<u>\$ 17,255</u>	<u>5,044</u>	<u>—</u>	<u>\$ 22,299</u>
Year ended December 31, 2017:				
Allowance for inventory obsolescence(1)	\$ 40,497	—	(23,399)	\$ 17,098
Allowance for doubtful accounts receivable . . .	173	—	(16)	157
	<u>\$ 40,670</u>	<u>—</u>	<u>(23,415)</u>	<u>\$ 17,255</u>
Year ended December 31, 2016:				
Allowance for inventory obsolescence(2)	\$ 13,933	26,564	—	\$ 40,497
Allowance for doubtful accounts receivable . . .	187	—	(14)	173
	<u>\$ 14,120</u>	<u>26,564</u>	<u>(14)</u>	<u>\$ 40,670</u>

- (1) The deductions in 2017 related to the disposal of excess and obsolete inventory in 2017.
(2) The increase in the inventory obsolescence related to additional excess inventory identified as part of the impairment analysis of the 50-seat aircraft. See note 7, *Special items*, for additional detail on the impairment.

ADDITIONAL SIGNATURES

Pursuant to the requirement of the Securities Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons in the capacities and on the dates indicated.

Name	Capacities	Date
/s/ JERRY C. ATKIN Jerry C. Atkin	Chairman of the Board	February 21, 2019
/s/ RUSSELL A. CHILDS Russell A. Childs	Chief Executive Officer and President (Principal Executive Officer) and Director	February 21, 2019
/s/ ROBERT J. SIMMONS Robert J. Simmons	Chief Financial Officer (Principal Financial Officer)	February 21, 2019
/s/ ERIC J. WOODWARD Eric J. Woodward	Chief Accounting Officer (Principal Accounting Officer)	February 21, 2019
/s/ STEVEN F. UDVAR-HAZY Steven F. Udvar-Hazy	Lead Director	February 21, 2019
/s/ W. STEVE ALBRECHT Steve Albrecht	Director	February 21, 2019
/s/ HENRY J. EYRING Henry J. Eyring	Director	February 21, 2019
/s/ MEREDITH S. MADDEN Meredith S. Madden	Director	February 21, 2019
/s/ RONALD J. MITTELSTAEDT Ronald J. Mittelstaedt	Director	February 21, 2019
/s/ ANDREW C. ROBERTS Andrew C. Roberts	Director	February 21, 2019
/s/ KEITH E. SMITH Keith E. Smith	Director	February 21, 2019
/s/ JAMES L. WELCH James L. Welch	Director	February 21, 2019

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

March 22, 2019

Dear Shareholder:

You are invited to attend the Annual Meeting of Shareholders of SkyWest, Inc. scheduled to be held at 11:00 a.m., Tuesday, May 7, 2019, at our headquarters located at 444 South River Road, St. George, Utah 84790.

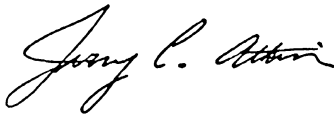
The accompanying Notice of Annual Meeting of Shareholders and Proxy Statement describe the items to be considered and acted upon by shareholders.

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

We are pleased to make these proxy materials available over the Internet, which we believe increases the efficiency and reduces the expense of our annual meeting process. As a result, we are mailing to shareholders a Notice of Internet Availability of Proxy Materials (the “*Notice*”) instead of paper copies of these proxy materials and our 2018 Annual Report. The Notice contains instructions on how to access those documents over the Internet or request that a full set of printed materials be sent to you. The Notice also gives instructions on how to vote your shares.

We look forward to seeing you at the Annual Meeting.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jerry C. Atkin".

Jerry C. Atkin
Chairman of the Board

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

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

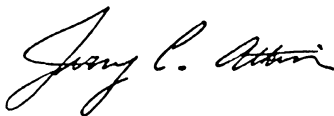
Date: Tuesday, May 7, 2019
Time: 11:00 a.m., Mountain Daylight Time (MDT)
Place: SkyWest, Inc. Headquarters
444 South River Road
St. George, Utah 84790

- Purposes:**
1. To elect ten directors of SkyWest, Inc. (the “*Company*”), to serve until the next Annual Meeting of the Company’s shareholders and until their successors are duly elected and qualified;
 2. To conduct a vote, on an advisory basis, on the compensation of the Company’s named executive officers;
 3. To approve the SkyWest, Inc. 2019 Long-Term Incentive Plan;
 4. To ratify the appointment of Ernst & Young LLP as the Company’s independent registered public accounting firm for the year ending December 31, 2019; and
 5. To transact such other business that may properly come before the Annual Meeting and any adjournment thereof.

Who Can Vote: Shareholders at the close of business on March 4, 2019.

How You Can Vote: Shareholders may vote at the Annual Meeting, or in advance over the Internet, by telephone, or by mail.

By authorization of the Board of Directors,



Jerry C. Atkin
Chairman of the Board

March 22, 2019

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

To Be Held on Tuesday, May 7, 2019

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**PROXY STATEMENT
FOR THE
ANNUAL MEETING OF SHAREHOLDERS
OF**

SKYWEST, INC.

TUESDAY, MAY 7, 2019

OVERVIEW

Solicitation

This Proxy Statement, the accompanying Notice of Annual Meeting, proxy card and the Annual Report to Shareholders of SkyWest, Inc. (the “*Company*” or “*SkyWest*”) are being mailed on or about March 22, 2019. The Board of Directors of the Company (the “*Board*”) is soliciting your proxy to vote your shares at the Annual Meeting of the Company’s Shareholders to be held on May 7, 2019 (the “*Meeting*”). The Board is soliciting your proxy in an effort to give all shareholders of record the opportunity to vote on matters that will be presented at the Meeting. This Proxy Statement provides information to assist you in voting your shares.

What is a proxy?

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

Why did I receive more than one notice?

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

Voting Information

Who is qualified to vote?

You are qualified to receive notice of and to vote at the Meeting if you owned shares of common stock of SkyWest (the “*Common Stock*”) at the close of business on the record date of Monday, March 4, 2019.

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

As of March 4, 2019, there were 51,647,778 shares of Common Stock outstanding and entitled to vote. Each share of Common Stock is entitled to one vote on each matter presented at the Meeting.

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

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

How can I vote at the Meeting?

You may vote in person by attending the Meeting. You may also vote in advance over the Internet, or by telephone, or you may request a complete set of traditional proxy materials and vote your proxy by mail. To vote your proxy using the Internet or telephone, see the instructions on the proxy form and have the proxy form available when you access the Internet website or place your telephone call. To vote your proxy by mail, mark your vote on the enclosed proxy card, then follow the instructions on the card.

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

The Board recommends that you vote your shares as follows:

Proposal 1—**FOR** the election of all ten nominees for director with terms expiring at the next annual meeting of the Company's shareholders.

Proposal 2—**FOR** the non-binding resolution to approve the compensation of the Company's named executive officers.

Proposal 3—**FOR** the approval of the SkyWest, Inc. 2019 Long-Term Incentive Plan.

Proposal 4—**FOR** the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the year ending December 31, 2019.

What are my choices when voting?

Proposal 1—You may cast your vote in favor of up to ten individual director-nominees. You may vote for less than ten director-nominees if you choose. You may also abstain from voting.

Proposals 2, 3 and 4—You may cast your vote in favor of, or against, each proposal. You may also abstain from voting.

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

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

Similarly, shares represented by proxies that reflect a "*broker non-vote*" will be counted for purposes of determining whether a quorum exists. A broker non-vote occurs when a broker, bank or other financial institution holding shares in street name for a beneficial owner has not received instructions from the beneficial owner and does not have discretionary authority to vote the shares for a particular proposal. Under the rules of various national and regional securities exchanges, the organization that holds your shares in street name has discretionary authority to vote only on routine matters and cannot vote on non-routine matters. The only proposal at the meeting that is considered a routine matter under applicable rules is the proposal to ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the year ending December 31, 2019. Therefore, unless you provide voting instructions to the broker, bank or other financial institution holding shares on your behalf, they will not have discretionary authority to vote your shares on any of the other proposals described in this proxy statement. Please vote your proxy or provide voting instructions to the broker, bank or other financial institution holding your shares so your vote on the other proposals will be counted.

What is the quorum requirement for the Annual Meeting?

Under Utah law and the Company’s Bylaws, the holders of a majority of the votes entitled to be cast on the matter constitutes a quorum. Therefore, the holders of a majority of the Common Stock issued and outstanding and entitled to vote at the Meeting, present in person or represented by proxy, constitute a quorum for the transaction of business at the Meeting. If you submit a properly executed proxy via the Internet or by telephone or mail, regardless of whether you abstain from voting on one or more matters, your shares will be counted as present at the Meeting for the purpose of determining a quorum. Broker non-votes will also be counted as present for the purpose of determining the presence of a quorum at the Meeting. The inspectors of election will determine whether a quorum is present and will tabulate the votes cast at the Meeting.

What vote will be required to approve each proposal?

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

Proposals 2, 3 and 4 will be approved if, assuming a quorum is present at the Meeting, the number of votes cast, in person or by proxy, in favor of a particular proposal exceeds the number of votes cast in opposition to the proposal. Proposal 2 is an advisory vote only, and has no binding effect on the Board or the Company.

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

Withheld votes, abstentions and broker non-votes will be deemed as “present” at the Meeting and will be counted for quorum purposes only. Withheld votes, abstentions and broker non-votes, if any, will not count as a vote cast as to any director-nominee’s election and thus will have no effect in determining whether a director nominee has received a majority of the votes cast. For purposes of the votes on Proposals No. 2, No. 3 and No. 4, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the votes on such proposals.

Can I change my vote?

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

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

Who will count the votes?

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

Who will pay the cost of this proxy solicitation?

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

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

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

How are proxy materials being delivered?

The Company is pleased to take advantage of Securities and Exchange Commission rules that allow companies to furnish their proxy materials over the Internet. As a result, the Company is mailing to most of its shareholders a Notice of Internet Availability of Proxy Materials (the “*Notice*”) instead of a paper copy of this Proxy Statement and the Company’s 2018 Annual Report to Shareholders. The Notice contains instructions on how to access those documents over the Internet. The Notice also contains instructions on how to request a paper copy of the Company’s proxy materials, including this Proxy Statement, the 2018 Annual Report to Shareholders and a form of proxy card or voting instruction card. All shareholders who do not receive a Notice will receive a paper copy of the proxy materials by mail. The Company believes this process will allow it to provide its shareholders with the information they need in a more efficient manner, while reducing the environmental impact and lowering the costs of printing and distributing these proxy materials.

PROPOSAL 1
ELECTION OF DIRECTORS

Composition of the Board

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

The current composition of the Board is:

- Jerry C. Atkin, Chairman
- W. Steve Albrecht
- Russell A. Childs
- Henry J. Eyring
- Meredith S. Madden
- Ronald J. Mittelstaedt
- Andrew C. Roberts
- Keith E. Smith
- Steven F. Udvar-Hazy
- James L. Welch

The Board Recommends That Shareholders Vote *FOR* All Ten Nominees Listed Below.

Nominees for Election as Directors

At the Meeting, the Company proposes to elect ten directors to hold office until the 2020 Annual Meeting of Shareholders and until their successors have been elected and have qualified. The ten nominees for election at the Meeting are listed below. All of the nominees are currently serving as a director of the Company and have consented to be named as a nominee. Shareholders voting in person or by proxy at the Meeting may only vote for ten nominees. If, prior to the Meeting, any of the nominees becomes unable to serve as a director, the Board may designate a substitute nominee. In that event, the persons named as proxies intend to vote for the substitute nominee designated by the Board.

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

Jerry C. Atkin

Age: 70
Director Since: 1974
Committees: None
Principal Occupation: Chairman of the Board

Experience: Mr. Atkin joined the Company in July 1974 as a director and the Company's Director of Finance. In 1975, he assumed the office of President and Chief Executive Officer and was elected Chairman of the Board in 1991. Mr. Atkin served as President of the Company until 2011 and as Chief Executive Officer until December 31, 2015.

The Board nominated Mr. Atkin to serve as a director, in part, because Mr. Atkin was the Company's Chief Executive Officer for more than 40 years. Mr. Atkin has a deep knowledge and understanding of the Company, as well as the regional airline industry generally. Mr. Atkin performs an extremely valuable role as the Chairman of the Board, providing critical leadership and direction to the Board's activities and deliberations. The Board also believes Mr. Atkin's values and integrity are tremendous assets to the Company and its shareholders.

Other Directorships: Mr. Atkin currently serves as a director of Zions Bancorporation, a regional bank holding company based in Salt Lake City, Utah ("Zions").

W. Steve Albrecht

Age: 72
Director Since: 2012 (Also served as a director of the Company from 2003 until 2009)
Committees: Chairman of the Audit Committee; Member of the Nominating and Corporate Governance Committee; Audit Committee Financial Expert
Principal Occupation: Emeritus Professor at Brigham Young University

Experience: Mr. Albrecht, a certified public accountant, certified internal auditor, and certified fraud examiner, joined the faculty of Brigham Young University in 1977, after teaching at the University of Illinois and Stanford University. At Brigham Young University, he served as director of the School of Accountancy from 1990 to 1999, and as associate dean of the Marriott School from 1999 to 2008. He served as the President of the Japan Tokyo Mission of The Church of Jesus Christ of Latter-day Saints from July 2009 to July 2012. Mr. Albrecht has also served as the President of the American Accounting Association, the Association of Certified Fraud Examiners and Beta Alpha Psi, an international honor organization for accounting, finance and information systems students. He has also served as a member of the Committee of Sponsoring Organizations of the Treadway Commission (also known as COSO); the Financial Accounting Standards Advisory Committee, an advisory committee to the Financial Accounting Standards Board (the “FASB”); and the Financial Accounting Foundation that oversees the FASB and the Governmental Accounting Standards Board. Mr. Albrecht has consulted with many major corporations and other organizations and has been an expert witness in over 38 major financial statement fraud cases, including several of the largest financial statement fraud cases in U.S. history.

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

Other Directorships: Mr. Albrecht currently serves as a director of Red Hat, Inc. and as Chairman of the Board for Cypress Semiconductor Corporation.

Russell A. Childs

Age: 51

Director Since: 2016

Committees: None

Principal Occupation: Chief Executive Officer and President of the Company and its operating subsidiary, SkyWest Airlines, Inc. (“*SkyWest Airlines*”).

Experience: Mr. Childs was named Chief Executive Officer of the Company effective January 1, 2016, and has served as President of the Company since 2014 responsible for the holding company’s operating entities and all commercial activities. He joined the Company in 2001 and became Vice President – Controller later that year. He served as the President and Chief Operating Officer of SkyWest Airlines from 2007 to 2014. Mr. Childs earned his bachelor's degree in Economics and master's degree in Accounting from Brigham Young University. Prior to joining the Company, Mr. Childs was a certified public accountant employed by a public accounting firm.

The Board nominated Mr. Childs, among other reasons, because the Board believes it is important to have the Company's Chief Executive Officer serve on the Board as he is the one closest to the Company's day-to-day operations and plays a critical role in communicating the Board’s expectations, advice and encouragement to the approximately 13,000 full-time equivalent employees of the Company and its operating subsidiary.

Other Directorships: Mr. Childs currently serves as a director of the Salt Lake City Branch of the Federal Reserve Bank of San Francisco.

Henry J. Eyring

Age: 55
Director Since: 2006 (Also served as a director of the Company from 1995 until 2003)
Committees: Member of the Compensation Committee; Member of the Audit Committee
Principal Occupation: President at Brigham Young University Idaho

Experience: Mr. Eyring was appointed President of Brigham Young University–Idaho in April 2017. Prior to that, Mr. Eyring served in various positions of administration at Brigham Young University–Idaho from 2006 to April 2017, including Academic Vice President. Mr. Eyring was President of the Japan Tokyo North Mission of The Church of Jesus Christ of Latter-day Saints from 2003 until 2006. From 2002 until 2003, he was a special partner with Peterson Capital, a private equity investment firm; and from 1998 through 2002, he was the Director of the Masters of Business Administration Program at Brigham Young University.

The Board recognizes the strong business and strategic consulting experience Mr. Eyring contributes to the Board’s direction of the Company. In addition to the recent experience summarized above, Mr. Eyring was previously engaged with the Monitor Company, an internationally-recognized management consulting firm. Mr. Eyring is a sound strategic thinker who possesses the ability to apply his academic thought and studies to the practical day-to-day challenges of the Company’s operations. The Board believes that Mr. Eyring's thoughtful application of business and legal principles makes him a valuable contributor to the Board.

Meredith S. Madden

Age: 45

Director Since: 2015

Committees: Member of the Compensation Committee; Member of the Safety and Compliance Committee

Principal Occupation: Chief Executive Officer of NORDAM Group, Inc. (“NORDAM”).

Experience: Mrs. Madden was appointed Chief Executive Officer of NORDAM, one of the world’s largest independently owned aerospace companies in July 2011. NORDAM filed a voluntary petition for Chapter 11 bankruptcy in July 2018. Prior to becoming the Chief Executive Officer of NORDAM, Mrs. Madden served in various leadership roles at NORDAM since joining in 1999, including President, Chief Operating Officer, Vice President Repair Group, Vice President Global Sales and Marketing and Vice President of NORDAM International, a subsidiary of NORDAM.

The Board believes that Mrs. Madden’s expertise and strategic insights related to aircraft maintenance vendor planning and her extensive expertise working with international maintenance service providers make her a valuable contributor to the Board.

Ronald J. Mittelstaedt

Age: 55
Director Since: 2013
Committees: Member of the Compensation Committee; Member of the Nominating and Corporate Governance Committee; Member of the Safety and Compliance Committee
Principal Occupation: Chairman of the Board and Chief Executive Officer of Waste Connections, Inc. (“*Waste Connections*”)

Experience: Mr. Mittelstaedt has served as the Chairman and Chief Executive Officer of Waste Connections, a company he founded, since January 1998. Under Mr. Mittelstaedt’s leadership, Waste Connections has become the second largest company in the North American solid waste and recycling industry, employing more than 17,000 people nationwide, and is traded on the New York Stock Exchange. Mr. Mittelstaedt also established the RDM Positive Impact Foundation in 2004 to improve the lives of underprivileged and at-risk children. Prior to his career in waste management, he spent three years in the air freight industry. Mr. Mittelstaedt holds a bachelor’s degree in Business Economics from the University of California—Santa Barbara.

The Board nominated Mr. Mittelstaedt, in part, because of his expertise in making large capital equipment decisions, extensive experience working with groups of diverse employees in various geographic regions and history of developing an organizational culture of strong work ethics. Mr. Mittelstaedt also contributes to the Board his insight as an experienced chief executive officer of a publicly-traded company, which the Board has found valuable in its deliberations.

Other Directorships: Mr. Mittelstaedt currently serves as Chairman of the Board for Waste Connections.

Andrew C. Roberts

Age: 58
Director Since: 2015
Committees: Chairman of the Safety and Compliance Committee; Member of the Audit Committee
Principal Occupation: Chairman, STS Aviation Group, LLC

Experience: Since January 2019, Mr. Roberts has served as the Chairman of STS Aviation Group LLC, a diversified aviation product and services provider, and holds a board position at Continental Motors Group Ltd., a subsidiary and the principal operating entity of AVIC International Holding (HK) Ltd. (0232.HK) since November 2015, a manufacturer of propulsion units for General Aviation.

Previously, Mr. Roberts made strong contributions as the Executive Chairman of Ryan Herco Flow Solutions, a national distributor of high purity fluid conveyance and control products, from 2015 to 2018. Additionally, Mr. Roberts served as CEO, President and Board Member at Align Aerospace, a global distributor of products to the aerospace and aviation industries, from January 2014 to September 2015, and CEO & President of Permaswage Holding SA, a designer and manufacturer of fluid fitting products to major aerospace companies worldwide from 2009 until 2014.

Mr. Roberts brings a strong aviation background, with significant experience in the management and operation of major and regional airlines, including Northwest Airlines from 1997 until 2008, where he served in multiple executive positions. Mr. Roberts also served as the Chairman and CEO of MCH, Inc., the holding company of Northwest Airlines' wholly owned regional airlines Mesaba Airlines and Compass Airlines. From 2000 until 2008, Mr. Roberts also served as Chairman of Aeroexchange Ltd., an aviation equipment purchasing portal established by 13 international airlines to create a global, neutral e-commerce platform designed to support the aviation supply chain. Mr. Roberts holds a bachelor of science degree (with Honors) in Engineering from the University of Birmingham and a post graduate diploma in Engineering from Coventry University.

The Board recognizes Mr. Roberts' extensive background in the aviation maintenance and overhaul industry, as well as commercial airline executive leadership. Mr. Roberts' education and professional training in the fields of engineering and aerospace manufacturing have allowed him to make valuable contributions to the Board in assessing the Company's technical operations.

Keith E. Smith

Age: 58
Director Since: 2013
Committees: Chairman of the Compensation Committee; Member of the Audit Committee
Principal Occupation: President and Chief Executive Officer of Boyd Gaming Corporation (“Boyd Gaming”)

Experience: Mr. Smith is President, Chief Executive Officer and a director of Boyd Gaming, one of the nation’s leading casino entertainment companies, with 29 operations in ten states and more than 25,000 employees. Mr. Smith is an industry veteran with more than 33 years of gaming experience. He joined Boyd Gaming in 1990 and held various executive positions before being promoted to Chief Operating Officer in 2001. In 2005, Mr. Smith was named President and elected as a director of Boyd Gaming and in 2008 he assumed the role of Chief Executive Officer. The common stock of Boyd Gaming is traded on the New York Stock Exchange.

Mr. Smith holds a bachelor’s degree in Accounting from Arizona State University. He served as Chairman of the Los Angeles Branch of the Federal Reserve Bank of San Francisco from 2012 to 2014. He served as Chairman of the American Gaming Association and the Nevada Resort Association. He served as Vice Chairman of the Las Vegas Convention and Visitors Authority from 2005 to 2011.

The Board recognizes Mr. Smith’s diverse experience in investing in, financing, and managing capital assets and real properties in various geographic regions. Mr. Smith also has extensive experience in leading and directing a large group of diverse employees. Mr. Smith’s accounting training and experience and his service as Chairman of the Los Angeles Branch of the Federal Reserve Bank of San Francisco also enable him to provide valuable service as the Chair of the Compensation Committee and to the Audit Committee.

Other Directorships: Mr. Smith is a director of Boyd Gaming.

Steven F. Udvar-Hazy

Age: 73
Director Since: 1986
Committees: Lead Independent Director; Chairman of the Nominating and Corporate Governance Committee; Member of the Compensation Committee
Principal Occupation: Executive Chairman of the Board of Air Lease Corporation

Experience: Mr. Udvar-Hazy has been engaged in aircraft leasing and finance for more than 47 years and has served as the Executive Chairman of the Board of Air Lease Corporation since July 2016, and as Chairman and Chief Executive Officer of Air Lease Corporation from its launch in February 2010. Prior to his current engagement with Air Lease Corporation, which leases and finances commercial jet aircraft worldwide, Mr. Udvar-Hazy founded and served as the Chairman of the Board and Chief Executive Officer of International Lease Finance Corporation, which leases and finances commercial jet aircraft.

Mr. Udvar-Hazy is recognized as one of the leading experts in the aviation industry, and contributes to the Board the wisdom and insight he has accumulated through a lengthy, distinguished career in aviation, aircraft leasing and finance. The Company has benefitted greatly from Mr. Udvar-Hazy's recognized position in the aviation industry, including introductions to his vast industry contacts and networking opportunities. In addition to his extensive industry experience, Mr. Udvar-Hazy is extremely knowledgeable of the Company's operations and opportunities, having served as a director of the Company for more than 32 years.

The Board believes that Mr. Udvar-Hazy's even temperament and ability to encourage discussion, together with his experience as a chief executive officer and director of other successful organizations in the airline industry, make him an effective Lead Independent Director.

Other Directorships: Mr. Udvar-Hazy is Executive Chairman of the Board of Air Lease Corporation.

James L. Welch

Age: 64

Director Since: 2007

Committees: Member of the Audit Committee; Member of the Nominating and Corporate Governance Committee; Member of the Safety and Compliance Committee

Principal Occupation: Retired Chief Executive Officer of YRC Worldwide Inc. (“*YRC Worldwide*”).

Experience: From July 2011 until his retirement in July 2018, Mr. Welch served as the Chief Executive Officer of YRC Worldwide, a provider of global, national and regional ground transportation services. From 2008 until July 2011, Mr. Welch served as the President and Chief Executive Officer of Dynamex, Inc., a provider of same-day transportation and logistics services in the United States and Canada. During 2007 and 2008 he served as Interim Chief Executive Officer of JHT Holdings, a holding company of multiple enterprises engaged in automotive transport and management services. From 2000 until 2007, Mr. Welch served as the President and Chief Executive Officer of Yellow Transportation, an international transportation services provider.

Mr. Welch has over 34 years of senior executive experience in the transportation sector, including valuable experience in the leadership of large and varied groups. That experience includes extensive experience working with organized labor groups, including labor unions. Mr. Welch’s insights have been particularly valuable to the Board as the Company has addressed labor and related issues arising in the operation of SkyWest Airlines. Mr. Welch also contributes to the Board valuable practical experience in the operation of a large enterprise, as well as the perspective of a successful entrepreneur.

Other Directorships: Mr. Welch serves as a director for Schneider, Inc.

EXECUTIVE OFFICERS

In addition to Russell A. Childs, the Chief Executive Officer of the Company, whose biographical information is set forth above, the following individuals served as executive officers of the Company or its operating subsidiaries during 2018.

Robert J. Simmons, 56, is the Chief Financial Officer of Company and its operating subsidiary, SkyWest Airlines. He is responsible for the areas of finance, accounting, treasury and investor relations for the Company and its subsidiaries.

From 2009 until his appointment as Chief Financial Officer in March 2015, Mr. Simmons served as a Partner with Bendigo Partners, LLC. (“*Bendigo Partners*”), a privately held firm focused on technology-based financial services as private equity investors and operational consultants. In his role with Bendigo Partners, Mr. Simmons was responsible for portfolio management. He served as Chief Financial Officer for E*TRADE Financial Corporation from 2003 to 2008 and as Corporate Treasurer for E*TRADE Financial Corporation from 2001 to 2003. He has accumulated more than 30 years of finance and treasury experience in various leadership positions at companies including Oracle, Iomega, and Bank of America. Mr. Simmons holds a master’s degree in business administration, with an emphasis in finance from the Kellogg Graduate School of Management at Northwestern University, and graduated magna cum laude with a bachelor’s degree in international business from Brigham Young University.

Wade J. Steel, 43, is the Chief Commercial Officer of the Company and its operating subsidiary, SkyWest Airlines. He is responsible for the Company’s contractual relationships with American Airlines, Inc. (“*American*”), Delta Air Lines, Inc. (“*Delta*”), United Airlines, Inc. (“*United*”) and Alaska Airlines, Inc. (“*Alaska*”), development of new business opportunities with network airlines, fleet management and information technology. He also plays a vital role in the strategic planning and development opportunities of the Company.

Mr. Steel was initially employed with the Company in March 2007 as Director of Financial Planning and Analysis. He held this position until May 2011, when he was appointed to serve as Vice President – Controller for SkyWest Airlines. From May 2014 until Mr. Steel’s appointment as Chief Commercial Officer of the Company in March 2015, he served as the Executive Vice President and acting Chief Financial Officer of the Company, with responsibility for the areas of finance, treasury, investor relations and information technology for the Company and its subsidiaries. Prior to joining the Company, Mr. Steel was a certified public accountant employed by a public accounting firm.

Michael B. Thompson, 43, is the Chief Operating Officer of SkyWest Airlines. He is responsible for oversight of all aspects of SkyWest Airlines’ operations, including safety, quality, flight operations, maintenance and customer service. He also oversees SkyWest Airline’s operational relationships with American, Delta, United and Alaska.

Mr. Thompson was initially employed with the Company in April 2001 as Operations Analyst and was later named Director of Market Planning. In 2007 he was named Vice President of Market Development of SkyWest Airlines, in which position he served until May 2014, when he was appointed to serve as Chief Operating Officer of SkyWest Airlines.

Eric J. Woodward, 47, is the Chief Accounting Officer of the Company and its operating subsidiary, SkyWest Airlines. He is responsible for the oversight of the Company’s financial accounting practices, internal controls and reporting to the Securities and Exchange Commission.

Mr. Woodward was employed in various other capacities with the Company from April 2004 until April 2007 and served as the Company’s Vice President – Controller from April 2007 until May 2011, when he was appointed to serve as Chief Accounting Officer of the Company. Mr. Woodward is a certified public accountant.

CORPORATE GOVERNANCE

Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines and periodically reviews and ratifies those guidelines, including most recently on February 5, 2019. The Corporate Governance Guidelines can be accessed at the Company's website, *inc.skywest.com*. The Corporate Governance Guidelines supplement the Company's Bylaws and the charters of the Board's committees. Excerpts from the principal sections of the Company's Corporate Governance Guidelines are noted below.

Director Independence

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

Director Qualifications

Criteria for Membership

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

Terms and Limitations

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

Retirement

Directors are required to submit their resignation from the Board when their term expires upon reaching the age of 75 years old. The Board will accept the resignation unless the Nominating and Corporate Governance Committee recommends otherwise. Directors generally will not be nominated for election following their 75th birthday.

Ownership of Company Stock

Directors are required to own shares of Common Stock having a value equal to at least five times the cash component of their annual base compensation.

Director Responsibilities

General Responsibilities

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

Oversight of Management

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

Board Meetings and Materials

Frequency of Meetings

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

Meeting Responsibilities

Absent extraordinary circumstances, directors of the Company should attend all Board meetings, meetings of the committee(s) on which they serve and shareholder meetings. The Chairman of the Board is responsible for establishing the agenda for each Board meeting. Each director is free to suggest the inclusion of items on the agenda and to raise at any Board meeting subjects that are not on the agenda for that meeting.

Executive Sessions of Independent Directors

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

Director Compensation

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

Chief Executive Officer Evaluation and Management Succession

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

Annual Evaluations

The Board conducts an annual evaluation to determine if the Board and its committees are functioning effectively. The Nominating and Corporate Governance Committee solicits comments from all of the Company's directors and reports annually to the Board with an assessment of the Board's performance. Each of the Board's standing committees conducts an annual evaluation to assess the performance of the applicable committee.

Review and Access to Guidelines

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

Board Leadership Structure and Director Independence

Although the Board does not have a formal policy as to whether the roles of Chairman of the Board and Chief Executive Officer should be combined or separated, from 1991 until January 2016, Jerry C. Atkin served as both Chairman of the Board and Chief Executive Officer of the Company. In January 2016, the Board appointed Russell A. Childs to serve as the Chief Executive Officer of the Company, which resulted in the separation of the roles of Chairman of the Board and Chief Executive Officer. Currently, Mr. Atkin serves as Chairman of the Board and Mr. Childs serves as the Chief Executive Officer. The Board believes that such separation allows Mr. Childs to focus his time and energy on managing the Company's business on a day-to-day basis, while also leveraging Mr. Atkin's background with the Company, perspective and vast experience in the aviation industry as he devotes his time and attention to matters of Board oversight. Accordingly, the Board has determined that the Company's Board leadership structure is the most appropriate at this time, given the specific characteristics and circumstances of the Company, and the unique skills and experience of each of Mr. Atkin and Mr. Childs.

The Company is committed to independent Board oversight. Pursuant to the Company's Corporate Governance Guidelines, all of the Company's directors (other than Messrs. Atkin and Childs) meet the standards of independence applicable to the Company, and the Board has designated Steven F. Udvar-Hazy as Lead Independent Director. As Lead Independent Director, Mr. Udvar-Hazy is empowered to prepare agendas for and conduct meetings of the non-management directors, communicate with the Chairman of the Board, disseminate information to the Board, and raise issues with management on behalf of the independent directors when appropriate. The Board's independent oversight function is enhanced by the fact that the Audit, Compensation, Nominating and Corporate Governance and Safety and Compliance Committees are comprised entirely of independent directors.

The Board believes no single leadership model is right for all companies at all times. The Board recognizes that, depending on the circumstances, other leadership models may be appropriate. The independent directors and the Nominating and Corporate Governance Committee regularly review the Company's leadership structure and, depending on the Company's needs and the available resources, the Board may modify the Company's existing leadership structure.

Communications with the Board

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

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

Code of Ethics

The Company has adopted a Code of Ethics for Directors and Senior Executive Officers (the "*Code of Ethics*"), which is available on the Company's website, inc.skywest.com. The Code of Ethics includes the following principles related to the Company's directors and executive officers:

- Act ethically with honesty and integrity;
- Promote full, fair, accurate, timely and understandable disclosure in reports and documents filed with the Securities and Exchange Commission and other public communications;

- Comply in all material respects with laws, rules and regulations of governments and their agencies;
- Comply in all material respects with the listing standards of the stock exchange where the shares of Common Stock are traded;
- Respect the confidentiality of information acquired in the course of performing work for the Company, except when authorized or otherwise legally obligated to disclose the information;
- Do not use confidential information of the Company for personal advantage or for the benefit of acquaintances, friends or relatives; and
- In order to avoid the appearance that any Company employee is trading on inside information, not engage in speculative trading such as short sales or trade in puts, calls, or other options on the Company's or its affiliates' stock, and not purchase or use, directly or indirectly, financial instruments that are designed to hedge or offset any decrease in the market value of the Company's securities.

A copy of the Code of Ethics is posted to the Company's website at *inc.skywest.com*. Copies of the Code of Ethics will be provided to any shareholder upon written request to Robert J. Simmons, Chief Financial Officer of the Company, 444 South River Road, St. George, Utah 84790, Telephone: (435) 634-3200. The Company will promptly disclose any waivers of, or amendments to, certain provisions of the Code of Ethics on its website.

Corporate Sustainability

We understand the importance of ensuring the satisfaction and security of our customers, employees, investors and other stakeholders through an unwavering commitment to corporate integrity, no matter the environment. We also believe good governance is a source of competitive advantage. Our Board of Directors, which is responsible for the control and direction of the Company and governed by a Code of Ethics, represents and is accountable to our shareholders. Our corporate governance policies are designed both for compliance and to drive effective use of the collective skills and experience of our directors, officers and employees for ethical, responsible, and superior performance. In addition to our overall dedication to ethical and accountable business practices, our corporate sustainability efforts include the areas of environmental and social sustainability. We take social and environmental responsibility and sustainability seriously.

Environmental Sustainability

As the largest regional airline in the United States, we remain committed to lowering our environmental footprint while continuing to offer the best service to our customers and the communities we serve. Through the use of software and training, we heavily monitor and manage our fuel trends and fuel consumption which leads to better fuel conservation and reductions in emissions. When possible, we try to mitigate the use of fuel, including by taxiing with the use of a single engine, taking steps to improve the efficiency of aircraft routing and using ground power when the plane is parked at the gate. We participate with our major airline partners in recycling programs, and we have implemented recycling initiatives in our facilities to reduce the amount of paper, plastic and other recyclables going to landfills. We have worked aggressively to reduce our reliance on paper manuals and have converted, or are in the process of converting, our manuals and our maintenance logs into electronic form, further eliminating unnecessary waste while increasing efficiencies.

Social Sustainability

We are a dedicated people-first organization, providing various avenues to enhance the quality of life for our customers, employees and communities. We know that if we take good care of our employees, they will take good care

of our customers, which will result in value returned to our shareholders. We maintain an employee scholarship program, which awards annual scholarships to employees and their family members to help them in their pursuits of higher education. We are committed to creating a diverse and inclusive workforce, empowering professional growth and development and investing in our employees' health, emotional and financial wellness. Additionally, we are dedicated to protecting our customers by providing employee training programs focused on, among other topics, safety, fuel conservation, diversity, and procedures for identifying and reporting human trafficking. We continue to seek to increase diversity in the workplace, including by participating in and sponsoring several recruitment and industry events. During 2017, such events included those organized by such organizations as Women in Aviation, Girls in Aviation, National Gay Pilots Association, Organization of Black Aerospace Professionals, Military Organizations, among others.

Risk Oversight

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

Whistleblower Hotline

The Company has established a whistleblower hotline that enables employees, customers, suppliers and shareholders of the Company and its subsidiaries, as well as other interested parties, to submit confidential and anonymous reports of suspected or actual violations of the Code of Ethics.

MEETINGS AND COMMITTEES OF THE BOARD

The Board

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of his or her duties and to attend all Board, committee and shareholders' meetings. The Board met five times during 2018. All directors attended at least 75% of the aggregate number of meetings of the Board and of the committees on which he or she served during the year ended December 31, 2018, as well as the Company's Annual Meeting of Shareholders held on May 8, 2018.

Committees of the Board

The Board has four standing committees to facilitate and assist the Board in the execution of its responsibilities: (1) Audit, (2) Compensation, (3) Nominating and Corporate Governance and (4) Safety and Compliance. The Board may, from time to time, establish or maintain additional committees as the Board deems necessary or appropriate. All the standing committees are comprised solely of non-employee, independent directors as defined by The Nasdaq Global Select Market listing standards. Charters for each committee are available on the Company’s website, *inc.skywest.com*.

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

Audit	Compensation	Nominating & Corporate Governance	Safety and Compliance
W. Steve Albrecht*	Keith E. Smith*	Steven F. Udvar-Hazy*	Andrew C. Roberts*
Henry J. Eyring	Henry J. Eyring	W. Steve Albrecht	Meredith S. Madden
Andrew C. Roberts	Meredith S. Madden	Ronald J. Mittelstaedt	Ronald J. Mittelstaedt
Keith E. Smith	Ronald J. Mittelstaedt	James L. Welch	James L. Welch
James L. Welch	Steven F. Udvar-Hazy		

* Committee Chairman

Audit Committee

The Audit Committee has five members and met eight times during the year ended December 31, 2018. The Board has determined that Mr. W. Steve Albrecht, Chairman of the Audit Committee, is an “audit committee financial expert” within the meaning established by the Securities and Exchange Commission.

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

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

Additional information regarding the Audit Committee's processes and procedures is addressed below under the heading "Audit Committee Disclosure." The Report of the Audit Committee is set forth on page 71 of this Proxy Statement.

Compensation Committee

The Compensation Committee has five members and met three times during the year ended December 31, 2018. The Compensation Committee's responsibilities, which are discussed in detail in its charter, include the responsibility to:

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

Additional information regarding the Compensation Committee's processes and procedures for consideration of executive compensation are addressed below under the Heading "Compensation Discussion and Analysis." The report of the Compensation Committee is set forth on page 39 of this Proxy Statement.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee has four members and met twice during the year ended December 31, 2018. The Nominating and Corporate Governance Committee's responsibilities, which are discussed in detail in its charter, include the responsibility to:

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

- Consider the independence of each director and nominee for director; and
- Perform other functions or duties deemed appropriate by the Board.

Safety and Compliance Committee

The Safety and Compliance Committee has four members and met twice during the year ended December 31, 2018. The responsibilities of the Safety and Compliance Committee, which are discussed in detail in its charter, include the responsibility to:

- Review and make recommendations to the Board addressing airline flight operations, safety and compliance with safety regulations;
- Periodically review with the Company's management, and such advisors as the Safety and Compliance Committee deems appropriate, aspects of flight operations, safety and compliance with safety regulations; and
- Monitor and provide input with respect to management's efforts to create and maintain a safety culture within the Company's operations.

Nomination Process

The policy of the Nominating and Corporate Governance Committee is to consider properly submitted shareholder recommendations for candidates to serve as directors of the Company. In evaluating those recommendations, the Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board and to address the membership criteria described below. Any shareholder wishing to recommend a candidate for consideration by the Nominating and Corporate Governance Committee should submit a recommendation in writing indicating the candidate's qualifications and other relevant biographical information and provide confirmation of the candidate's consent to serve as a director. This information should be addressed to Jerry C. Atkin, Chairman of the Board of the Company, 444 South River Road, St. George, Utah 84790.

As contemplated by the Company's Corporate Governance Guidelines, the Nominating and Corporate Governance Committee reviews the appropriate skills and characteristics required of directors in the context of the current composition of the Board at least annually. There is currently no set of specific minimum qualifications that must be met by a nominee recommended by the Nominating and Corporate Governance Committee, as different factors may assume greater or lesser significance at particular times and the needs of the Board may vary in light of its composition and the Nominating and Corporate Governance Committee's perceptions about future issues and needs. Among the factors the Nominating and Corporate Governance Committee considers, which are outlined in the Corporate Governance Guidelines, are independence, diversity, age, skills, integrity and moral responsibility, policy-making experience, ability to work constructively with the Company's management and directors, capacity to evaluate strategy and reach sound conclusions, availability of time and awareness of the social, political and economic environment.

In addition, although the Board does not have a formal policy regarding diversity, it believes that ethnic, gender and cultural diversity among its members can provide value and is important. In considering a potential new candidate, the Board considers whether he or she would increase the Board's ethnic, gender or cultural diversity.

The Nominating and Corporate Governance Committee utilizes a variety of methods for identifying and evaluating director nominees. The Nominating and Corporate Governance Committee assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Nominating and Corporate Governance Committee considers various potential

candidates for director. Candidates may come to the attention of the Nominating and Corporate Governance Committee through various means, including current directors, professional search firms, shareholder recommendations or other referrals. Candidates are evaluated at meetings of the Nominating and Corporate Governance Committee, and may be considered at any point during the year. All director-nominee recommendations which are properly submitted to the Nominating and Corporate Governance Committee are aggregated and considered by the Nominating and Corporate Governance Committee at a meeting prior to the issuance of the proxy statement for the next annual meeting of shareholders. Any materials provided by a shareholder in connection with the recommendation of a director candidate are forwarded to the Nominating and Corporate Governance Committee, which considers the recommended candidate in light of the director qualifications discussed above. The Nominating and Corporate Governance Committee also reviews materials provided by professional search firms, if applicable, or other parties in connection with a candidate who is not proposed by a shareholder. In evaluating such recommendations, the Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board. The Nominating and Corporate Governance Committee has, on occasion, engaged professional search firms to assist in identifying qualified candidates for Board service. When such firms have been engaged, the Nominating and Corporate Governance Committee has utilized their services principally for the purpose of identifying and screening potential candidates and conducting background research; however, the members of the Nominating and Corporate Governance Committee, as well as other directors of the Company, have conducted interviews with prospective candidates and have performed other functions in completing the nomination process.

Compensation Committee Interlocks and Insider Participation

Keith E. Smith, Ronald J. Mittelstaedt, Henry J. Eyring, Steven F. Udvar-Hazy and Meredith S. Madden served as members of the Compensation Committee during the year ended December 31, 2018. None of the individuals who served on the Compensation Committee during the year ended December 31, 2018 was an officer or employee of the Company in 2018 or any time prior thereto. None of the members of the Compensation Committee during the year ended December 31, 2018 had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”). None of the executive officers of the Company served as a member of the Compensation Committee or of any similar committee of any other company whose executive officer(s) served as a director of the Company.

COMPENSATION DISCUSSION AND ANALYSIS

The following compensation discussion and analysis provides information regarding the Company's executive compensation objectives, principles, practices and decisions as they relate to the following named executive officers of the Company (the "*Named Executives*") for 2018:

- Russell A. Childs, Chief Executive Officer and President of the Company and its operating subsidiary, SkyWest Airlines (the "*Chief Executive*");
- Robert J. Simmons, Chief Financial Officer of the Company and its operating subsidiary, SkyWest Airlines;
- Wade J. Steel, Chief Commercial Officer of the Company and its operating subsidiary, SkyWest Airlines;
- Michael B. Thompson, Chief Operating Officer of SkyWest Airlines; and
- Terry M. Vais, former Chief Operating Officer of ExpressJet Airlines, Inc. ("*ExpressJet*")

In connection with the completion of the sale of the Company's former subsidiary, ExpressJet Airlines, Inc. on January 22, 2019, Mr. Vais ceased serving as the Chief Operating Officer of ExpressJet and transitioned into an operations role with SkyWest. Mr. Childs, Mr. Simmons and Mr. Steel also ceased serving as executive officers of ExpressJet on such date.

This compensation discussion and analysis provides narrative perspective to the tables and disclosure in the tables following this section.

Compensation Objectives and Principles

The overall objective of the Company's executive compensation programs is to create long-term value for the Company's shareholders by attracting and retaining talented executives that effectively manage the Company in a manner that is consistent with the long-term interest of shareholders.

Accordingly, the executive compensation program incorporates the following principles:

- The overall compensation package should encourage long-term focus and shareholder value creation;
- A significant amount of total compensation should be incentive based, and should correlate rewards with the Company's financial performance, as well as the achievement of operational objectives;
- Compensation should be competitive with other airlines in order to attract and retain talented executives;
- Compensation should be based upon individual responsibility, leadership ability and experience; and
- Compensation should not encourage the taking of undue risk that could cause material harm to the Company.

All of the Named Executives' total annual target compensation for 2018 was below the median of our peer group, as further described below.

Current Year Accomplishments

SkyWest made great strides operationally and structurally in 2018, positioning itself for changes in the industry and future profitability by adding new aircraft with improved economics under Mr. Childs' leadership.

The Company's income before income taxes under generally accepted accounting principles in the United States ("GAAP") improved to \$366 million in 2018, from \$288 million in 2017. GAAP operating income improved to \$474 million in 2018, from \$388 million in 2017. These improvements reflected above-median performance against our compensation peer group. The improvements in 2018 were driven, in part, by the following accomplishments:

- The continued improvement in aircraft fleet mix can be summarized as follows:
 - Took delivery of 39 new Embraer dual-class regional jet ("E175") aircraft and five new CRJ900 aircraft under flying contracts that we believe will improve our profitability;
 - Placed back into service five CRJ200 aircraft into profitable flying arrangements; and
 - Removed twelve ERJ145 aircraft and 36 CRJ700/CRJ900 aircraft from less desirable flying contracts.
- Despite the intense capital investments required to improve the fleet during 2018 the Company had \$689 million in cash and marketable securities at December 31, 2018, which was \$4 million higher than at December 31, 2017; and
- The Company's net income was \$280 million, or \$5.30 per diluted share for the 2018 year, compared to adjusted net income of \$182 million, or \$3.43 per diluted share for the 2017 year. Net income for 2017 was adjusted by \$246.8 million for the tax benefit relating to the Tax Cuts and Jobs Act. Appendix A to this Proxy Statement includes a reconciliation of certain 2016 and 2017 non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP.

These accomplishments not only improved the Company's performance in 2018, but the Board believes the fleet and contract improvements will contribute to improved financial performance in future years.

Despite the strong financial performance during 2018 (and in 2016 and 2017), the total compensation during the period for all of the Named Executive Officers was set below the median of our peers.

Executive Compensation Procedures

Role of the Compensation Committee. The Compensation Committee has responsibility for establishing and monitoring the executive compensation programs and for making decisions regarding executive compensation. The Chief Executive regularly attends the Compensation Committee meetings, and the Compensation Committee also meets regularly in executive sessions. The Chief Executive is not present for deliberations by the Compensation Committee regarding his compensation. The Compensation Committee recommends the Chief Executive's compensation to the Board, which then reviews and approves the Committee's recommendation, unless the Committee is required to approve such compensation under applicable law. The Compensation Committee also considers the recommendations of the Chief Executive with respect to compensation of the other Named Executives, and after reviewing such recommendations, determines their compensation. The Compensation Committee also monitors, administers and approves awards under the various incentive compensation plans for all levels within the Company, including awards under the Company's annual cash incentive plan and 2010 Long-Term Incentive Plan (the "2010 Plan"). As permitted by the 2010 Plan, the Compensation Committee has delegated its authority to the Chief Executive to approve interim awards under the 2010 Plan to non-executives on a limited basis between meetings of the Compensation Committee.

Role of Consultants. During 2017 and 2018, the Company and the Compensation Committee received advice from Frederic W. Cook & Co., Inc. (“F.W. Cook”) with respect to executive compensation practices and trends generally and within the airline industry and the peer group listed below. The Company and the Compensation Committee retained F.W. Cook to advise on the amounts and forms of compensation awarded to Named Executives in 2017 and 2018. After conducting an evaluation using the factors established by the Securities and Exchange Commission and The Nasdaq Global Select Market, the Compensation Committee determined that F.W. Cook is independent and that there is no conflict of interest resulting from the engagement of F.W. Cook during 2018. The Compensation Committee has sole authority to hire and fire external compensation consultants.

Industry Compensation Data. The Compensation Committee also evaluates data regarding the executive compensation programs of other air carriers, as well as other transportation and logistics companies, in order to determine the competitiveness of the Company’s executive compensation programs. The Compensation Committee performed such a review in November 2017 and again in November 2018, which included a review of the executive compensation levels and practices at peer companies with revenue between approximately one-half times and five times SkyWest’s. The peer companies used in both the November 2017 and November 2018 reviews were: Air Canada Inc., Alaska Air Group, Inc., Allegiant Travel Company, Atlas Air Worldwide Holdings, Inc., Genesee & Wyoming Inc., Hawaiian Holdings, Inc., Hub Group, Inc., J.B. Hunt Transport Services, Inc., JetBlue Airways Corporation, Kansas City Southern, Old Dominion Freight Line, Inc., Spirit Airlines, Inc., Werner Enterprises, Inc., WestJet Airlines Ltd., XPO Logistics, Inc., and YRC Worldwide Inc.

The Compensation Committee had the 2017 peer group data available when 2018 Named Executive compensation decisions were made at the start of the year and it had the 2018 compensation peer group data available when it approved cash incentive payouts for 2018.

Compensation Determination. The Compensation Committee relies on its judgment in making compensation decisions in addition to reviewing relevant information and results. When setting total compensation for each of the Named Executives, the Compensation Committee reviews tally sheets which show the Named Executive’s current compensation, including base pay, annual cash incentive objectives, long-term, equity-based compensation objectives, and deferred compensation retirement funding. The executive compensation procedures and the Compensation Committee assessment process take into account these tally sheets as well as the industry compensation data described above, individual performance and contributions, company performance, the results of the most recent say-on-pay vote, performance expected in the current and upcoming years, and such other factors as the Compensation Committee determines are appropriate. The Compensation Committee has the sole discretion to award compensation and make adjustments to awards based on its review of relevant information and other unusual or non-recurring items.

However, the Company does not believe that it is appropriate to establish compensation levels solely by benchmarking. The Company does not target specific pay levels and uses the peer company market data for context. The Company’s directors rely upon their judgment in making compensation decisions, after reviewing the factors described above. While competitive market compensation paid by other companies is one of the many factors that the Company considers in assessing the reasonableness of compensation, the Company does not attempt to maintain a certain target percentile within a peer group or otherwise rely entirely on that data to determine executive officer compensation. Instead, the Company’s compensation determination processes are designed to be flexible in an effort to respond to and adjust for the evolving business environment and individual circumstances. Nevertheless, the total direct compensation for all of SkyWest’s Named Executives in this proxy, as reported in the Summary Compensation Table, was below the median of similar positions in the peer group.

In addition, the review of peer data in November 2017 and then again in November 2018 showed that the total annual target compensation levels for the Named Executives generally approximated the 25th percentile of the Company’s peer group of companies, which was considerably less than relative total shareholder return and earnings per share growth compared to the compensation peer group over one, three, and five years.

The Company strives to achieve an appropriate mix between long-term equity incentive awards and cash payments in order to meet its objectives. Any apportionment objective is not applied rigidly and does not control its compensation decisions. The Company's mix of compensation elements is designed to reward recent results, align compensation with shareholder interests and fairly compensate executives through a combination of cash and equity incentive awards.

Compensation Committee Consideration of Shareholder Advisory Vote. At the Company's Annual Meeting of Shareholders held in May 2018, the Company submitted the compensation of its named executive officers to the Company's shareholders in a non-binding vote. The Company's executive compensation program received the support of more than 98% of votes cast. The Compensation Committee considered the results of the 2018 vote and views the outcome as evidence of positive shareholder support of its executive compensation decisions and policies.

The Compensation Committee continued to refine the Company's executive compensation program for 2018 in an effort to better align the compensation packages of the Named Executives with the executive compensation programs of other regional carriers and major airlines and to recognize that the Chief Executive and much of the leadership team is relatively new in their roles. The Compensation Committee will continue to review the peer group data and future shareholder voting results, including the voting results with respect to "Proposal 2—Advisory Vote on Named Executive Compensation" described in this Proxy Statement, and determine whether to make any changes to the Company's executive compensation program in light of such data and voting results.

Elements of Compensation

The Company's executive compensation objectives and principles are implemented through the use of the following principal elements of compensation, each discussed more fully below:

- Salary
- Annual Cash Incentive
- Long-Term Incentive Awards
- Retirement and Other Benefits

The compensation components for each Named Executive for 2018 are more fully described in the following paragraphs.

Salary. Salary is provided with the objective of paying for the underlying role and responsibility associated with the Named Executive's position, which the Compensation Committee believes allows the Company to attract and retain qualified executives. The Named Executives' salaries are set at levels that the Compensation Committee believes are generally competitive with the compensation paid to officers in similar positions at other airlines. Salary adjustments are considered annually and influenced by growth of the Company's operations, individual performance, changes in responsibility, changes in cost of living, and other factors. Mr. Childs was provided a \$40,000 increase to his base salary for 2018 over his 2017 base salary. Messrs. Steel and Vais were provided a \$15,000 increase to their base salaries for 2018 over their respective 2017 base salaries. Messrs. Simmons and Thompson were provided a \$10,000 increase to their base salaries for 2018 over their respective 2017 base salaries. The salaries of the Named Executives are set forth in the Summary Compensation Table immediately following this section. The salaries of all Named Executives in 2018 were below the median salary level of similar positions in our peer group.

Annual Cash Incentive. In an effort to encourage achievement of the Company's objectives, an annual performance-based cash incentive plan is maintained for the Named Executives. The combination of salary and annual

cash incentives is intended to result in a cash compensation package for each Named Executive that, when performance objectives are met, falls within competitive market standards as determined by the Compensation Committee based on its review of the peer group company data, as well as its understanding of other regional and major air carrier executive compensation programs. The review of market data in November 2018 showed that the 2018 total cash opportunity of the Named Executives, consisting of salary plus target cash incentive, and approximated the 25th percentile for all Named Executives when compared to the peer group competitive market data.

The purpose of the annual cash incentive program is to reward the Named Executives with an annual cash incentive in an amount that correlates (i) in part, to one or more financial objectives achieved for the year; and (ii) in part, to the achievement of one or more specific operational objectives during the year. The 2018 annual target incentive opportunity was 110% of salary for Mr. Childs and 80% of salary for Messrs. Simmons, Steel, Thompson and Vais, and their potential annual incentive was allocated by the Compensation Committee for the Named Executives between the applicable financial and operational objectives. The Named Executives were eligible for a maximum cash incentive payout of 200% of their salaries. The differing percentages for the Named Executives are due to differing entity level responsibilities.

2018 Corporate Performance Objectives. For 2018 annual incentive determination purposes, the Compensation Committee determined that pre-tax earnings would be the financial objective and that controllable completion and/or controllable on time departures would be the operational objectives. In the case of Messrs. Childs, Simmons and Steel, the applicable pre-tax earnings objective and controllable completion objective were based on the pre-tax earnings and controllable completion of the entire Company. This is because they are corporate level executives with Company-wide responsibility and accountability. Mr. Thompson's pre-tax earnings objective, controllable completion objective and controllable on time departure objective were set solely based on the SkyWest Airlines operating segment, since this is his area of responsibility and accountability. Similarly, Mr. Vais was principally engaged in running the operations of the ExpressJet operating segment, so his pre-tax earnings objective, controllable completion objective were set to reflect ExpressJet performance.

- *2018 Financial Objective.* In setting the 2018 pre-tax earnings objective, the Compensation Committee considered both the planned 2018 budget, as well as the level of pre-tax earnings that would reflect strong performance and generate shareholder value. The pre-tax earnings objective was set to encourage continued focus on profitability and to facilitate the exchange of best practices between the Company's operating subsidiaries.
- *2018 Operational Objective.* A portion of the Named Executives' annual cash incentives is based on achievement of operating objectives established at the start of the year. The Compensation Committee believes the use of operating objectives allows for consideration of operating execution and achievements that may not be reflected by corporate financial performance. For 2018, the Compensation Committee determined that the operational objectives would be tied to controllable completion and, for Mr. Thompson, both controllable completion and controllable on time departures. Controllable completion is the percentage of completed scheduled flights over which the Company had control, excluding cancelled flights due to uncontrollable factors such as weather. Controllable on time departures is the percentage of flights departing the gate at or before scheduled departure time over which SkyWest Airlines had control, excluding delayed flights due to uncontrollable factors such as weather.

The Compensation Committee established threshold, target and maximum objectives for each of the financial and operational objectives. At threshold performance achievement, the Named Executives were able to earn 50% of their target annual incentive, while the maximum performance allowed by the Named Executives to earn 200% of their target annual incentive.

At year-end, the Compensation Committee reviewed the actual pre-tax earnings and operating performance for the year and determined the extent to which the applicable objectives were met. The actual amount of the cash incentive payment for each Named Executive is determined by the Compensation Committee based on the Company's and/or applicable subsidiary's achievement of the foregoing objectives and the actual cash incentives paid for 2018 were based on the pre-established 2018 cash incentive formula, without application of discretion.

The table below includes the "threshold," "target" and "maximum" objectives assigned by the Compensation Committee for the corporate performance measures for 2018 and the 2018 performance relative to those objectives for the Named Executives (dollars in millions).

	<u>2018 Annual Cash Incentive Objectives</u>					<u>Chief Executive Achieved Results (% of Salary)</u>	<u>Other Named Executives Achieved Results (% of Salary)</u>
	<u>Weight</u>	<u>Threshold</u>	<u>Target</u>	<u>Maximum</u>	<u>Achieved</u>		
<u>SkyWest, Inc.</u>							
Pre-tax Earnings (\$millions)	75.0 %	\$ 292.0	\$ 333.0	\$ 374.0	\$ 366.3	149.3 %	108.6 %
Operating Objective - Controllable completion	25.0 %	99.2 %	99.5 %	99.7 %	99.9 %	55.0 %	40.0 %
<u>SkyWest Airlines</u>							
Pre-tax Earnings (\$millions)	70.0 %	\$ 241.0	\$ 276.0	\$ 311.0	\$ 308.5		108.1 %
Operating Objective - Controllable completion	20.0 %	99.3 %	99.5 %	99.8 %	99.9 %		32.0 %
Operating Objective - Controllable departures	10.0 %	73.5 %	78.5 %	83.5 %	80.2 %		10.7 %
<u>ExpressJet</u>							
Pre-tax Earnings (\$millions)	50.0 %	\$ (20.0)	\$ (10.0)	\$ 0.0	\$ (15.8)		28.4 %
Operating Objective - Controllable completion	50.0 %	99.3 %	99.5 %	99.8 %	99.9 %		80.0 %

The Company's achieved pre-tax earnings of \$366.3 million for purposes of the 2018 annual incentive plan payouts included certain adjustments to GAAP pre-tax earnings, including special items consisting of unusual or non-recurring items such as prorated fuel price changes and ExpressJet early contract wind down costs. The Compensation Committee believes these adjustments to GAAP pre-tax earnings lead to continued focus on long-term profitability and incentivize Named Executives to make beneficial long-term business decisions and will enhance the Company's long-term financial performance and ability to respond to its major airline partners' future needs.

The corresponding annual cash incentive payments earned for each Named Executive based on performance versus the annual cash incentive objectives during the year ended December 31, 2018, are set forth below as a percentage of the Named Executive's salary.

	<u>Threshold Annual Cash Incentive (% of Salary)</u>	<u>Target Annual Cash Incentive (% of Salary)</u>	<u>Maximum Annual Cash Incentive (% of Salary)</u>	<u>Pre-tax Earnings (% of Salary)</u>		<u>Operating Objectives (% of Salary)</u>		<u>Total Annual Cash Incentive Results (% of Salary)</u>	<u>Target Annual Cash Incentive (\$)</u>	<u>Total Annual Cash Incentive Results (\$)</u>
				<u>Weight at Target</u>	<u>Results</u>	<u>Weight at Target</u>	<u>Results</u>			
Russell A. Childs	50.0 %	110.0 %	220.0 %	82.5 %	149.3 %	27.5 %	55.0 %	204.3 %	\$ 506,000	\$ 940,728
Robert J. Simmons	40.0 %	80.0 %	160.0 %	60.0 %	108.6 %	20.0 %	40.0 %	148.6 %	\$ 268,000	\$ 498,251
Wade J. Steel	40.0 %	80.0 %	160.0 %	60.0 %	108.6 %	20.0 %	40.0 %	148.6 %	\$ 252,000	\$ 468,505
Michael B. Thompson	40.0 %	80.0 %	160.0 %	56.0 %	108.1 %	24.0 %	42.7 %	150.8 %	\$ 196,000	\$ 368,480
Terry M. Vais	40.0 %	80.0 %	160.0 %	40.0 %	28.4 %	40.0 %	80.0 %	108.4 %	\$ 212,000	\$ 287,260

If the Company's pre-tax earnings or operating objective achieved results were between two achievement levels, "threshold," "target" and "maximum", the earned achievement was determined by linear interpolation between the applicable achievement levels.

Amount of 2018 Performance-Based Annual Cash Incentive. The total annual performance-based cash incentive amounts earned by the Named Executives for 2018 are included in the amounts shown in the Summary Compensation Table below under the caption heading “Non-Equity Incentive Plan Compensation.”

Long-Term Incentive Awards. The Company grants discretionary long-term incentive awards, in the form of restricted stock units and performance shares to the Named Executives annually.

Long-term incentive awards are made to encourage the Named Executives to continue their engagement with the Company throughout the vesting periods of the awards and to align management and shareholder interests. In making awards to the Named Executives, the grant size and the appropriate mix of equity-based awards are considered. The Compensation Committee generally grants long-term incentive awards at its first meeting of each year. Long-term incentive awards generally vest only if the Named Executive remains employed by the Company for three years from the date of grant. The Compensation Committee believes the three-year cliff-vesting schedule for time-based restricted stock unit awards assists in retaining Named Executives and encourages the Named Executives to focus on the Company’s long-term performance. Commencing with long-term incentive awards granted during 2018, long-term incentive awards granted to the Named Executives will accelerate under certain circumstances, as described below.

In granting restricted stock units and performance shares to the Named Executives, the Compensation Committee also considers the impact of the grant on the Company’s financial performance, as determined in accordance with the requirements of FASB Accounting Standards Codification Topic 718 (ASC Topic 718). For long-term incentive awards, the Company records expense in accordance with ASC Topic 718. The amount of expense recorded pursuant to ASC Topic 718 may vary from the corresponding compensation value used in determining the amount of the awards.

Amount and allocation of grant—For 2018, the total annual targeted long-term incentive grant value was \$1,700,000 for Mr. Childs, \$725,000 for Mr. Simmons, \$675,000 for Mr. Steel, \$600,000 for Mr. Thompson and \$580,000 for Mr. Vais. The Compensation Committee established these annual targeted amounts to provide a competitive pay package and ensure that a large portion of each Named Executive’s compensation was based on continuing long-term service and correlated to the creation of shareholder value. This has been the Compensation Committee’s policy for several years, but is subject to review and continuation or modification each year by the Compensation Committee. Each Named Executive’s 2018 long-term incentive award was allocated among the two types of long-term incentive awards as follows: restricted stock units and performance shares. The target value of 2018 equity compensation was below the median of the 2017 and the 2018 peer data reviewed by the Compensation Committee for all Named Executive Officer positions.

Restricted stock unit and performance share grants in 2018 were made pursuant to the Company’s 2010 Plan, as shown in greater detail below and in the table labeled “Grants of Plan Based Awards.”

The following table summarizes the number and nature of long-term incentive awards granted to the Named Executives by the Company in 2018 under the 2010 Plan.

	<u>Time Vesting Awards</u>	<u>Performance Vesting Awards</u>
	<u>Number of Restricted Stock Units</u>	<u>“Target” Performance Shares (1)</u>
Russell A. Childs	12,734	19,101
Robert J. Simmons	5,431	8,146
Wade J. Steel	5,056	7,584
Michael B. Thompson	4,494	6,742
Terry M. Vais	4,345	6,517

(1) Number of performance shares if 100% of target is achieved, although the threshold earnout is 50% of target and the maximum earnout is 200% of target.

Restricted Stock Units—The Company granted restricted stock units to the Named Executives in 2018 under the 2010 Plan. Restricted stock units comprised 40% of each Named Executive's 2018 long-term incentive compensation. The restricted stock units awarded to a Named Executive entitle the Named Executive to receive a designated number of shares of Common Stock upon completion of a three-year vesting period, measured from the date of grant. Until the vesting date, the shares underlying the restricted stock units are not issued and outstanding. Accordingly, the Named Executive is not entitled to vote or receive dividends on the shares underlying his restricted stock units unless and until those restricted stock units vest. The purpose of the restricted stock unit component is to support continued employment through volatile economic and stock market conditions, to manage dilution overhang, and to align officers' interests with maintaining shareholder value already created as well as future value creation. The Compensation Committee believes this approach mitigates the incentive for Named Executives to take unnecessary risks and helps retain the Named Executives' expertise through continued employment. Restricted stock unit awards deliver significantly greater share-for-share compensation value at grant than do stock options, and the Company can offer what it anticipates will be comparable grant date compensation value with approximately 65% fewer shares than if the grant were made solely with stock options.

Performance Shares.

2018-2020 Performance Share Awards. The remaining component of each Named Executive's 2018 annual long-term incentive compensation was performance shares payable in Common Stock under the 2010 Plan. Performance share value comprised 60% of each Named Executive's 2018 long-term incentive compensation (target performance share value is stock price at grant multiplied by the shares earned if the objectives are achieved). The purpose of the performance share awards is to reward achievement of the three-year financial plan, which the Company believes will also support shareholder value achievement. Under each Named Executive's performance shares award, a number of performance shares will vest upon completion of a three-year performance period from the date of the grant (subject to the Named Executive's continued employment through the vesting date), based on the achievement of certain corporate performance objectives.

For purposes of the performance share awards granted in 2018, which will be eligible to vest based on corporate performance during the three-year performance period ending December 31, 2020 (the "2018-2020 PSU Awards"), the Compensation Committee set three-year performance share objectives, based on cumulative three-year adjusted pre-tax earnings and three-year average return on capital objectives. Under each Named Executive's performance share award, the performance shares are eligible to vest (and be settled in shares of Common Stock) upon completion of the three-year performance period (subject to the Named Executive's continued employment through the last day of the performance period), based on the level of adjusted pre-tax earnings and adjusted return on invested capital actually attained in aggregate over the 2018 to 2020 calendar years. Until the vesting date, the shares underlying the performance shares are not issued and outstanding. Accordingly, the Named Executive is not entitled to vote or receive dividends on the shares underlying his performance shares unless and until those performance shares vest. For purposes of the 2018-2020 PSU Awards, return on invested capital for any calendar year is defined as the Company's adjusted operating income for such year divided by the Company's average invested capital for such calendar year.

The Compensation Committee's philosophy for setting performance share targets is to set maximum targets that will be difficult for the Named Executives to achieve on a consistent basis. For the 2018-2020 PSU Awards, the Compensation Committee established threshold, target and maximum performance levels for each of the two corporate performance objectives, with the actual number of performance shares that will vest to be adjusted in proportion to the extent to which the combined actual results varied from the target levels of performance. The performance shares are allocated 60% to the cumulative three-year adjusted pre-tax earnings objective and 40% to the three-year average return on invested capital objective in determining the actual awarded performance shares payable in Common Stock. Specifically, a number of performance shares attributable to each objective according to the weightings assigned by the Compensation Committee will be earned ranging from 50% (for threshold performance) to 100% (for target performance) to 200% (for maximum performance), with performance in between such levels determined by linear

interpolation. If performance is below the threshold level for one or more of the objectives, no performance shares will be earned with respect to such objective(s).

The corporate objectives for the 2018-2020 PSU Awards for each Named Executive were based on the Company-wide performance, with no individual component or subsidiary-level objectives, in order to encourage teamwork and a collective focus on the creation of long-term value for the Company’s shareholders. In determining the degree to which the corporate objectives have been attained, the Company’s performance will be automatically adjusted for unusual or non-recurring items.

Actual results for 2018-2020 PSU Awards are measured over the three-year performance period. Therefore, the degree to which performance shares granted in 2018 ultimately earned will not be determined until the conclusion of the 2020 calendar year.

2016-2018 Performance Shares.

For purposes of the performance share awards granted in 2016, which were eligible to vest based on corporate performance during the three year performance period ending December 31, 2018 (the “2016-2018 PSU Awards”), the Compensation Committee set three-year performance share objectives, based on cumulative three-year adjusted pre-tax earnings, cumulative three-year adjusted earnings per share, and three-year average adjusted return on capital objectives. Under each Named Executive’s performance share award, the performance shares are eligible to vest (and be settled in shares of Common Stock) upon completion of a three-year vesting period from the date of the grant (subject to the Named Executive’s continued employment through the vesting date), based on the level of adjusted pre-tax earnings, adjusted earnings per share and adjusted return on invested capital actually attained in aggregate over the 2016 to 2018 calendar years.

For the 2016-2018 PSU Awards, the Compensation Committee established threshold, target and maximum performance levels for each of the three corporate performance objectives, with the actual number of performance shares that will vest to be adjusted in proportion to the extent to which the combined actual results varied from the target levels of performance. The performance shares were allocated equally between each of the three metrics in determining the actual awarded performance shares payable in Common Stock. Specifically, a number of performance shares attributable to each objective according to the weightings assigned by the Compensation Committee will be earned ranging from 50% (for threshold performance) to 100% (for target performance) to 150% (for maximum performance), with performance in between such levels determined by linear interpolation. If performance was below the threshold level for one or more of the objectives, no performance shares will be earned with respect to such objective(s). In determining the degree to which the corporate objectives were attained, the Company’s performance was to be automatically adjusted for unusual or non-recurring items.

In February 2019, the Compensation Committee determined the Company’s achievement relative to the objectives previously established for the 2016-2018 PSU Awards as follows (see Appendix A to this proxy statement on page 78 for a reconciliation of certain 2016 and 2017 non-GAAP financial measures used to calculate the achievement levels described below for the most directly comparable financial measures prepared in accordance with GAAP):

	<u>Threshold</u>	<u>Target</u>	<u>Maximum</u>	<u>Achieved Performance</u>
Adjusted Pre-tax				
Income (\$ millions) (1)	\$ 649	\$ 727	\$ 796	\$ 887
Adjusted Earnings Per Share (2)	\$ 7.31	\$ 8.17	\$ 8.96	\$ 10.31
Average Return on Invested Capital (3) . .	13.0 %	13.4 %	13.8 %	14.5 %

(1) Adjusted pre-tax income for the three-year period ending December 31, 2018 was adjusted in 2016 for special items primarily associated with the Company’s 50-seat aircraft of \$466 million.

- (2) Adjusted earnings per share for the three-year period ending December 31, 2018 was adjusted in 2016 for special items primarily associated with the Company's 50-seat aircraft of \$466 million and for the Tax Cut and Jobs Act benefit in 2017. For purposes of calculating the 2016-18 PSU awards for the 2018 year, a 40% tax rate was used to determine the 2018 net income to provide consistency with the three-year targets set in 2016, which resulted in 2018 net income for PSU purposes of \$219.8 million compared to GAAP net income of \$280.4 million.
- (3) Represents the average return on invested capital for 2016, 2017 and 2018 using adjusted net income in 2016 for special items primarily associated with the Company's 50-seat aircraft. For purposes of the 2016-2018 PSU Awards, return on invested capital for any calendar year was defined as the Company's adjusted operating income for such year divided by the Company's average invested capital for such calendar year.

As a result of the foregoing, in February 2019, the Named Executives vested in the following number of performance shares relative to the 2016-2018 PSU Awards, representing 150% (for maximum performance) of their target awards: Mr. Childs, 40,596 shares; Mr. Simmons, 22,652 shares; Mr. Steel, 20,460 shares; Mr. Thompson, 16,076 shares; and Mr. Vais, 17,537 shares.

Long-Term Incentive Awards for 2019. The Compensation Committee did not make any significant changes for the 2019 long-term incentive awards from that of the 2018 long-term incentive awards.

No Employment and Severance Agreements

The Named Executives do not have employment, severance or change-in-control agreements, although the vesting of long-term equity incentive awards may accelerate under certain circumstances, as described below under "Elements of Compensation – Long-Term Incentive Awards." The Named Executives serve at the will of the Board, which enables the Board to terminate the employment of any Named Executive with discretion as to the terms of any severance. This is consistent with the Company's performance-based employment and compensation philosophy.

Acceleration of Long-Term Incentive Awards. With respect to long-term incentive awards granted to the Named Executives commencing in 2017, such awards will vest on an accelerated basis under certain circumstances.

Specifically, restricted stock unit awards granted to the Named Executives will vest on an accelerated basis (i) in the event of the Named Executive's involuntary termination without cause or resignation for good reason, or (ii) in the event of the Named Executive's death.

Performance share awards granted to the Named Executives will vest on an accelerated basis (i) in the event of the Named Executive's death prior to a change in control, as to the "target" number of performance shares subject to the award on the date of death and as to any incremental performance shares above "target" based on the Company's actual performance relative to the corporate performance objectives under such award at the end of the three-year performance period (or, if earlier, a change in control of the Company), (ii) in the event of the Named Executive's death following a change in control, any "vesting eligible shares" (as described below) will vest upon the date of death, (iii) in the event of the Named Executive's involuntary termination without cause or resignation for good reason, in each case prior to a change in control, the Named Executive will remain eligible to vest in such number of performance shares as ultimately vest based on the Company's actual performance relative to the corporate performance objectives under such award at the end of the three-year performance period (or, if earlier, a change in control of the Company), which vesting will be prorated for the portion of the performance period that has elapsed prior to the date of termination, or (iv) in the event of the Named Executive's involuntary termination without cause or resignation for good reason, in each case following a change in control, any vesting eligible shares will vest upon the date of such termination. For purposes of the performance shares, in the event of a change in control of the Company, the performance shares will be converted into a number of "vesting eligible shares" that will vest at the end of the three-year performance period based on the greater of (i) the "target" number of performance shares subject to the award, or (ii) the number of performance shares that would

vest if performance had been measured against the corporate performance objectives as of the date of the change in control.

For a description of the accelerated vesting terms that apply to awards granted prior to 2017, see “Potential Payments upon Termination or Change in Control” below.

Retirement and Other Benefits.

The Company and SkyWest Airlines sponsor a 401(k) retirement plan for their eligible employees, including the Named Executives other than Mr. Vais. Prior to the sale of ExpressJet, ExpressJet also maintained a substantially equivalent 401(k) plan for its eligible employees, including Mr. Vais. Both plans are broad based, tax-qualified retirement plans under which eligible employees, including the Named Executives, may make annual pre-tax salary reduction contributions subject to the various limits imposed under the Internal Revenue Code of 1986, as amended (the “Code”). The sponsoring employers make matching contributions under the plans on behalf of eligible participants; however, the right of Named Executives and other officers to such matching contributions is limited. The Compensation Committee believes that maintaining the 401(k) retirement plans and providing a means to save for retirement is an essential part of a competitive compensation package necessary to attract and retain talented executives.

The Company also maintains the SkyWest, Inc. 2002 Deferred Compensation Plan, a non-qualified deferred compensation plan for the benefit of officers and other highly compensated employees. All of the Named Executives other than Mr. Vais participate in the SkyWest, Inc. 2002 Deferred Compensation Plan. Prior to the sale of ExpressJet, ExpressJet also maintained a separate but similar non-qualified deferred compensation plan, the ExpressJet Executive Deferred Compensation Plan, for its highly compensated management employees, including Mr. Vais. Under both such deferred compensation plans (the “*Deferred Compensation Plans*”), the employer credits each Named Executive’s account with a discretionary employer contribution equal to 15% of salary and annual cash incentive. These amounts are included in the Summary Compensation Table under the column “All Other Compensation”. Additional information on the Deferred Compensation Plans is found in the section “Non-Qualified Deferred Compensation for 2018” below. The purpose of the Deferred Compensation Plans is to attract and retain executive talent by assisting with building retirement assets over the course of their career with the Company.

The SkyWest Inc. 2002 Deferred Compensation Plan (but not the ExpressJet Executive Deferred Compensation Plan) also permits eligible executives, including the Named Executives, to elect in advance of each calendar year to defer up to 100% of their cash salary and annual cash incentive compensation for the year. Only Mr. Simmons elected to defer any portion of his salary or annual cash incentive for 2018.

The Company and its subsidiaries do not maintain any defined benefit pension plans for the Named Executives.

Other Benefits. In addition to the benefits described above, the Company provides certain other benefits to the Named Executives that the Compensation Committee believes are generally consistent with the benefits provided to senior executives of other airlines. The Compensation Committee believes that those benefits, which are detailed in the footnotes to the Summary Compensation Table applicable to the heading “All Other Compensation” below, are reasonable, competitive and consistent with overall executive compensation objectives. Those benefits consist primarily of employer-paid premiums on health, dental and eye insurance, a personal automobile allowance, and use of Company owned recreational equipment.

The Company and its subsidiaries also maintain a non-discriminatory, broad based program under which all full-time employees and their dependents, including the Named Executives and their dependents, may fly without charge on a space available basis on regularly scheduled flights of aircraft operated by the Company’s operating airline subsidiaries.

The Company has not agreed to provide its Named Executives with any gross-up or reimbursement for taxes.

Share Ownership Guidelines

The Company maintains ownership guidelines for the Named Executives to encourage the alignment of their interests with the long-term interests of the Company's shareholders. Each Named Executive is required to maintain a minimum ownership interest in the Company. The guideline ownership level is a number of shares of Common Stock having a value equal to a multiple of the annual base salary for each Named Executive. The Chief Executive's guideline ownership level is five times salary while the remaining Named Executives' guideline ownership level is three times salary.

The guidelines also include an expectation that the Named Executives will hold 50% of their net after-tax profit shares held after vesting or option exercise if the applicable guideline ownership level is not met. The Named Executives are limited in their ability to sell shares under long-term incentive awards until their applicable guideline ownership level is reached. Any Named Executive that did not meet the guidelines at December 31, 2018 is encouraged to make progress towards the ownership guideline. The holdings of the Named Executives are summarized in the table entitled "Security Ownership of Certain Beneficial Owners" below.

Policies Against Hedging and Pledging of Company Stock

Pursuant to the Company's Code of Ethics, in order to avoid the appearance that any Company employee is trading on inside information, Company officers and directors are prohibited from engaging in speculative trading such as short sales or trading in puts, calls, or other options on our stock or the stock of our affiliates, and are likewise prohibited from purchasing or using, directly or indirectly, financial instruments that are designed to hedge or offset any decrease in the market value of our securities.

In addition, the Company's insider trading policy expressly prohibits all directors, officers and employees from purchasing or using, directly or indirectly, financial instruments that are designed to hedge or offset any decrease in the market value of the Company's securities. Pledging the Company's securities as collateral to secure loans is also prohibited.

Deductibility of Executive Compensation

Section 162(m) of the Code imposes a \$1 million annual limit on the amount that a publicly traded company may deduct for compensation paid to the company's principal executive officer during a tax year or to any of the company's three other most highly compensated executive officers who are still employed at the end of the tax year (other than the Company's principal financial officer). Prior to 2018, the limit did not apply to compensation that met the requirements of Section 162(m) of the Code for "qualified performance-based compensation" (i.e., compensation paid only if the executive meets pre-established, objective goals based upon performance criteria approved by the Company's shareholders). The Tax Cuts and Jobs Act of 2017 eliminated the "qualified performance-based compensation" exception to Section 162(m) of the Code and expanded the limitation on deductibility to generally include all named executive officers. The Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Code, and has reserved, and continues to reserve, the right to approve compensation that may not be deductible under Code Section 162(m) in order to ensure competitive levels of total compensation for the Company's executive officers.

Effect of Compensation on Risk

The Compensation Committee believes the Company's compensation policies and practices are designed to create appropriate and meaningful incentives for the Company's employees without encouraging excessive or inappropriate risk taking. Among other factors, the Compensation Committee considered the following:

- The Company's compensation policies and practices are designed to include a significant level of long-term compensation, which discourages short-term risk taking;
- The base salaries and target cash incentive opportunities the Company provides to its employees are generally consistent with salaries paid for comparable positions in the Company's industry, and provide the Company's employees with steady income while reducing the incentive for employees to take risks in pursuit of short-term benefits;
- The Company's cash incentive and performance equity incentive compensation is capped at levels established by the Compensation Committee, consistent with peer data, and at which the Compensation Committee believes reduces the incentive for excessive risk-taking;
- The Company has established internal controls and adopted codes of ethics and business conduct, which are designed to reinforce the balanced compensation objectives established by the Compensation Committee; and
- The Company has adopted equity ownership guidelines for its executive officers, which the Compensation Committee believes discourages excessive risk-taking.

Based on the review outlined above, the Company has concluded that the risks arising from its compensation policies and practices for its employees are not reasonably likely to have a material adverse effect on the Company.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed the foregoing compensation discussion and analysis and discussed with the Company's management the information set forth herein. Based on such review and discussions with management, the Compensation Committee recommended to the Board that the foregoing compensation discussion and analysis be included in this proxy statement.

The Compensation Committee

Keith E. Smith, Chair
Henry J. Eyring
Meredith S. Madden
Ronald J. Mittelstaedt
Steven F. Udvar-Hazy

The information contained in this Compensation Committee Report shall not be deemed to be "soliciting material," to be "filed" with the Securities and Exchange Commission or be subject to Regulation 14A or Regulation 14C or to the liabilities of Section 18 of the Exchange Act, and shall not be deemed to be incorporated by reference into any filing of SkyWest, Inc., except to the extent that SkyWest, Inc. specifically incorporates it by reference into a document filed under the Securities Act of 1933 or the Exchange Act.

EXECUTIVE COMPENSATION

Summary Compensation Table

The table below summarizes the total compensation paid to or earned by each of the Named Executives for the years indicated.

Name and Principal Position	Year	Salary (\$)	Bonus \$(1)	Stock Awards		Option Awards \$(2)	Non-Equity Incentive Plan Compensation \$(3)	All Other Compensation (\$)	Total (\$)
				Restricted Stock Units \$(2)	Performance Shares \$(2)				
Russell A. Childs	2018	\$460,000	\$ —	\$ 680,000	\$ 1,020,000	\$ —	\$ 940,728	\$ 243,052 (4)	\$ 3,343,780
CEO & President	2017	\$420,000	\$ —	\$ 520,000	\$ 780,000	\$ —	\$ 924,000	\$ 213,395	\$ 2,857,395
	2016	\$400,000	\$ —	\$ 400,000	\$ 400,000	\$ 200,000	\$ 796,364	\$ 161,745	\$ 2,358,109
Robert J. Simmons	2018	\$335,000	\$ —	\$ 290,000	\$ 435,000	\$ —	\$ 498,251	\$ 160,115 (5)	\$ 1,718,366
Chief Financial Officer	2017	\$325,000	\$ —	\$ 260,000	\$ 390,000	\$ —	\$ 520,000	\$ 147,148	\$ 1,642,148
	2016	\$310,000	\$ —	\$ 223,200	\$ 223,200	\$ 111,600	\$ 463,027	\$ 126,103	\$ 1,457,130
Wade J. Steel	2018	\$315,000	\$ —	\$ 270,000	\$ 405,000	\$ —	\$ 468,505	\$ 151,679 (6)	\$ 1,610,184
Chief Commercial Officer	2017	\$300,000	\$ —	\$ 240,000	\$ 360,000	\$ —	\$ 480,000	\$ 134,287	\$ 1,514,287
	2016	\$280,000	\$ —	\$ 201,600	\$ 201,600	\$ 100,800	\$ 418,218	\$ 110,424	\$ 1,312,642
Michael B. Thompson	2018	\$245,000	\$ —	\$ 240,000	\$ 360,000	\$ —	\$ 368,480	\$ 125,274 (7)	\$ 1,338,754
Chief Operating Officer	2017	\$235,000	\$ —	\$ 180,000	\$ 270,000	\$ —	\$ 376,000	\$ 106,010	\$ 1,167,010
—SkyWest Airlines	2016	\$220,000	\$ —	\$ 158,400	\$ 158,400	\$ 79,200	\$ 294,965	\$ 96,159	\$ 1,007,124
Terry M. Vais	2018	\$265,000	\$ —	\$ 232,000	\$ 348,000	\$ —	\$ 287,260	\$ 90,519 (8)	\$ 1,222,779
Chief Operating Officer	2017	\$250,000	\$ —	\$ 180,000	\$ 270,000	\$ —	\$ 200,000	\$ 110,436	\$ 1,010,436
—ExpressJet	2016	\$240,000	\$ —	\$ 172,800	\$ 172,800	\$ 86,400	\$ 360,000	\$ 69,841	\$ 1,101,841

- (1) No discretionary annual performance bonuses were awarded to the Named Executives in 2016, 2017 or 2018.
- (2) These columns show the grant date fair value of the options and stock awards granted during the applicable fiscal year as computed under ASC Topic 718 (excluding estimates for forfeitures in case of awards with service-based vesting). With respect to the performance share awards, the grant date fair value is reported based on the probable outcome of the performance conditions as of the grant date. The maximum potential value of the 2018 performance share awards, assuming the highest level of performance achievement, is as follows: Mr. Childs, \$600,000 (2016), \$1,560,000 (2017), \$2,040,000 (2018); Mr. Simmons, \$334,800 (2016), \$780,000 (2017), \$870,000 (2018); Mr. Steel, \$302,400 (2016), \$720,000 (2017) \$810,000 (2018); Mr. Thompson, \$237,600 (2016), \$540,000 (2017) \$720,000 (2018); and Mr. Vais, \$259,200 (2016), \$540,000 (2017), \$696,000 (2018). These amounts do not reflect the extent to which the Named Executive realized or will realize an actual financial benefit from the awards. Assumptions and methodologies used in the calculation of these amounts are included in footnotes to the Company's audited financial statements for the year ended December 31, 2018 which are included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.
- (3) The amounts in this column reflect the annual performance cash incentive amounts earned in the year indicated based on performance in that year and paid in the subsequent year. As described in the section entitled "Compensation Discussion and Analysis" above, annual performance cash incentives payable to the Named Executives are calculated based upon the financial and operational performance of the Company or its subsidiaries. The threshold, target and maximum amount of each Executive's annual performance cash incentive opportunity for 2018 is reported in the "Grants of Plan-Based Awards for 2018" table below.
- (4) All other compensation for Mr. Childs for 2018 included \$211,109 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2018. The remaining other compensation relates to employer-paid health insurance premiums, a personal vehicle lease, personal use of the Company's recreational equipment, and discretionary matching contributions under the SkyWest 401(k) Plan.

- (5) All other compensation for Mr. Simmons for 2018 included \$129,401 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2018. The remaining other compensation relates to employer-paid health insurance premiums, a personal vehicle lease, personal use of the Company's recreational equipment, and discretionary matching contributions under the SkyWest 401(k) Plan.
- (6) All other compensation for Mr. Steel for 2018 included \$122,190 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2018. The remaining other compensation relates to employer-paid health insurance premiums, a personal vehicle lease, personal use of the Company's recreational equipment, and discretionary matching contributions under the SkyWest 401(k) Plan.
- (7) All other compensation for Mr. Thompson for 2018 included \$95,785 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2018. The remaining other compensation relates to employer-paid health insurance premiums, a personal vehicle lease, personal use of the Company's recreational equipment, and discretionary matching contributions under the SkyWest 401(k) Plan.
- (8) All other compensation for Mr. Vais for 2018 included \$70,581 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2018. The remaining other compensation relates to employer-paid health insurance premiums and a personal vehicle lease.

Grants of Plan-Based Awards For 2018

The following table provides information about non-equity based and equity-based plan awards granted to the Named Executives for the year ended December 31, 2018:

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Possible Payouts Under Equity Incentive Plan Awards			All Other Stock Awards Number of Units (#)	All Other Stock Awards Number of Options (#)	Exercise Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards(\$)(4)
		Threshold (\$)(1)	Target (\$)(1)	Maximum (\$)(1)	Threshold (#)	Target (#)	Maximum (#)				
Russell A. Childs	7-Feb-2018(2)	\$ 253,000	\$ 506,000	\$ 1,012,000							\$ 506,000
	7-Feb-2018(3)				9,551	19,101	38,202				\$ 1,020,000
Robert J. Simmons	7-Feb-2018(2)	\$ 134,000	\$ 268,000	\$ 536,000							\$ 268,000
	7-Feb-2018(3)				4,073	8,146	16,292				\$ 435,000
Wade J. Steel	7-Feb-2018(2)	\$ 126,000	\$ 252,000	\$ 504,000							\$ 290,000
	7-Feb-2018(3)				3,792	7,584	15,168				\$ 252,000
Michael B. Thompson	7-Feb-2018(2)	\$ 98,000	\$ 196,000	\$ 392,000							\$ 405,000
	7-Feb-2018(3)				3,371	6,742	13,484				\$ 270,000
Terry M. Vais	7-Feb-2018(2)	\$ 106,000	\$ 212,000	\$ 424,000							\$ 196,000
	7-Feb-2018(3)				3,259	6,517	13,034				\$ 360,000
											\$ 240,000
											\$ 212,000
											\$ 348,000
											\$ 232,000

- (1) The amounts in these columns reflect the threshold, target and maximum amount of each Named Executive's annual cash incentive opportunity for 2018. As described in the section entitled "Compensation Discussion and Analysis" above, annual cash incentives payable to the Named Executives are calculated based upon the financial and operational performance of the Company or its subsidiaries.
- (2) Represents the 2018-2020 PSU Awards granted in 2018 which will be eligible to vest based on corporate performance during the three-year performance period ending December 31, 2020. The Compensation Committee determined that the corporate objectives for purposes of such awards would be pre-tax earnings and return on invested capital actually attained over the three-year performance period. Until the vesting date, the shares underlying the performance shares are not issued and outstanding. Accordingly, the Named Executive is not entitled to vote or receive dividends on the shares underlying his performance shares unless and until those performance shares vest. For the 2018-2020 PSU Awards, the Compensation Committee established threshold, target and maximum performance levels for each of the two corporate performance objectives, with the actual number of

performance shares that will vest to be adjusted in proportion to the extent to which the combined actual results varied from the target levels of performance. The performance shares are allocated 60% to the cumulative three-year adjusted pre-tax earnings and 40% to the three-year adjusted average return on invested capital in determining the actual awarded performance shares payable in our common stock. Specifically, a number of performance shares attributable to each objective according to the weightings assigned by the Compensation Committee will be earned ranging from 50% (for threshold performance) to 100% (for target performance) to 200% (for maximum performance), with performance in between such levels determined by linear interpolation. If performance is below the threshold level for one or more of the objectives, no performance shares will be earned with respect to such objective(s).

- (3) Represents restricted stock unit awards that entitle the Named Executive to receive a designated number of shares of our common stock upon completion of a three-year vesting period, measured from the date of grant, the restricted stock units will be eligible to vest on the third anniversary of the grant date, subject to the Named Executive's continued employment through such date.
- (4) This column shows the grant date fair value of the stock awards granted as computed under ASC Topic 718 (excluding estimates for forfeitures in case of awards with service-based vesting). With respect to the performance share awards, the grant date fair value is reported based on the probable outcome of the performance conditions as of the grant date. These amounts do not reflect the extent to which the Named Executive realized or will realize an actual financial benefit from the awards. Assumptions and methodologies used in the calculation of these amounts are included in footnotes to the Company's audited financial statements for the year ended December 31, 2018 which are included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Outstanding Equity Awards at Year-End

The following table provides information on the holdings of stock options and other stock awards (restricted stock units and performance shares) by the Named Executives as of December 31, 2018.

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price (\$)	Option Expiration Date(1)	Number of Share Units That Have Not Vested (#)	Market Value of Share Units That Have Not Vested(8)(\$)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Shares, Units or Other Rights That Have Not Vested(8)(\$)
Russell A. Childs . . .	37,023		\$ 13.51	17-Feb-22	40,596 (2)	\$ 1,805,304		
	27,073	13,947 (3)	\$ 14.78	10-Feb-23	27,064 (3)	\$ 1,203,536		
Robert J. Simmons.					14,521 (4)	\$ 645,749	21,782 (5)	\$ 968,646
					12,734 (6)	\$ 566,281	19,101 (7)	\$ 849,421
		7,783 (3)	\$ 14.78	10-Feb-23	22,652 (2)	\$ 1,007,334		
					15,101 (3)	\$ 671,541		
Wade J. Steel					7,261 (4)	\$ 322,897	10,891 (5)	\$ 484,323
					5,431 (6)	\$ 241,517	8,146 (7)	\$ 362,253
		7,030 (3)	\$ 14.78	10-Feb-23	20,460 (2)	\$ 909,856		
					13,640 (3)	\$ 606,571		
Michael B. Thompson					6,702 (4)	\$ 298,038	10,053 (5)	\$ 447,057
					5,056 (6)	\$ 224,840	7,584 (7)	\$ 337,260
		5,523 (3)	\$ 14.78	10-Feb-23	16,076 (2)	\$ 714,900		
					10,717 (3)	\$ 476,585		
Terry M. Vais	1,149		\$ 17.25	9-Sep-22	5,027 (4)	\$ 223,551	7,540 (5)	\$ 335,304
					4,494 (6)	\$ 199,848	6,742 (7)	\$ 299,817
		6,026 (3)	\$ 14.78	10-Feb-23	17,537 (2)	\$ 779,870		
					11,691 (3)	\$ 519,899		
				5,027 (4)	\$ 223,551	7,540 (5)	\$ 335,304	
				4,345 (6)	\$ 193,222	6,517 (7)	\$ 289,811	

- (1) All stock option awards have a term of seven years from the date of grant.
- (2) Represents the 2016-2018 PSU Awards granted in 2016 which were eligible to vest based on corporate performance during the three-year performance period ending December 31, 2018. The Compensation Committee determined that the corporate objectives for purposes of such awards would be pre-tax earnings, earnings per share and return on invested capital actually attained over the three-year performance period. Until the vesting date, the shares underlying the performance shares were not issued and outstanding. Accordingly, the Named Executive was not entitled to vote or receive dividends on the shares underlying his performance shares unless and until those performance shares vest. For the 2016-2018 PSU Awards, the Compensation Committee established threshold, target and maximum performance levels for each of the three corporate performance objectives, with the actual number of performance shares that will vest to be adjusted in proportion to the extent to which the combined actual results varied from the target levels of performance. The performance shares are allocated equally between each of the three metrics in determining the actual awarded performance shares payable in Common Stock. Specifically, a number of performance shares attributable to each objective according to the weightings assigned by the Compensation Committee will be earned ranging from 50% (for threshold performance) to 100% (for target performance) to 150% (for maximum performance), with performance in between such levels determined by linear interpolation. If performance is below the threshold level for one or more of the objectives, no performance shares will be earned with respect to such objective(s). The actual number of shares of Common Stock issued to our Named Executives following the conclusion of a performance period will be based on our performance relative to the corporate performance objectives for that performance period and our stock price on the applicable vesting date. As of December 31, 2018, the Company's performance relative to the objectives was at "maximum" performance levels and as such the Company has reported the number and market value of the performance shares subject to the awards

based on “maximum” performance. In February 2019, the Compensation Committee determined that the Company had satisfied the maximum performance level for these awards, and such awards vested at the maximum levels on February 10, 2019. In addition, these awards are reported in the "Equity Incentive Plan Awards" column because, as of December 31, 2018, the applicable performance objectives had been met and the awards were subject only to the Named Executives' continued employment through the date the Compensation Committee certified such results.

- (3) Restricted stock unit awards scheduled to vest on February 10, 2019. One third of the shares subject to the options vest on each anniversary of the date of grant over a three-year period.
- (4) Restricted stock unit awards that entitle the Named Executive to receive a designated number of shares of Common Stock on February 9, 2020, subject to the achievement of a threshold performance objective included in such restricted stock unit awards for Section 162(m) purposes. The threshold performance objective for purposes of the 2017 restricted stock units was the Company's achievement of pre-tax earnings of at least \$54.9 million during 2017, 2018 or 2019. If the threshold goal was not achieved, none of the restricted stock units would have been eligible to vest. In February 2018, the Compensation Committee determined that the Company's 2017 pre-tax earnings of \$288 million satisfied the threshold goal for purposes of the 2017 restricted stock unit awards, and such awards will be eligible to vest based on the third anniversary of the grant date.
- (5) Represents the 2017-2019 PSU Awards granted in 2017 which will be eligible to vest based on corporate performance during the three-year performance period ending December 31, 2019. The Compensation Committee determined that the corporate objectives for purposes of such awards would be adjusted pre-tax earnings and average return on invested capital actually attained over the three-year performance period. Until the vesting date, the shares underlying the performance shares are not issued and outstanding. Accordingly, the Named Executive is not entitled to vote or receive dividends on the shares underlying his performance shares unless and until those performance shares vest. For the 2017-2019 PSU Awards, the Compensation Committee established threshold, target and maximum performance levels for each of the two corporate performance objectives, with the actual number of performance shares that will vest to be adjusted in proportion to the extent to which the combined actual results varied from the target levels of performance. The performance shares are allocated 60% to the cumulative three-year adjusted pre-tax earnings objectives and 40% to the three-year average return on invested capital objectives in determining the actual awarded performance shares payable in Common Stock. Specifically, a number of performance shares attributable to each objective according to the weightings assigned by the Compensation Committee will be earned ranging from 50% (for threshold performance) to 100% (for target performance) to 200% (for maximum performance), with performance in between such levels determined by linear interpolation. If performance is below the threshold level for one or more of the objectives, no performance shares will be earned with respect to such objective(s). The actual number of shares of Common Stock issued to our Named Executives following the conclusion of a performance period will be based on our performance relative to the corporate performance objectives for that performance period and our stock price on the applicable vesting date. The Company has reported the number and market value of the performance shares subject to the awards based on “target” performance.
- (6) Restricted stock unit awards scheduled to vest on February 7, 2021.
- (7) Represents the 2018-2020 PSU Awards granted in 2018 which will be eligible to vest based on corporate performance during the three-year performance period ending December 31, 2020. The Compensation Committee determined that the corporate objectives for purposes of such awards would be adjusted pre-tax earnings and average return on invested capital actually attained over the three-year performance period. Until the vesting date, the shares underlying the performance shares are not issued and outstanding. Accordingly, the Named Executive is not entitled to vote or receive dividends on the shares underlying his performance shares unless and until those performance shares vest. For the 2018-2020 PSU Awards, the Compensation Committee established threshold, target and maximum performance levels for each of the two corporate performance objectives, with the actual number of performance shares that will vest to be adjusted in proportion to the extent to which the combined actual

results varied from the target levels of performance. The performance shares are allocated 60% to the cumulative three-year adjusted pre-tax earnings objectives and 40% to the three-year average return on invested capital objectives in determining the actual awarded performance shares payable in our common stock. Specifically, a number of performance shares attributable to each objective according to the weightings assigned by the Compensation Committee will be earned ranging from 50% (for threshold performance) to 100% (for target performance) to 200% (for maximum performance), with performance in between such levels determined by linear interpolation. If performance is below the threshold level for one or more of the objectives, no performance shares will be earned with respect to such objective(s). The actual number of shares of our common stock issued to our Named Executives following the conclusion of a performance period will be based on our performance relative to the corporate performance objectives for that performance period and our stock price on the applicable vesting date. The Company has reported the number and market value of the performance shares subject to the awards based on “target” performance.

(8) Based on market closing price per share of our common stock of \$44.47 on December 31, 2018, the last trading day of 2018.

Option Exercises and Stock Vested

Stock options exercised, restricted stock units and performance shares that vested for the Named Executives during the year ended December 31, 2018 are outlined below.

Name	Option Awards		Stock Awards(1)	
	Number of Shares Acquired On Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Russell A. Childs	39,130	\$ 1,852,716	61,065	\$ 3,456,279
Robert J. Simmons	39,339	\$ 1,635,037	39,970	\$ 2,262,302
Wade J. Steel	13,414	\$ 613,530	31,978	\$ 1,809,927
Michael B. Thompson	11,274	\$ 527,275	28,685	\$ 1,623,570
Terry M. Vais	8,241	\$ 375,751	17,183	\$ 982,234

(1) Includes both restricted stock units and performance shares that vested during the year ended December 31, 2018.

Non-Qualified Deferred Compensation for 2018

Pursuant to the SkyWest Deferred Compensation Plan and the ExpressJet Deferred Compensation Plan, covered Named Executives may elect prior to the beginning of each calendar year to defer the receipt of base salary and annual performance cash incentives earned for the ensuing calendar year. Amounts deferred are credited to an unfunded liability account maintained by the Company on behalf of the applicable Named Executive, which account is deemed invested in and earns a rate of return based upon certain notational, self-directed investment options offered under the applicable plan.

Each Named Executive’s account under the SkyWest Deferred Compensation Plan and ExpressJet Deferred Compensation Plan, as applicable, is also credited with a discretionary employer contribution monthly, whether or not the Named Executive contributes. For 2018 that discretionary employer contribution was 15% of the Named Executive’s salary and annual cash incentive. Participant account balances under the SkyWest and ExpressJet Deferred Compensation Plans are fully vested and will be paid by the Company to each Named Executive upon retirement or separation from employment, or on other specified dates, in a lump sum form or in installments according to a schedule elected in advance by the Named Executive.

The following table provides information regarding the SkyWest Deferred Compensation Plan for Messrs. Childs, Simmons, Steel and Thompson for the year ended December 31, 2018:

<u>Name</u>	<u>Executive Contributions in Last Year (\$)(1)</u>	<u>Registrant Contributions in Last Year (\$)(2)</u>	<u>Aggregate Earnings in Last Year (\$)(3)</u>	<u>Aggregate Withdrawals/ Distributions in Last Year (\$)</u>	<u>Aggregate Balance at Last Year End (\$)(4)</u>
Russell A. Childs.....	\$ —	\$ 211,109	\$ (67,143)	\$ —	\$1,669,184
Robert J. Simmons	\$ 17,120	\$ 129,401	\$ (45,944)	\$ —	\$ 431,746
Wade J Steel.....	\$ —	\$ 122,190	\$ (47,569)	\$ —	\$ 534,708
Michael B. Thompson.....	\$ —	\$ 95,785	\$ (37,899)	\$ —	\$ 686,074

- (1) The amount in this column represents deferral of base salary for 2018 and annual performance cash incentives earned for the ensuing calendar year, which deferred amounts are reported in the Summary Compensation Table above.
- (2) The amounts in this column reflect the amounts of employer contributions credited under the applicable deferred compensation plan for 2018 at the rate of 15% of each Executive’s 2018 base salary and annual cash incentive which was paid in 2018. The amounts reported in this column are also included in the amounts reported in the “Other Compensation” column of the Summary Compensation Table appearing above.
- (3) The amounts in this column reflect the notational earnings (losses) during 2018 credited to each Executive’s account under the SkyWest Deferred Compensation Plan. These amounts are not reported in the Summary Compensation Table because they are based on market rates determined by reference to mutual funds that are available to participants in the SkyWest 401(k) Plan or otherwise broadly available.
- (4) All Named Executive and Company contributions in prior years to the SkyWest Deferred Compensation Plan have been reported in the Summary Compensation Tables in the company’s previously filed proxy statements, to the extent that an executive was a named executive officer in that fiscal year. These amounts are as follows: Mr. Childs, \$211,109 (2018), \$183,402 (2017) and \$132,490 (2016); Mr. Simmons, \$146,521 (2018), \$142,346 (2017) and \$100,745 (2016); Mr. Steel, \$122,190 (2018), \$110,411 (2017) and \$84,897 (2016); and Mr. Thompson, \$95,785 (2018), \$82,134 (2017), and \$70,790 (2016).

At the election of the executive, deferred amounts are invested in a selection of third party investment funds and each executive receives the rates of return under those funds on such deferred amounts.

The following table provides information regarding the ExpressJet Deferred Compensation Plan for Mr. Vais for 2018.

<u>Name</u>	<u>Executive Contributions in Last Year (\$)(1)</u>	<u>Registrant Contributions in Last Year (\$)(2)</u>	<u>Aggregate Earnings in Last Year (\$)(3)</u>	<u>Aggregate Withdrawals/ Distributions in Last Year (\$)</u>	<u>Aggregate Balance at Last Year End (\$)(4)</u>
Terry M. Vais.....	—	\$ 70,581	\$ (18,501)	—	\$ 591,592

- (1) The amount in this column represents deferral of base salary for 2018 and annual performance cash incentives earned for the ensuing calendar year, which deferred amounts are reported in the Summary Compensation Table above.

- (2) The amount in this column reflects the employer contributions credited under the applicable deferred compensation plan for 2018 at the rate of 15% of Mr. Vais's 2018 base salary and annual cash incentive which was paid in 2018. The amount reported in this column is also included in the amount reported in the "Other Compensation" column of the Summary Compensation Table appearing above.
- (3) The amounts in this column reflect the notational earnings (losses) during 2018 credited to Mr. Vais's account under the ExpressJet Deferred Compensation Plan. This amount is not reported in the Summary Compensation Table because it is based on market rates determined by reference to mutual funds that are available to participants in the ExpressJet 401(k) Plan or, in certain cases, otherwise broadly available.
- (4) All Named Executive and Company contributions in prior years to the ExpressJet Deferred Compensation Plan have been reported in the Summary Compensation Tables in the company's previously filed proxy statements, to the extent that Mr. Vais was a named executive officer in that fiscal year. These amounts are as follows: \$70,581 (2018), \$92,248 (2017), and \$50,601 (2016).

At the election of the executive, deferred amounts are invested in a selection of third party investment funds and each executive receives the rates of return under those funds on such deferred amounts.

Potential Payments upon Termination or Change in Control

The information below describes and quantifies certain payments or benefits that would be payable under the existing plans and programs of the Company and its subsidiaries if a Named Executive's employment had terminated on December 31, 2018, or the Company had undergone a change in control on December 31, 2018. These benefits are in addition to benefits generally available to all salaried employees of the Company in connection with a termination of employment, such as distributions from the 401(k) plan and accrued vacation pay. Except as noted below, the Named Executives do not have any other severance benefits, severance agreements or change-in-control agreements.

Accelerated Vesting of Long-Term Incentive Awards. Under the Company's long-term incentive plans, all outstanding stock options, restricted stock units, performance shares and performance units held by a Named Executive granted prior to 2017 would have become fully vested upon a "change in control" occurring on that date without regard to whether the Named Executive terminated employment in connection with or following the change in control if such awards were not assumed by the acquirer.

With respect to long-term incentive awards granted to the Named Executives commencing in 2017, such awards will vest on an accelerated basis under certain circumstances, but there is no single trigger accelerated vesting of such awards upon a change in control. Specifically, restricted stock unit awards granted to the Named Executives will vest on an accelerated basis (i) in the event of the Named Executive's involuntary termination without cause or resignation for good reason, or (ii) in the event of the Named Executive's death. Performance share awards granted to the Named Executives will vest on an accelerated basis (i) in the event of the Named Executive's death prior to a change in control, as to the "target" number of performance shares subject to the award on the date of death and as to any incremental performance shares above "target" based on the Company's actual performance relative to the corporate performance objectives under such award at the end of the three-year performance period (or, if earlier, a change in control of the Company), (ii) in the event of the Named Executive's death following a change in control, any "vesting eligible shares" (as described below) will vest upon the date of death, (iii) in the event of the Named Executive's involuntary termination without cause or resignation for good reason, in each case prior to a change in control, the Named Executive will remain eligible to vest in such number of performance shares as ultimately vest based on the Company's actual performance relative to the corporate performance objectives under such award at the end of the three-year performance period (or, if earlier, a change in control of the Company), which vesting will be prorated for the portion of the performance period that has elapsed prior to the date of termination, or (iv) in the event of the Named Executive's involuntary termination without cause or resignation for good reason, in each case following a change in control, any vesting eligible shares will vest upon the date of such termination. For purposes of the performance shares, in the event of a change in control of the

Company, the performance shares will be converted into a number of “vesting eligible shares” that will vest at the end of the three-year performance period based on the greater of (i) the “target” number of performance shares subject to the award, or (ii) the number of performance shares that would vest if performance had been measured against the corporate performance objectives as of the date of the change in control.

The following table shows for each Named Executive the intrinsic value of his unvested stock options, unvested restricted stock units and performance shares, as of December 31, 2018, that would have been accelerated had a change in control of the Company occurred on that date and/or a termination under one of the circumstances identified below had occurred on that date and the vesting of such awards accelerated, calculated in the case of restricted stock units, performance shares and stock options, by multiplying the number of underlying shares by the closing price of the Common Stock on December 31, 2018, the last trading day of 2018 (\$44.47 per share), and, in the case of stock options, by then subtracting the applicable option exercise price:

Name	Change in Control	Involuntary Termination Following a Change in Control or Death	Involuntary Termination Prior to a Change in Control
Russell A. Childs			
<i>Stock Options Acceleration</i>	\$ 414,086	\$ 414,086	\$ 414,086
<i>RSU Acceleration</i>	\$ 1,203,536	\$ 2,415,566	\$ 2,415,566
<i>PSU Acceleration (1)</i>	\$ 1,805,304	\$ 3,623,371	\$ 2,734,208
Robert J. Simmons			
<i>Stock Options Acceleration</i>	\$ 231,077	\$ 231,077	\$ 231,077
<i>RSU Acceleration</i>	\$ 671,541	\$ 1,235,955	\$ 1,235,955
<i>PSU Acceleration (1)</i>	\$ 1,007,334	\$ 1,853,910	\$ 1,450,967
Wade J. Steel			
<i>Stock Options Acceleration</i>	\$ 208,721	\$ 208,721	\$ 208,721
<i>RSU Acceleration</i>	\$ 606,571	\$ 1,129,449	\$ 1,129,449
<i>PSU Acceleration (1)</i>	\$ 909,856	\$ 1,694,173	\$ 1,320,314
Michael B. Thompson			
<i>Stock Options Acceleration</i>	\$ 163,978	\$ 163,978	\$ 163,978
<i>RSU Acceleration</i>	\$ 476,585	\$ 899,984	\$ 899,984
<i>PSU Acceleration (1)</i>	\$ 714,900	\$ 1,350,021	\$ 1,038,375
Terry M. Vais			
<i>Stock Options Acceleration</i>	\$ 178,912	\$ 178,912	\$ 178,912
<i>RSU Acceleration</i>	\$ 519,899	\$ 936,672	\$ 936,672
<i>PSU Acceleration (1)</i>	\$ 779,870	\$ 1,404,985	\$ 1,100,010

(1) Reflects the value of the performance shares granted in 2016 at “maximum” performance levels and the value of the performance shares granted in 2017 and 2018 at “target” performance levels. The value under the “Change in Control” column includes only those RSUs and PSUs granted prior to 2017, as awards granted in 2017 and later do not vest automatically upon the occurrence of a change in control absent the executive’s involuntary termination without cause or a resignation for good reason.

Deferred Compensation. If the employment of a Named Executive were terminated on December 31, 2018, the Named Executive would have become entitled to receive the balance in his account under the applicable deferred compensation plan. Distribution would be made in the form of a lump sum or in installments, and in accordance with the distributions schedule elected by the Named Executive under the applicable plan. The 2018 year-end account balances under those plans are shown in the applicable Non-Qualified Deferred Compensation Tables included herein. A Named Executive’s account balance would continue to be credited with notational investment earnings or losses through the date of actual distribution.

Pay Ratio Disclosure

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, we are providing the following information regarding the relationship of the annual total compensation of our employees and the annual total compensation of Russell A. Childs, the Chief Executive (the “CEO”). The pay ratio included in this information is a reasonable estimate calculated in a manner that is intended to be consistent with Item 402(u) of Regulation S-K.

For 2018, our last completed fiscal year:

- the median of the annual total compensation of all employees of the Company (other than the CEO) was 39,100; and
- the annual total compensation of the CEO, as reported in the Summary Compensation Table included elsewhere in this Proxy Statement, was \$3,343,780.

Based on this information, for 2018, the ratio of the median of the total compensation of all employees of the Company to the annual total compensation of Mr. Childs, the CEO, was 1 to 85.

Determining the Median Employee. The Company elected to identify a new median employee for 2018, even though there was no significant change to the Company's employee base or the previous median employee's individual compensation or circumstances. The Company determined that, as of December 31, 2018, the employee population consisted of approximately 16,500 individuals. The employee workforce consists of full and part time employees. For purposes of measuring the compensation of the employees, the Company selected total annual cash compensation for 2018 as the most appropriate measure of compensation, which was consistently applied to all the employees included in the calculation. With respect to the total annual compensation of the “median employee,” the Company identified and calculated the elements of such employee’s compensation for 2018 in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K, resulting in the annual total compensation reflected above.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Transaction with Related Party

During the year ended December 31, 2018, the Company purchased \$206,000 of spare aircraft parts from NORDAM, an entity affiliated with Meredith S. Madden, a director of the Company.

Review and Approval of Transactions with Related Parties

The Company believes that transactions between the Company and its directors and executive officers, or between the Company and persons related to directors and executive officers of the Company, present a heightened risk of creating or appearing to create a conflict of interest. Accordingly, the Company has adopted a policy regarding related-party transactions that has been approved by the Board and incorporated into the Charter of the Audit Committee. The policy provides that the Audit Committee will review all transactions between the Company and related persons (as defined in Item 404 of Regulation S-K promulgated by the Securities and Exchange Commission) for potential conflicts of interest. Under the Company's policy, all transactions between the Company and related persons are required to be submitted to the Audit Committee for approval prior to the Company's entry or participation in such transactions.

DIRECTOR COMPENSATION

The Company uses a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve as directors. In setting director compensation, the Company considers the significant amount of time that directors expend in fulfilling their duties to the Company, as well as the skill level required by the Company of its directors.

Cash Compensation Paid to Directors

For the year ended December 31, 2018, all directors who were not employees of the Company received an annual cash retainer of \$80,000. The Chairman of the Audit Committee was paid an annual fee of \$20,000, the Chairman of the Compensation Committee was paid an annual fee of \$10,000, the Chairman of Nominating and Corporate Governance Committee was paid an annual fee of \$5,000, the Chairman of the Safety and Compliance Committee was paid an annual fee of \$5,000 and the Lead Independent Director was paid an annual fee of \$20,000. The members of the Audit Committee were paid an annual fee of \$4,000. The Chairman of the Board was paid an annual fee of \$280,000. Russell A. Childs, who is a director and an employee of the Company, received no compensation for his service on the Board.

Stock Awards

Each non-employee director receives a stock award annually, the value of which is determined annually by the Board. On February 7, 2018, each of the non-employee directors received an award of 1,685 vested shares of Common Stock, representing approximately \$90,000 of value based on the trailing 20-day average stock price as of the date of award. The Company did not grant stock options to its non-employee directors in 2018.

Share Ownership Guidelines

The Company maintains ownership guidelines for the directors to encourage the alignment of their interests with the long-term interests of the Company's shareholders. Each director is required to maintain a minimum ownership interest in the Company. The guideline ownership level is a number of shares of Common Stock having a value equal to at least five times the cash component of the annual base compensation for each director. Any director who did not meet the guidelines at December 31, 2018 is encouraged to make progress towards the ownership guideline. The holdings of the directors are summarized in the table entitled "Security Ownership of Certain Beneficial Owners" below.

Policies Against Hedging and Pledging of Company Stock

Pursuant to the Company's Code of Ethics, in order to avoid the appearance that any Company employee is trading on inside information, Company officers and directors are prohibited from engaging in speculative trading such as short sales or trading in puts, calls, or other options on our stock or the stock of our affiliates, and are likewise prohibited from purchasing or using, directly or indirectly, financial instruments that are designed to hedge or offset any decrease in the market value of our securities.

In addition, the Company's insider trading policy expressly prohibits all directors, officers and employees from purchasing or using, directly or indirectly, financial instruments that are designed to hedge or offset any decrease in the market value of the Company's securities. Pledging the Company's securities as collateral to secure loans is also prohibited.

DIRECTOR SUMMARY COMPENSATION TABLE

The table below summarizes the compensation paid by the Company to its non-employee directors for the year ended December 31, 2018.

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Name(1)	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(3)	Option Awards (\$)	Change in Pension Value and Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Jerry C. Atkin (2)	\$ 280,000	\$ 90,000	—	—	—	\$ 370,000
Steven F. Udvar-Hazy	\$ 105,000	\$ 90,000	—	—	—	\$ 195,000
W. Steve Albrecht	\$ 100,000	\$ 90,000	—	—	—	\$ 190,000
Henry J. Eyring	\$ 84,000	\$ 90,000	—	—	—	\$ 174,000
Meredith S. Madden	\$ 80,000	\$ 90,000	—	—	—	\$ 170,000
Ronald J. Mittelstaedt	\$ 80,000	\$ 90,000	—	—	—	\$ 170,000
Andrew C. Roberts	\$ 89,000	\$ 90,000	—	—	—	\$ 179,000
Keith E. Smith	\$ 94,000	\$ 90,000	—	—	—	\$ 184,000
James L. Welch	\$ 84,000	\$ 90,000	—	—	—	\$ 174,000

- (1) Russell A. Childs, the Chief Executive Officer, President and a director of the Company, is not included in the foregoing table as he was an employee of the Company during 2018 and received no financial remuneration for his service as a director.
- (2) As of December 31, 2018, Jerry C. Atkin has 131,157 stock options outstanding from the Company related to grants occurring prior to his retirement as a Named Executive.
- (3) Represents the aggregate grant date fair market values of awards as computed under ASC Topic 718. Assumptions and methodologies used in the calculation of these amounts are included in footnotes to the Company's audited financial statements for the year ended December 31, 2018 which are included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. All such shares of our common stock are fully vested and none of our non-employee directors, other than Mr. Atkin, holds any unvested shares or other equity awards.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Security Ownership of Directors and Executive Officers

The following table sets forth the beneficial ownership of the Common Stock as of March 4, 2019, for each director and nominee for director, each Named Executive, and by all directors (including nominees) and executive officers of the Company as a group.

<u>Name</u>	<u>Common Stock</u>	<u>Options Exercisable (1)</u>	<u>Total</u>	<u>Beneficial Ownership(2)</u>
Russell A. Childs	104,951	78,043	182,994	(3)
Robert J. Simmons	45,489	7,783	53,272	(3)
Wade J. Steel	43,443	13,089	56,532	(3)
Michael B. Thompson.....	28,824	5,523	34,347	(3)
Terry M. Vais	29,376	—	29,376	(3)
Eric J. Woodward	20,075	2,968	23,043	(3)
W. Steve Albrecht	38,561	—	38,561	(3)
Jerry C. Atkin	1,102,695	111,657	1,214,352	2.4%
Henry J. Eyring	40,111	—	40,111	(3)
Meredith S. Madden	13,929	—	13,929	(3)
Ronald J. Mittelstaedt	21,380	—	21,380	(3)
Andrew C. Roberts	13,929	—	13,929	(3)
Keith E. Smith	21,380	—	21,380	(3)
Steven F. Udvar-Hazy	50,781	—	50,781	(3)
James L. Welch	41,164	—	41,164	(3)
All officers and directors as a group (15 persons)	<u>1,616,088</u>	<u>219,063</u>	<u>1,835,151</u>	3.6%

(1) Represents shares that the beneficial owner has the right to acquire within 60 days of March 4, 2019 pursuant to the exercise of such stock options.

(2) Based on 51,647,778 shares outstanding as of March 4, 2019.

(3) Less than one percent of the total shares outstanding as of March 4, 2019.

Security Ownership of Other Beneficial Owners

As of March 4, 2019, the Company's records and other information available from outside sources indicated that the following shareholders were beneficial owners of more than five percent of the outstanding shares of Common Stock. The information following is as reported in filings with the Securities and Exchange Commission. The Company is not aware of any other beneficial owner of more than five percent of the Common Stock.

<u>Name</u>	<u>Amount of Beneficial Ownership Common Stock</u>	
	<u>Shares</u>	<u>Percent of Class</u>
Black Rock, Inc. 55 East 52 nd Street New York, NY 10055	7,498,883 (1)	14.52%
The Vanguard Group, Inc. 100 Vanguard Blvd Malvern, PA 19355	6,292,286 (2)	12.18%
Dimensional Fund Advisors LP 6300 Bee Cave Road Austin, TX 78746	4,263,381 (3)	8.25%
The Bank of New York Mellon Corporation. 240 Greenwich Street New York, New York 10286	2,629,513 (4)	5.09%

(1) Based on a Schedule 13G/A filed on January 31, 2019 by BlackRock, Inc., which stated therein that it has sole voting power over 7,400,977 shares and sole dispositive power over 7,498,883 shares.

(2) Based on a Schedule 13G/A filed on February 11, 2019 by The Vanguard Group, Inc., which stated therein that it has sole voting power over 47,057 shares, shared voting power over 700 shares, sole dispositive power over 6,246,086 shares and shared dispositive power over 46,200 shares.

(3) Based on a Schedule 13G/A filed by Dimensional Fund Advisors LP on February 8, 2019, which stated therein that it has sole voting power over 4,193,630 shares and sole dispositive power over 4,263,381 shares.

(4) Based on a Schedule 13G filed by The Bank of New York Mellon Corporation on February 4, 2019, which stated therein that it has sole voting power over 2,454,694 shares, sole dispositive power over 2,465,616 shares and shared dispositive power over 111,833 shares.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table contains information regarding the Company's equity compensation plans as of December 31, 2018.

<u>Plan Category</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in the First Column)</u>
<i>Equity compensation plans approved by security holders</i> (1)	300,580	\$ 13.70	2,669,863 (2)

(1) Consists of the Company's SkyWest Inc. Long Term Incentive Plan and the Employee Stock Purchase Plan.

(2) Includes 705,788 shares remaining available for future issuance under the Employee Stock Purchase Plan, of which 38,344 were eligible to be purchased during the purchase period in effect on December 31, 2018.

PROPOSAL 2
ADVISORY VOTE ON NAMED EXECUTIVE COMPENSATION

Background

Section 14A of the Exchange Act, which was enacted pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, requires that the Company provide its shareholders with the opportunity to vote on an advisory (non-binding) resolution to approve the compensation of the Named Executives (referred to as a “Say-on-Pay” proposal) as disclosed in this Proxy Statement.

Accordingly, the following resolution will be submitted to the Company’s shareholders for approval at the Meeting:

“RESOLVED, that the Company’s shareholders approve, on an advisory basis, the compensation of the Named Executives, as disclosed in the Company’s Proxy Statement for the 2018 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2018 Executive Compensation table and the other related tables and disclosure.”

As described in detail under the heading “Compensation Discussion and Analysis,” the Board believes the Company’s compensation of the Named Executives achieves the primary goals of (i) attracting and retaining experienced, well-qualified executives capable of implementing the Company’s strategic and operational objectives, (ii) aligning management compensation with the creation of shareholder value on an annual and long-term basis, and (iii) linking a substantial portion of the Named Executives’ compensation with long-term Company performance and the achievement of pre-determined goals, while at the same time avoiding the encouragement of unnecessary or excessive risk-taking. The Board encourages you to review in detail the Compensation Discussion and Analysis beginning on page 26 of this Proxy Statement and the executive compensation tables beginning on page 40 of this Proxy Statement. In light of the information set forth in such sections of this Proxy Statement, the Board believes the compensation of the Named Executives for the fiscal year ended December 31, 2018 was fair and reasonable and that the Company’s compensation programs and practices are in the best interests of the Company and its shareholders.

The vote on this Say-on-Pay resolution is not intended to address any specific element of compensation; rather, the vote relates to all aspects of the compensation of the Named Executives, as described in this Proxy Statement. While this vote is only advisory in nature, which means that the vote is not binding on the Company, the Board and the Compensation Committee (which is composed solely of independent directors), value the opinion of the Company’s shareholders and will consider the outcome of the vote when addressing future compensation arrangements.

Voting

Approval of the resolution above (on a non-binding, advisory basis) requires that the number of votes cast at the Meeting, in person or by proxy, in favor of the resolution exceeds the number of votes cast in opposition to the resolution.

The Board and the Compensation Committee Recommend that Shareholders Vote *FOR* Approval of the Compensation of the Named Executives, as disclosed in this Proxy Statement.

PROPOSAL 3
ADOPTION OF THE SKYWEST, INC. 2019 LONG-TERM INCENTIVE PLAN

Introduction

We are requesting that our shareholders approve the SkyWest, Inc. 2019 Long-Term Incentive Plan (the “2019 Plan”). The 2019 Plan will replace the existing SkyWest, Inc. 2010 Long-Term Incentive Plan (the “2010 Plan”), which will expire by its terms in 2020. In February 2019, our Board approved the 2019 Plan, subject to shareholder approval. The 2019 Plan will be effective as of the date on which our shareholders approve the 2019 Plan.

If our shareholders approve the 2019 Plan, the Company will issue no additional awards under the 2010 Plan after the date of shareholder approval of the 2019 Plan; however, all then outstanding awards under the 2010 Plan would remain outstanding in accordance with their terms. If the 2019 Plan is not approved by our shareholders, the 2019 Plan will not become effective, the 2010 Plan will continue in full force and effect, and we may continue to grant awards under the 2010 Plan, subject to its terms, conditions and limitations, using the shares available for issuance thereunder.

Employees, directors and consultants of the Company and its subsidiaries will be eligible to receive awards under the 2019 Plan, including incentive stock options (“ISOs”), non-qualified stock options, stock appreciation rights (“SARs”), restricted stock, restricted stock units, other share-based awards, including grants of unrestricted stock, and performance awards, including annual and long-term cash performance awards

The 2019 Plan would authorize a number of shares equal to the sum of (1) 4,500,000 shares (which is comprised of 2,535,925 new shares and 1,964,075 shares available for grant under the 2010 Plan as of December 31, 2018), less (A) one share for every share subject to an option or SAR that was granted after December 31, 2018 under the 2010 Plan and prior to the effective date of the 2019 Plan and (B) 1.65 shares for every share subject to an award (other than an option or SAR) that was granted after December 31, 2018 under the 2010 Plan and prior to the effective date of the 2019 Plan, plus (2) any shares covered by awards under the 2010 Plan that again become available for grant pursuant to the provisions of the 2019 Plan. Any shares that are subject to options or SARs granted under the 2019 Plan shall be counted against this limit as one share for every one share granted, and any shares that are subject to awards other than options or SARs shall be counted against this limit as 1.65 shares for every one share granted. For information about the awards outstanding under the 2010 Plan as of December 31, 2018, see “Equity Incentive Awards Are Critical to Long-Term Shareholder Value Creation” below.

In general, shareholder approval of the 2019 Plan is necessary in order for us to (1) meet the shareholder approval requirements of the principal securities market on which shares of our Common Stock are traded, and (2) grant stock options that qualify as ISOs as defined under Section 422 of the Code.

**The Board of Directors Recommends that Shareholders
Vote *FOR* the Adoption of the SkyWest, Inc. 2019 Long-Term Incentive Plan**

Key Features of the 2019 Plan

The Company has long had an ownership culture in which its officers, managers and other key employees are granted stock options and other equity-based awards to align their interests with those of shareholders. The Board believes the ownership culture at the Company motivates the achievement of superior performance, and also plays an essential role in retaining top talent. The 2019 Plan would permit the Company to continue to use equity-based awards as an integral part of its compensation program.

The 2019 Plan reflects a broad range of compensation and governance best practices, with some of the key features of the 2019 Plan as follows:

- *No Increase to Shares Available for Issuance without Shareholder Approval.* Without shareholder approval, the total number of shares of Common Stock that may be issued under the 2019 Plan cannot be increased (other than adjustments in connection with certain corporate reorganizations and other events).
- *No Automatic Vesting for Awards.* The 2019 Plan does not have automatic accelerated vesting provisions for awards in connection with a change in control (other than in connection with the non-assumption of awards).
- *No Repricing of Awards.* Other than pursuant to the provisions of the 2019 Plan described below under the headings "Adjustments" and "Corporate Transactions," the plan administrator may not without the approval of the Company's shareholders (1) lower the exercise price of an option or SAR after it is granted or (2) cancel an option or SAR when the exercise price exceeds the fair market value of the underlying shares in exchange for cash or another award
- *Limitations on Dividend Payments on Unvested Awards.* Dividends and dividend equivalents may not be paid on awards subject to vesting conditions unless and until such conditions are met. Dividend equivalents may not be paid on stock options or SARs.
- *Limitations on Grants to Directors.* The sum of cash compensation, or other compensation, and the value of awards granted to a non-employee director as compensation for services as a non-employee director during any fiscal year of the Company may not exceed \$500,000 (increased to \$750,000 with respect to any non-employee director serving as Chairman of the Board or Lead Independent Director or in the fiscal year of a non-employee director's initial service as a non-employee director). The Board may make exceptions to this limit for individual non-employee directors in extraordinary circumstances, as the Board may determine in its discretion, *provided* that the non-employee director receiving such additional compensation may not participate in the decision to award such compensation or in other contemporaneous compensation decisions involving non-employee directors.
- *No In-the-Money Option or Stock Appreciation Right Grants; Limit on Term of Options and Stock Appreciation Rights of Seven Years.* The 2019 Plan prohibits the grant of options or SARs with an exercise or base price less than 100% of the fair market value of our Common Stock on the date of grant. The maximum permitted term of any stock option or SAR under the 2019 Plan is seven years from the date of grant.
- *Reasonable Limit on Full Value Awards.* For purposes of calculating the shares that remain available for issuance under the 2019 Plan, grants of options and SARs will be counted as the grant of one share for each one share actually granted, as described above. However, to protect our stockholders from potentially greater dilutive effect of full value awards, all grants of awards other than options and SARs will be counted against the 2019 Plan's share reserve as 1.65 shares for each share subject to such awards.
- *Reasonable Share Counting Provisions.* Generally, when awards granted under the 2019 Plan or awards outstanding under the 2010 Plan are forfeited, expire or are settled in cash, the shares reserved for those awards will again be available for future awards in an amount corresponding to the reduction in the share reserve previously made with respect to such awards. However, the following shares will not be added to the share reserve under the 2019 Plan: (1) shares of Common Stock that are delivered by the participant or withheld by us as payment of the exercise price in connection with the exercise of an option granted under the 2019 Plan or the 2010 Plan or payment of the tax withholding obligation in connection with any award

granted under the 2019 Plan or the 2010 Plan; (2) shares subject to a SAR granted under the 2019 Plan or the 2010 Plan that are not issued in connection with the stock settlement of the SAR on its exercise; and (3) shares purchased on the open market with the cash proceeds from the exercise of options granted under the 2019 Plan or the 2010 Plan.

- *Independent Administration.* The Compensation Committee of our Board, which consists of two or more non-employee directors, generally will administer the 2019 Plan if it is approved by shareholders. The full Board will administer the 2019 Plan with respect to awards granted to members of the Board. The Compensation Committee may delegate certain of its duties and authorities to a committee of one or more directors or officers of the Company for awards to certain individuals, within specific guidelines and limitations. However, no delegation of authority is permitted with respect to awards made to individuals who (1) are subject to Section 16 of the Exchange Act, or (2) are officers of the Company and have been delegated authority to grant or amend awards under the 2019 Plan.

Equity Incentive Awards Are Critical to Long-Term Shareholder Value Creation

Our 2010 Plan is the only equity plan pursuant to which we may grant equity awards to our directors, employees and consultants (other than our Employee Stock Purchase Plan (our "ESPP")), and we believe that the adoption of the 2019 Plan is essential to our success. If the 2019 Plan is approved our shareholders, it will replace the 2010 Plan and the 2019 Plan will be the only plan under which the Company may issue equity awards (other than our ESPP). Equity awards are intended to motivate high levels of performance, align the interests of our directors, employees and consultants with those of our shareholders by giving directors, employees and consultants the perspective of an owner with an equity stake in our company and providing a means of recognizing their contributions to the success of our company. Our Board and management believe that equity awards are necessary to remain competitive in our industry and are essential to recruiting and retaining the highly qualified employees who help our company meet its goals. As of March 1, 2019, 220 of our 16,196 employees had received grants of equity awards, all 9 of our non-employee directors had received grants of equity awards, and none of our consultants had received grants of equity awards.

The table below presents information about the number of shares that were subject to outstanding equity awards under our 2010 Plan and the shares remaining available for issuance under the 2010 Plan and the ESPP, each at December 31, 2018, and the proposed number of shares authorized for issuance under the 2019 Plan.

	Number of Shares	As a % of Shares Outstanding ⁽¹⁾	Dollar Value ⁽²⁾
2010 Plan			
Options outstanding	300,580	0.6%	\$13,366,793
Time-based restricted stock units outstanding	575,781	1.1%	\$25,604,981
Performance-based restricted stock units outstanding ⁽³⁾	370,917	0.7%	\$16,494,679
Shares available for grant under the 2010 Plan ⁽⁴⁾	1,964,075	3.8%	\$87,342,417
Employee Stock Purchase Plan			
Shares available for grant under the Employee Stock Purchase Plan	705,788	1.4%	\$31,386,392
2019 Plan			
Proposed shares available for issuance under 2019 Plan ⁽⁵⁾	4,500,000	8.8%	\$200,115,000

(1) Based on 51,388,290 shares of our Common Stock outstanding as of December 31, 2018.

(2) Based on the closing price of our Common Stock on December 31, 2018, of \$44.47 per share.

(3) Performance awards are included at “target” levels. Performance awards may be eligible to vest in up to 200% of the “target” award levels at “maximum” performance.

(4) Shares remaining available for issuance under the 2010 Plan calculated assuming performance awards are counted against the share reserve at “target” levels. If the 2019 Plan becomes effective, no additional awards will be granted under the 2010 Plan.

(5) The proposed 4,500,000 total share reserve is comprised of 2,535,925 new shares plus the 1,964,075 shares that remained available for grant under the 2010 Plan as of December 31, 2018. In addition, the initial share reserve will be reduced by (A) one share for every share subject to an option or SAR that was granted after December 31, 2018 under the 2010 Plan and prior to the effective date of the 2019 Plan and (B) 1.65 shares for every share subject to an award (other than an option or SAR) that was granted after December 31, 2018 under the 2010 Plan and prior to the effective date of the 2019 Plan.

In determining whether to approve the 2019 Plan, our Board considered the input of Frederic W. Cook & Co. ("FW Cook"), the Compensation Committee's independent compensation consultant, and the following:

- In determining the size of the share reserve under the 2019 Plan, our Board considered the number of equity awards granted by our company during the past three calendar years. In fiscal years 2016, 2017 and 2018, equity awards representing a total of approximately 816,370 shares, 302,069 shares, and 220,473

shares, respectively, were awarded under the 2010 Plan, for an annual equity burn rate of 1.59%, 0.58% and 0.42%, respectively (with performance awards counted assuming "target" performance for this purpose). This level of equity awards represents a 3-year average burn rate of 0.86% of common shares outstanding. Equity burn rate is calculated by dividing (1) the number of shares subject to equity awards awarded during the fiscal year by (2) the basic weighted average number of common shares outstanding during the same fiscal year.

- In fiscal years 2016, 2017 and 2018, the number of stock options and time-vesting restricted stock units granted and the number of performance-based restricted stock units earned, was as follows:

	2018	2017	2016
Stock Options/SARs granted	—	—	206,021
Time-based RSUs granted	115,044	160,137	384,148
Fully-vested shares granted	15,165	22,617	42,624
Performance-based RSUs earned	277,029	—	—
Total shares utilized	407,238	182,754	632,793
Basic weighted average common shares outstanding	51,914,000	51,804,000	51,505,000

- We expect the proposed aggregate share reserve under the 2019 Plan to provide us with enough shares for awards for at least five years, assuming we continue to grant awards consistent with our current practices and historical usage, as reflected in our historical burn rate, and further dependent on the price of our shares and hiring activity during the next few years, forfeitures of outstanding awards, and noting that future circumstances may require us to change our current equity grant practices. We cannot predict our future equity grant practices, the future price of our shares or future hiring activity with any degree of certainty at this time, and the share reserve under the 2019 Plan could last for a shorter or longer time.

In fiscal years 2016, 2017 and 2018, the end of year overhang rate was approximately 10.5%, 9.1% and 6.2%, respectively. If the 2019 Plan is approved, we expect our overhang at the end of fiscal year 2019 will be approximately 9.9% (excluding the 705,788 shares that were available for issuance under the ESPP as of December 31, 2018 and assuming no terminations or forfeitures of shares and giving effect to shares intended to vest pursuant to their terms in 2019). If the shares available for issuance under the ESPP are included, we expect our overhang at the end of fiscal year 2019 will be approximately 11.1%. Overhang is calculated by dividing (1) the sum of the number of shares subject to equity awards outstanding at the end of the fiscal year (with performance awards included at "target" levels) plus shares remaining available for issuance for future awards at the end of the fiscal year by (2) the basic weighted average number of common shares outstanding during the same fiscal year plus the number of shares described in clause (1) above.

In light of the factors described above, and the fact that the ability to continue to grant equity compensation is vital to our ability to continue to attract and retain employees in the extremely competitive labor markets in which we compete, our Board of Directors has determined that the size of the share reserve under the 2019 Plan is reasonable and appropriate at this time. Our Board will not create a subcommittee to evaluate the risk and benefits for issuing shares under the 2019 Plan.

Summary of the 2019 Plan

The following summary of the material features of the 2019 Plan is subject to the full text of the 2019 Plan that is contained in Appendix B to this Proxy Statement.

Shares Subject to Plan. The 2019 Plan would authorize a number of shares equal to the sum of (1) 4,500,000 shares, less (A) one share for every share subject to an option or SAR that was granted after December 31, 2018 under the 2010 Plan and prior to the effective date of the 2019 Plan and (B) 1.65 shares for every share subject to an award (other than an option or SAR) that was granted after December 31, 2018 under the 2010 Plan and prior to the effective date of the 2019 Plan, plus (2) any shares covered by awards under the 2010 Plan that again become available for grant pursuant to the terms of the 2019 Plan. Awards outstanding under the 2010 Plan are referred to as "2010 Plan Awards." In no event will more than 4,500,000 shares of our Common Stock be issuable pursuant to ISOs under the 2019 Plan.

If an award under the 2019 Plan (or after December 31, 2018, a 2010 Plan Award) is forfeited, expires or is settled in cash, the shares subject to the award or the 2010 Plan Award shall again be available for grant under the 2019 Plan (such shares, "*Recycled Shares*"). To the extent that a share that was subject to an option or SAR under the 2019 Plan or an option or SAR that was a 2010 Plan Award becomes a Recycled Share, the 2019 Plan will be credited with one share. To the extent that a share that was subject to an award (other than an option or SAR) under the 2019 Plan or a 2010 Plan Award (other than an option or SAR) becomes a Recycled Share, the 2019 Plan will be credited with 1.65 shares. However, the following types of shares underlying an award may not become again available for grant under the 2019 Plan: (1) shares of Common Stock that are delivered by the participant or withheld by us as payment of the exercise price in connection with the exercise of an option or a 2010 Plan Award that was an option or payment of the tax withholding obligation in connection with any award (including a 2010 Plan Award); (2) shares subject to a SAR (including any SAR that is a 2010 Plan Award) that are not issued in connection with the stock settlement of the SAR on its exercise; and (3) shares purchased on the open market with the cash proceeds from the exercise of options (including any options that are 2010 Plan Awards). Any restricted shares forfeited by the participant or repurchased by us at the same price paid by the participant so that such shares are returned to us will also be Recycled Shares and the 2019 Plan will be credited with 1.65 shares for each such forfeited or repurchased restricted share. The payment of dividend equivalents in cash in conjunction with any outstanding awards shall not be counted against the shares available for issuance under the 2019 Plan.

To the extent permitted by applicable law or any exchange rule, and subject to certain other restrictions, shares issued in assumption of, or in substitution for, any outstanding awards or shares available under a pre-existing plan of an entity acquired by us or any of our subsidiaries that was approved by shareholders and not adopted in contemplation of such acquisition will not be counted against the shares available for grant under the 2019 Plan.

Administration. The Compensation Committee of our Board will administer the 2019 Plan (except with respect to any award granted to non-employee directors, which must be administered by our full Board). Unless otherwise determined by the Board, the members of the Compensation Committee (or such other committee designated by the Board) administering the Plan must each be a "non-employee director" for purposes of Rule 16b-3 under the Exchange Act and an "independent director" under the rules of any securities exchange on which the shares of our Common Stock are listed. The Board or the Compensation Committee may delegate certain of its duties and authorities to a committee of one or more directors or officers of the Company for awards to certain individuals, within specific guidelines and limitations. However, no delegation of authority is permitted with respect to awards made to individuals who (1) are subject to Section 16 of the Exchange Act, or (2) have been delegated authority to grant, amend or administer awards under the 2019 Plan. The Board, the Compensation Committee or such other committee to which administration of the 2019 Plan has been delegated is referred to as the "plan administrator." Subject to the terms and conditions of the 2019 Plan, the plan administrator has the authority to select the persons to whom awards are to be made, to determine the type or types of awards to be granted to each person, the number of awards to grant, the number of shares to be subject to such awards, and the terms and conditions of such awards, and to make all other determinations

and decisions and to take all other actions necessary or advisable for the administration of the 2019 Plan. The plan administrator is also authorized to establish, adopt, amend or revise rules relating to administration of the 2019 Plan.

Eligibility. Only employees, directors and consultants of the Company and its subsidiaries are eligible to receive awards under the 2019 Plan. As of March 1, 2019, there were nine non-employee directors, 220 employees and no consultants who would have been eligible for awards under the 2019 Plan had it been in effect on such date. The plan administrator determines which persons receive awards. The primary recipients of awards under the 2019 Plan will be our officers, other key employees, managers and pilots.

Notwithstanding any provision to the contrary in the 2019 Plan, the Board may establish compensation for non-employee directors from time to time, subject to the limitations in the 2010 Plan. The Board will from time to time determine the terms, conditions and amounts of all such non-employee director compensation in its discretion and pursuant to the exercise of its business judgment, taking into account such factors, circumstances and considerations as it shall deem relevant from time to time, *provided* that the sum of any cash compensation, or other compensation, and the value (determined as of the grant date in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or any successor thereto) of awards granted to a non-employee director as compensation for services as a non-employee director during any fiscal year of the Company may not exceed \$500,000 (increased to \$750,000 with respect to any non-employee director serving as Chairman of the Board or Lead Independent Director or in the fiscal year of a non-employee director's initial service as a non-employee director) (with any compensation that is deferred counting towards this limit for the year in which the compensation is first earned, and not a later year of settlement). The Board may make exceptions to this limit for individual non-employee directors in extraordinary circumstances, as the Board may determine in its discretion, *provided* that the non-employee director receiving such additional compensation may not participate in the decision to award such compensation or in other contemporaneous compensation decisions involving non-employee directors.

Awards Under the 2019 Plan. The 2019 Plan provides for the following types of awards: incentive stock options, non-qualified stock options, SARs, restricted stock, restricted stock units, other share-based awards, including grants of unrestricted stock, and performance awards, including annual and long-term cash performance awards. The plan administrator will consider each award grant subjectively, considering factors such as the individual performance of the recipient and the anticipated contribution of the recipient to the attainment of our long-term goals. Each award will be set forth in a separate agreement with the person receiving the award and will indicate the type, terms and conditions of the award.

- *Stock Options.* The plan administrator may from time to time award options to any participant subject to the limitations described above. Stock options give the holder the right to purchase shares of the Common Stock within a specified time at a specified price. Two types of stock options may be granted under the 2019 Plan: incentive stock options, or “*ISOs*,” which are subject to special tax treatment as described below, and non-qualified options, or “*NSOs*.” The exercise price of an option cannot be less than the fair market value of a share of Common Stock at the time of grant, except for substitute awards. The expiration dates of options cannot be more than seven years after the date of the original grant. ISOs will be designed to comply with the provisions of the Code and will be subject to specified restrictions contained in the Code. Among such restrictions, ISOs must have an exercise price of not less than the fair market value of a share of Common Stock on the date of grant, may only be granted to employees, and must expire within a specified period of time following the optionee's termination of employment. In the case of an ISO granted to an individual who owns (or is deemed to own) more than 10% of the total combined voting power of all classes of our capital stock, the 2019 Plan provides that the exercise price must be at least 110% of the fair market value of a share of Common Stock on the date of grant and the ISO must expire upon the fifth anniversary of the date of grant. Prior to the issuance of shares upon the exercise of an option, no right to vote or receive dividends or any other rights as a shareholder will exist with respect to

the underlying shares. The closing price per share of our Common Stock on March 1, 2019, was \$52.89 per share.

- *Stock Appreciation Rights.* The plan administrator may grant SARs under the 2019 Plan. A SAR entitles the holder upon exercise to receive an amount in cash, shares of Common Stock, other property, or a combination thereof (as determined by the plan administrator), computed by reference to appreciation in the value of the Common Stock. The grant date value of a SAR against which appreciation is determined cannot be less than the fair market value of a share of Common Stock at the time of grant, except for substitute awards. The expiration date of a SAR cannot be more than seven years after the date of the original grant. Prior to the issuance of shares upon the exercise of a SAR, no right to vote or receive dividends or any other rights as a shareholder will exist with respect to the underlying shares.
- *Restricted Stock.* The plan administrator may grant restricted shares of Common Stock (“*restricted stock*”) to such persons, in such amounts, and subject to such terms and conditions (including the attainment of performance criteria) as the plan administrator shall determine in its discretion. Awards of restricted stock may be made in exchange for services or other lawful consideration. Generally, awards of restricted stock are subject to the requirement that the shares be forfeited to the Company unless specified conditions are met relating to continued service or attainment of performance goals. Subject to these restrictions, conditions and forfeiture provisions, any recipient of an award of restricted stock will have all the rights of a shareholder of the Company, including the right to vote the shares. Cash dividends or any other property distributed as a dividend with respect to a restricted stock award will be subject to the same vesting restrictions and risk of forfeiture as the underlying award.
- *Restricted Stock Units.* The plan administrator may grant units having a value equal to an identical number of shares of Common Stock to such persons, in such amounts, and subject to such terms and conditions (including the attainment of performance criteria) as the plan administrator shall determine in its discretion. If the vesting requirements specified by the plan administrator are met, the grantee of such units will receive shares of Common Stock, cash, other property, or any combination thereof, as determined by the plan administrator, equal to the fair market value of the corresponding number of shares of Common Stock. A holder of restricted stock units has no voting rights or rights to receive dividends; however, the applicable award agreement may grant the participant dividend equivalents with respect to such restricted stock units. Any dividends or dividend equivalents provided with respect to a restricted stock unit award subject to vesting will be subject to the same vesting restrictions and risk of forfeiture as the underlying award.
- *Other Share-Based Awards.* The plan administrator has the authority to grant awards under the 2019 Plan, including awards of unrestricted stock, in addition to those specifically described in the 2019 Plan. These awards must be valued in whole or in part by reference to, or must otherwise be based on, the shares of Common Stock (or the cash equivalent of such shares). These awards may be granted either alone, in addition to, or in tandem with, other awards granted under the 2019 Plan and/or cash awards made outside the 2019 Plan. Each other share-based award will be evidenced by an award agreement that will specify terms and conditions as the plan administrator may determine.
- *Dividends; Dividend Equivalents.* Awards other than options and SARs may, if determined by the plan administrator, provide that the participant will be entitled to receive, cash, stock or other property dividends, or cash payments in amounts equivalent to cash, stock, or other property dividends declared with respect to shares of Common Stock covered by an award. The plan administrator may provide that such amounts will be deemed to have been reinvested in additional shares of Common Stock or otherwise, and that they are subject to the same vesting or performance conditions as the underlying award. Any dividends

or dividend equivalents provided with respect to awards subject to vesting will be subject to the same vesting restrictions and risk of forfeiture as the underlying awards.

- *Performance Awards.* The plan administrator may also make awards of performance shares, performance units, or performance-based cash bonuses, subject to the satisfaction of specified performance criteria. Performance awards may be paid in shares of Common Stock, cash, other property, or any combination thereof, as determined by the plan administrator.

Performance Criteria. The performance goals for performance awards may, without limitation, be based on the attainment of specified levels of one or any combination of the following: net sales; revenue; revenue growth or product revenue growth; operating income (before or after taxes); pre- or after-tax income or loss (before or after allocation of corporate overhead and bonus); earnings or loss per share; net income or loss (before or after taxes); return on equity; total shareholder return; return on assets or net assets; appreciation in and/or maintenance of the price of the Shares or any other publicly-traded securities of the Company; market share; gross profits; earnings or losses (including earnings or losses before taxes, before interest and taxes, or before interest, taxes, depreciation and amortization); economic value-added models or equivalent metrics; comparisons with various stock market indices; reductions in costs; cash flow or cash flow per share (before or after dividends); return on capital (including return on total capital or return on invested capital); cash flow return on investment; improvement in or attainment of expense levels or working capital levels, including cash and accounts receivable; operating margin; gross margin; year-end cash; cash margin; debt reduction; shareholders equity; operating efficiencies; market share; customer satisfaction; customer growth; employee satisfaction; regulatory achievements (including submitting or filing applications or other documents with regulatory authorities or receiving approval of any such applications or other documents and passing pre-approval inspections (whether of the Company or the Company's third-party manufacturer)); strategic partnerships or transactions; co-development, co-marketing, profit sharing, joint venture or other similar arrangements; financial ratios, including those measuring liquidity, activity, profitability or leverage; cost of capital or assets under management; financing and other capital raising transactions (including sales of the Company's equity or debt securities; sales or licenses of the Company's assets, including its intellectual property, whether in a particular jurisdiction or territory or globally; or through partnering transactions); cost per available seat mile; revenue per available seat mile; revenue or cost per revenue seat mile; percentage of flights completed on time; percentage of scheduled flights completed; lost passenger baggage per passenger or per seat mile; aircraft utilization; revenue per employee; and implementation, completion or attainment of measurable objectives with respect to commercialization, projects, service volume levels, acquisitions and divestitures; transactions; and recruiting and maintaining personnel. Such performance goals also may be based on the Company's performance or the performance of a subsidiary, division, business segment or business unit of the Company, or based upon the relative performance of other companies or upon comparisons of any of the indicators of performance relative to other companies. The plan administrator may also exclude charges related to an event or occurrence which the plan administrator determines should appropriately be excluded, including: (1) restructurings, discontinued operations, extraordinary items, and other unusual, infrequently occurring or non-recurring charges; (2) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management; or (3) the cumulative effects of tax or accounting changes in accordance with U.S. generally accepted accounting principles.

Tax Withholding. The 2019 Plan permits the plan administrator to allow for the withholding or surrender of shares in satisfaction of tax withholding with respect to awards with a value up to the minimum individual statutory tax rate in the applicable jurisdiction at the time of such withholding (or such other rate as may be required to avoid the liability classification of the applicable award under generally accepted accounting principles in the United States of America).

Clawback Provisions. All awards (including, without limitation, any proceeds, gains or other economic benefit actually or constructively received by a participant upon any receipt or exercise of any award or upon the receipt or resale of any shares of Common Stock underlying the award) will be subject to the provisions of any claw-back policy implemented by the Company, including, without limitation, any claw-back policy adopted to comply with applicable

laws (including the Dodd-Frank Wall Street Reform and Consumer Protection Act and any rules or regulations promulgated thereunder) as and to the extent set forth in such claw-back policy or the applicable award agreement.

Adjustments. In the event of any merger, reorganization, consolidation, recapitalization, dividend or distribution (whether in cash, shares or other property, other than a regular cash dividend), stock split, reverse stock split, spin-off or similar transaction or other change in corporate structure affecting the shares of Common Stock or the value thereof, other than an equity restructuring, the plan administrator may make such equitable adjustments, if any, as the plan administrator in its discretion may deem appropriate to reflect such change with respect to (1) the aggregate number and type of shares that may be issued under the 2019 Plan (including, but not limited to, adjustments of the number of shares available under the 2019 Plan, the maximum number of shares that may be issued pursuant to ISOs under the 2019 Plan), (2) the number and kind of shares, or other securities or property, subject to outstanding awards, (3) the terms and conditions of any outstanding awards (including, without limitation, any applicable performance targets or criteria with respect thereto), and (4) the exercise or grant price (if applicable) per share for any outstanding awards under the 2019 Plan. If there is any equity restructuring, the number and type of securities subject to each outstanding award and the grant or exercise price per share for each outstanding award, if applicable, will be proportionately adjusted. Adjustments in the event of an equity restructuring will not be discretionary.

Corporate Transactions. The plan administrator has the authority under the 2019 Plan to take certain other actions with respect to outstanding awards in the event of a corporate transaction, including a change in control, including provision for the cash-out, termination, assumption or substitution of such awards. Unless otherwise provided in the applicable award agreement, if an award is assumed in connection with a change in control and the participant's employment is terminated within 24 months of the change in control without "cause" or for "good reason", such participant's awards will vest as of the date the participant's employment is terminated. If an award is not assumed in connection with a change in control, then, unless otherwise specified in the award agreement, the award will become fully exercisable and vested upon the change in control. Under the 2019 Plan, a change in control is generally defined as:

- during any 24 month period, individuals who, as of the beginning of such period, constitute the Board together with any new director(s) whose election by our Board or nomination for election by our shareholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of the twenty-four-month period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of our Board;
- a transaction or series of related transactions (other than an offering of our stock to the general public through a registration statement filed with the Securities and Exchange Commission, or SEC) whereby any person or entity or related group of persons or entities (other than us, our subsidiaries, an employee benefit plan maintained by us or any of our subsidiaries or a person or entity that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, us) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 50% or more of the total combined voting power of our securities outstanding immediately after such acquisition;
- our consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or any of its subsidiaries that requires the approval of the Company's shareholders, other than a transaction that results in:
 - more than 50% of the total voting power of the successor entity is represented by our voting securities outstanding immediately prior to such transaction, and such voting power among the holders thereof is in substantially the same proportion as the voting power of such voting securities outstanding immediately prior to such transaction;

- no person or group beneficially owning voting securities representing 50% or more of the combined voting power of the successor entity; and
- at least a majority of the members of the board of directors of the successor entity following the transaction were directors of the Company at the time of the Board's approval of the execution of the initial agreement providing for such transaction; or
- our shareholders approve a plan of complete liquidation or dissolution of the Company or the consummation of a sale of all or substantially all of the Company's assets.

Nontransferability of Awards. No awards under the 2019 Plan, and no shares subject to awards that have not been issued or as to which any applicable restriction, performance or deferral period has not lapsed, are transferable other than by will or the laws of descent and distribution, and an award may be exercised during the participant's lifetime only by the participant or the participant's estate, guardian or legal representative, except that the plan administrator may provide in an award agreement that a participant may transfer an award to certain family members, family trusts, or other family-owned entities, or for charitable donations under such terms and conditions determined by the plan administrator.

Repricing Without Shareholder Approval Prohibited. Other than pursuant to the provisions of the 2019 Plan described above under the headings "Adjustments" and "Corporate Transactions," the plan administrator may not without the approval of the Company's shareholders (1) lower the exercise price of an option or SAR after it is granted or (2) cancel an option or SAR when the exercise price exceeds the fair market value of the underlying shares in exchange for cash or another award.

Amendment and Termination. The Board or the Compensation Committee may, from time to time, alter, amend, suspend or terminate the 2019 Plan. However, shareholder approval of any amendment to the 2019 Plan will be obtained to the extent necessary to comply with any applicable law, regulation or stock exchange rule and for any increase in the total number of shares of Common Stock that may be issued under the 2019 Plan or the number of shares of Common Stock that may be issued pursuant to ISOs under the Plan (other than adjustments in connection with certain corporate reorganizations and other events). The 2019 Plan will continue until terminated by the Board or the Compensation Committee. No grants may be made under the 2019 Plan following the date of termination, although grants made prior to that date may remain outstanding following the termination of the 2019 Plan until their scheduled expiration date. No ISOs may be granted under the 2019 Plan after the tenth anniversary of the date the 2019 Plan was adopted by the Board.

Securities Laws. The 2019 Plan is intended to conform to all provisions of the Securities Act of 1933, as amended, and the Exchange Act and any and all regulations and rules promulgated by the SEC thereunder, including, without limitation, Rule 16b-3. The 2019 Plan will be administered, and awards will be granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations.

Certain Federal Income Tax Consequences

Tax Consequences to Participants

The following is a brief summary of certain material federal income tax consequences relating to awards under the 2019 Plan under current United States federal income tax laws. The following discussion is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change. This summary is not intended to be complete and does not describe foreign, state and local tax laws, employment, estate or gift tax considerations. The tax information summarized is not tax advice.

Nonqualified Stock Options (NSOs). In general, (1) no income will be recognized by an optionee at the time an NSO is granted; (2) at the time of exercise of an NSO, ordinary income will be recognized by the optionee in an amount equal to the difference between the option price paid for the shares of Common Stock and the fair market value of the shares, on the date of exercise; and (3) at the time of sale of shares of Common Stock acquired pursuant to the exercise of an NSO, appreciation (or depreciation) in value of the shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on whether the shares have been held for more than one year.

Incentive Stock Options (ISOs). No income will be recognized by an optionee upon the grant of an ISO. In general, no income will be recognized upon the exercise of an ISO for regular income tax purposes. However, the difference between the option price paid and the fair market value of the shares at exercise may constitute a preference item subject to or triggering alternative minimum tax. If shares of Common Stock are issued to the optionee pursuant to the exercise of an ISO, and if no sale, transfer by gift or other disqualifying disposition of such shares is made by such optionee within two years after the date of the grant or within one year after the transfer of such shares to the optionee, then upon sale of such shares, any amount realized in excess of the option price will be taxed to the optionee as a long-term capital gain and any loss sustained will be a long-term capital loss.

If shares of Common Stock acquired upon the timely exercise of an ISO are disposed of prior to the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of such shares at the time of exercise (or, if less, the amount realized on the disposition of such shares if a sale or exchange) over the option price paid for such shares. Any further gain (or loss) realized by the participant generally will be taxed as short-term or long-term capital gain (or loss) depending on the holding period.

Stock Appreciation Rights. No income will be recognized by a participant in connection with the grant of a stock appreciation right. When the stock appreciation right is exercised, the participant normally will be required to include as taxable ordinary income in the year of exercise an amount equal to the amount of cash received and the fair market value of any shares of Common Stock or other property received on the exercise.

Restricted Stock. The recipient of restricted shares of Common Stock generally will not be subject to tax until the shares are no longer subject to forfeiture or restrictions on transfer for purposes of Section 83 of the Code (the “Restrictions”). At such time, the recipient will be subject to tax at ordinary income rates on the fair market value of the shares (reduced by any amount paid by the participant for such shares). However, a recipient who so elects under Section 83(b) of the Code within 30 days of the date of transfer of the shares will have taxable ordinary income on the date of transfer of the shares equal to the excess of the fair market value of such shares (determined without regard to the Restrictions) over the purchase price, if any, of such restricted shares. Any appreciation (or depreciation) realized upon a later disposition of such shares will be treated as long-term or short-term capital gain (or loss) depending upon whether the shares have been held for more than one year. If a Section 83(b) election has not been made, any dividends received with respect to restricted shares that are subject to the restrictions generally will be treated as compensation that is taxable as ordinary income to the participant.

Restricted Stock Units; Performance Awards; Dividend Equivalents and Other Share-Based Awards. Generally, no income will be recognized upon the award of restricted stock units, performance awards, dividend equivalents or other share-based awards. The recipient of any such award generally will be subject to tax at ordinary income rates on any cash received and the fair market value of any unrestricted shares of Common Stock or other property on the date that such amounts are transferred to the participant under the award (reduced by any amount paid by the participant for such award). Upon the subsequent disposition of any shares received in settlement of an award, the participant will recognize a short-term or long-term capital gain or loss in the amount of the difference between the sales price of the shares and the participant’s tax basis in the shares.

Section 409A of the Code. Certain types of awards under the 2019 Plan may constitute, or provide for, a deferral of compensation under Section 409A. Unless certain requirements set forth in Section 409A are complied with, holders of such awards may be taxed earlier than would otherwise be the case (e.g., at the time of vesting instead of the time of payment) and may be subject to an additional 20% federal income tax (and, potentially, certain interest penalties). To the extent applicable, the 2019 Plan and awards granted under the 2019 Plan will be structured and interpreted to comply with Section 409A and the Department of Treasury regulations and other interpretive guidance that may be issued pursuant to Section 409A.

Tax Consequences to the Company. To the extent that a participant recognizes ordinary income in the circumstances described above, the Company or the subsidiary for which the participant performs services should be entitled to a corresponding deduction provided that, among other things, the amount (1) meets the test of reasonableness, (2) is an ordinary and necessary business expense, (3) is not an “excess parachute payment” within the meaning of Section 280G of the Code, and (4) is not disallowed by the \$1 million limitation on certain executive compensation under Section 162(m) of the Code.

Section 162(m) Limitation. In general, under Section 162(m), income tax deductions of publicly-held corporations may be limited to the extent total compensation (including base salary, annual bonus, stock option exercises and non-qualified benefits paid) for covered employees, generally all named executive officers and any covered employee from a previous year, exceeds \$1 million in any one year.

New Plan Benefits

Other than with respect to the annual equity awards to our non-employee directors as described above under "Director Compensation," all future awards under the 2019 Plan are subject to the discretion of the plan administrator and the Company is unable to determine the amount of benefits that may be received by participants under the 2019 Plan, if approved.

PROPOSAL 4
RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has recommended and approved the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm to examine the consolidated financial statements of the Company for the year ending December 31, 2019. The Company is seeking shareholder ratification of such action.

It is expected that representatives of Ernst & Young LLP will attend the Meeting and be available to make a statement or respond to appropriate questions.

The Board and the Audit Committee Recommend that Shareholders Vote *FOR* the Ratification of Appointment of Ernst & Young LLP as the Company's Independent Registered Public Accounting Firm for the year ending December 31, 2019.

AUDIT COMMITTEE DISCLOSURE

Who served on the Audit Committee?

The members of the Audit Committee as of December 31, 2018, were W. Steve Albrecht (Chairman), Henry J. Eyring, Andrew C. Roberts, Keith E. Smith and James Welch. Each member of the Audit Committee has been determined by the Board to be independent under the rules of the Securities and Exchange Commission and The Nasdaq Global Select Market. The Board has determined that W. Steve Albrecht, who served on the Audit Committee during the year ended December 31, 2018, is an “audit committee financial expert” as defined in Item 407(d)(5)(ii) of Regulation S-K promulgated under the Exchange Act.

What document governs the activities of the Audit Committee?

The Audit Committee acts under a written charter, which sets forth its responsibilities and duties, as well as requirements for the Audit Committee’s composition and meetings. The Audit Committee charter is available on the Company’s website at inc.skywest.com, and is also available in print, free of charge, upon request. Requests for a printed copy of the Audit Committee charter should be submitted to Eric J. Woodward, Chief Accounting Officer of the Company, at 444 South River Road, St. George, Utah 84790.

How does the Audit Committee conduct its meetings?

During the year ended December 31, 2018, the Audit Committee met with the senior members of the Company’s financial management team at each of its regularly scheduled meetings (two meetings per quarter). The Audit Committee also met with representatives of Ernst & Young LLP (“EY”), the Company’s independent registered public accounting firm, at each of its in-person meetings and met with representatives of Protiviti, Inc. (“Protiviti”), the Company’s principal internal auditor, at several of its meetings. Agendas for the Audit Committee’s meetings are established by the Chairman of the Audit Committee, after consultation with the Company’s Chief Financial Officer and Chief Accounting Officer. At those meetings, the Audit Committee reviewed and discussed the Company’s financial performance, financial reporting practices, various financial and regulatory issues, accounting and financial management issues, developments in the accounting profession, as well as the Company’s industry, risk management and a summary of calls received on the Company’s anonymous reporting line. The Audit Committee also had separate, executive sessions regularly with representatives of EY, Protiviti and the Company’s legal counsel, at which meetings candid discussions of financial management, accounting, internal controls and legal and compliance issues took place. Additionally, the Chairman of the Audit Committee had separate discussions regularly with the Company’s Chief Financial Officer and representatives of EY, Protiviti and the Company’s legal counsel.

Does the Audit Committee review the periodic reports and other public financial disclosures of the Company?

The Audit Committee reviews each of the Company’s quarterly and annual reports, including Management’s Discussion and Analysis of Financial Condition and Results of Operations. As part of its review, the Audit Committee discusses the reports with the Company’s management and independent registered public accounting firm and considers the audit and review reports prepared by the independent registered public accounting firm about the Company’s quarterly and annual reports, as well as related matters such as the quality (and not just the acceptability) of the Company’s accounting practices, alternative methods of accounting under GAAP and the preferences of the independent registered public accounting firm in this regard, the Company’s critical accounting policies and the clarity and completeness of the Company’s financial and other disclosures.

Did the Audit Committee play any role in connection with the Company’s report on internal controls?

The Audit Committee reviewed management’s report on internal control over financial reporting, required under Section 404 of the Sarbanes Oxley Act of 2002 and related rules. As part of this review, the Audit Committee

reviewed the bases for management's conclusions in that report, and also reviewed the report of the independent registered public accounting firm on internal control over financial reporting. Throughout the year ended December 31, 2018, the Audit Committee reviewed management's plan for documenting and testing controls, the results of their documentation and testing, any deficiencies discovered and the resulting remediation of any such deficiencies.

What is the role of the Audit Committee in connection with the financial statements and controls of the Company?

Management of the Company has primary responsibility for the Company's financial statements and internal control over the Company's financial reporting. The Company's independent registered public accounting firm has responsibility for the integrated audit of the Company's financial statements and internal control over financial reporting. It is the responsibility of the Audit Committee to oversee financial and control matters, among other responsibilities fulfilled by the Audit Committee under its charter. The Audit Committee meets regularly with representatives of EY and Protiviti, without the presence of management, to ensure candid and constructive discussions about the Company's compliance with accounting standards and best practices among public companies comparable in size and scope to the Company. The Audit Committee also regularly reviews with its outside advisors material developments in the law and accounting literature that may be pertinent to the Company's accounting financial reporting practices.

Does the Audit Committee have any policy-making responsibility?

From time to time, the Audit Committee establishes certain policies as required by the rules of the Securities and Exchange Commission and the listing standards of The Nasdaq Global Select Market. For example, the Audit Committee has established a policy for the receipt and retention (including on an anonymous basis) of complaints about financial and control matters. The Audit Committee also has implemented a policy that addresses when the Company may recruit personnel who formerly were employed by the Company's independent registered public accounting firm. In other cases, the Audit Committee is responsible for overseeing the efficacy of management policies, including compliance with the Company's Code of Ethics and the availability of perquisites.

What matters have members of the Audit Committee discussed with the independent registered public accounting firm?

In its meetings with representatives of EY, the Audit Committee asked EY to address and discuss their responses to several questions that they believed were particularly relevant to its oversight. These questions included:

- Are there any significant judgments made by management in preparing the financial statements that would have been made differently had EY prepared and been responsible for the financial statements?
- Based on EY's experience, and their knowledge of the Company, do the Company's financial statements fairly present to investors, with clarity and completeness, the Company's financial position and performance for the reporting period in accordance with GAAP and Securities and Exchange Commission disclosure requirements?
- Based on EY's experience, and their knowledge of the Company, has the Company implemented internal controls and internal audit procedures that are appropriate for the Company?
- During the course of the applicable year, has EY received any communication or discovered any information indicating any improprieties with respect to the Company's accounting and reporting procedures or reports?

The Audit Committee has also discussed with EY that they are retained by the Audit Committee and that they must raise any concerns about the Company's financial reporting and procedures directly with the Audit Committee.

Based on these discussions and its discussions with management, the Audit Committee believes it has a basis for its oversight judgments and for recommending that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

What has the Audit Committee done with regard to the Company's audited financial statements for the year ended December 31, 2018?

The Audit Committee has:

- Reviewed and discussed the Company's audited financial statements with the Company's management; and
- Discussed with EY the matters required to be discussed by applicable standards of the Public Company Accounting Oversight Board ("PCAOB").

Has the Audit Committee considered the independence of the Company's independent registered public accounting firm?

The Audit Committee has received from EY the written disclosures regarding EY's independence required by applicable requirements of the PCAOB, and has discussed with EY their independence. The Audit Committee has concluded that EY is independent from the Company and its management.

Has the Audit Committee made a recommendation regarding the audited financial statements for the year ended December 31, 2018?

Based upon its review and the discussions with management and the Company's independent registered public accounting firm, the Audit Committee recommended to the Board that the audited consolidated financial statements for the Company be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Does the Audit Committee provide a periodic report of its activities to the Board?

The Audit Committee provides reports of its activities at each regularly scheduled Board meeting.

Has the Audit Committee reviewed the fees paid to the Company's independent registered public accounting firm during the year ended December 31, 2018?

The Audit Committee has reviewed and discussed the fees paid to EY during the year ended December 31, 2018, for the annual audit of the Company's financial statements, including the integrated audit of internal control over financial reporting and the quarterly reviews of the Company's financial statements included in its Quarterly Reports on Form 10-Q, which are set forth below under "Fees Paid to Independent Registered Public Accounting Firm." The Audit Committee has concluded that EY's delivery of non-audit services is compatible with EY's independence.

What is the Company's policy regarding the retention of the Company's independent registered public accounting firm?

The Audit Committee has adopted a policy regarding the retention of the independent registered public accounting firm that requires pre-approval of all services by the Audit Committee or the Chairman of the Audit Committee. When services are pre-approved by the Chairman of the Audit Committee, notice of such approval is given to the other members of the Audit Committee and presented to the full Audit Committee at its next scheduled meeting.

FEES PAID TO INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Fees

During the years ended December 31, 2018 and 2017, the Company paid EY fees and related expenses in the aggregate amount of \$1,371,000 and \$1,329,000, respectively, for the annual audit of the Company's financial statements, including the integrated audit of internal control over financial reporting and the quarterly reviews of the Company's financial statements included in its Quarterly Reports on Form 10-Q.

Audit-Related Fees, Tax Fees and All Other Fees

The Company paid EY \$36,000 in tax fees and related expenses for research compiled for the Tax Cuts and Jobs Act during the year ended December 31, 2018. The Company did not pay EY for audit-related fees, tax fees or any other fees during the year ended December 31, 2017.

REPORT OF THE AUDIT COMMITTEE

In connection with the financial statements for the year ended December 31, 2018, the Audit Committee has:

- (1) reviewed and discussed the audited financial statements with management;
- (2) discussed with EY, the Company's independent registered public accounting firm, the matters required to be discussed by applicable standards of the PCAOB; and
- (3) received the written disclosures and letter from EY regarding the auditors' independence required by applicable requirements of the PCAOB, and has discussed with the independent auditors the independent auditor's independence.

Based upon these reviews and discussions, the Audit Committee recommended to the Board at the February 5, 2019 meeting of the Board that the Company's audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission. The Board approved this inclusion.

The Audit Committee

W. Steve Albrecht, Chair
Henry J. Eyring
Andrew C. Roberts
Keith E. Smith
James L. Welch

The information contained in this Audit Committee Report shall not be deemed to be "soliciting material," to be "filed" with the Securities and Exchange Commission or be subject to Regulation 14A or Regulation 14C or to the liabilities of Section 18 of the Exchange Act, and shall not be deemed to be incorporated by reference into any filing of SkyWest, Inc., except to the extent that SkyWest, Inc. specifically incorporates it by reference into a document filed under the Securities Act of 1933 or the Exchange Act.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Company's executive officers, directors and 10% shareholders are required under Section 16 of the Exchange Act to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Copies of these reports must also be furnished to the Company.

Based solely on a review of copies of reports furnished to the Company, or written representations that no reports were required, the Company believes that during 2018 its executive officers, directors and 10% holders complied with all filing requirements of Section 16 of the Exchange Act.

SHAREHOLDER PROPOSALS FOR THE 2020 ANNUAL MEETING OF SHAREHOLDERS

If any shareholder intends to present a proposal to be considered for inclusion in the Company's proxy material in connection with the Company's 2020 Annual Meeting of Shareholders, the proposal must be in proper form (per Securities and Exchange Commission Regulation 14A, Rule 14a-8—Shareholder Proposals) and received by the Chief Financial Officer of the Company on or before November 22, 2019. Shareholder proposals to be presented at the 2020 Annual Meeting of Shareholders which are not to be included in the Company's proxy materials must be received by the Company no earlier than February 7, 2020, and no later than February 27, 2020, in accordance with the procedures set forth in the Company's Bylaws.

DELIVERY OF DOCUMENTS TO SHAREHOLDERS SHARING AN ADDRESS

In instances in which multiple holders of the Common Stock share a common address and are the beneficial owners, but not the record holders, of those shares of Common Stock, the holders' banks, brokers or other nominees may only deliver one copy of this Proxy Statement and the Company's 2018 Annual Report to Shareholders, unless the applicable bank, broker or nominee has received contrary instructions from one or more of the shareholders. The Company will deliver promptly, upon written request, a separate copy of this Proxy Statement and the Company's 2018 Annual Report to Shareholders to any shareholder at a shared address to which a single copy of the documents was delivered. A shareholder who wishes to receive a separate copy of this Proxy Statement and the Company's 2018 Annual Report to Shareholders should submit a request in writing to Robert J. Simmons, Chief Financial Officer of the Company, 444 South River Road, St. George, Utah 84790, Telephone: (435) 634-3200. Beneficial owners sharing an address who are receiving multiple copies of proxy materials and annual reports and who wish to receive a single copy of such materials in the future will need to contact their broker, bank or other nominee to request that only a single copy of each document be mailed to all shareholders at the shared address in the future.

OTHER BUSINESS

The Company's management does not know of any other matter to be presented for action at the Meeting. However, if any other matters should be properly presented at the Meeting, it is the intention of the persons named in the accompanying proxy to vote said proxy in accordance with their best judgment.

Robert J. Simmons

Chief Financial Officer

St. George, Utah

March 22, 2019

**APPENDIX A
TO
PROXY STATEMENT**

Reconciliation of non-GAAP financial measures

Although SkyWest's financial statements are prepared in accordance with GAAP, SkyWest management believes that certain non-GAAP financial measures may provide investors with useful information regarding the underlying business trends and performance of SkyWest's ongoing operations and may be useful for period-over-period comparisons of such operations. The following table sets forth supplemental financial data and corresponding reconciliations to GAAP financial statements for the twelve months ended December 31, 2017 and 2016. Readers should consider these non-GAAP measures in addition to, not a substitute for, financial reporting measures prepared in accordance with GAAP. These non-GAAP financial measures exclude some, but not all, items that may affect SkyWest's net income. Additionally, these calculations may not be comparable with similarly titled measures of other companies.

Reconciliation to Adjusted Net Income and Diluted Earnings per Share (unaudited)

(Dollars in thousands, except per diluted share)

	For the year ended December 31, 2017			
	Pre-tax income	Income tax benefit (expense)	Net income	Net income per Diluted Share
GAAP income	\$ 288,183	\$ 140,724	\$ 428,907	\$ 8.08
2017 year adjustments (1)	—	(246,845)	(246,845)	
Adjusted income	\$ 288,183	\$ (106,121)	\$ 182,062	\$ 3.43

	For the year ended December 31, 2016			
	Pre-tax income (loss)	Income tax benefit (expense)	Net income (loss)	Net income (loss) per Diluted Share
GAAP income (loss)	\$ (248,812)	\$ 87,226	\$ (161,586)	\$ (3.14)
2016 year adjustments (2)	465,649	(171,047)	294,602	
2016 year adjustments (3)	16,101	(6,023)	10,078	
Adjusted income (4)	\$ 32,938	\$ (89,844)	\$ 143,094	\$ 2.73

These adjustments allow investors to better understand and analyze our recurring core performance in the periods presented.

- (1) Adjusts for tax benefit resulting from the Tax Cuts and Jobs Act enacted during Q4 2017 that resulted in a revaluation of SkyWest's deferred tax assets and liabilities.
- (2) Adjusts for a non-cash impairment charge on 50-seat aircraft and related long-lived assets and spare aircraft parts net of a \$90 million early settlement of residual value guarantees with Bombardier received in Q4 2016.
- (3) Adjusts for early lease return charges on eight CRJ700s.
- (4) Pro forma diluted shares outstanding were 52,369,000 for adjusted income for the twelve months ended December 31, 2016.

**APPENDIX B
TO
PROXY STATEMENT**

SKYWEST INC. 2019 LONG-TERM INCENTIVE PLAN

SkyWest, Inc. (the “*Company*”), a Utah corporation, hereby establishes and adopts the following SkyWest, Inc. 2019 Long-Term Incentive Plan (the “*Plan*”).

1. PURPOSE OF THE PLAN

The purpose of the Plan is to assist the Company and its Subsidiaries in attracting and retaining selected individuals to serve as employees, directors, consultants and/or advisors who are expected to contribute to the Company's success and to achieve long-term objectives that will benefit stockholders of the Company through the additional incentives inherent in the Awards hereunder.

2. DEFINITIONS

2.1. “*Award*” shall mean any Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award, Other Share-Based Award, Performance Award or any other right, interest or option relating to Shares or other property (including cash) granted pursuant to the provisions of the Plan.

2.2. “*Award Agreement*” shall mean any agreement, contract or other instrument or document evidencing any Award hereunder, whether in writing or through an electronic medium.

2.3. “*Board*” shall mean the board of directors of the Company.

2.4. “*Code*” shall mean the Internal Revenue Code of 1986, as amended from time to time.

2.5. “*Committee*” shall mean the entity that conducts the general administration of the Plan as provided in Article 11 hereof. With reference to the duties of the Committee under the Plan which have been delegated to one or more persons pursuant to Section 4.2(c) hereof, or which the Board has assumed, the term “*Committee*” shall refer to such person(s) unless the Committee or the Board has revoked such delegation or the Board has terminated the assumption of such duties. Unless otherwise determined by the Board, the Compensation Committee of the Board or a subcommittee thereof formed by the Compensation Committee to act as the Committee hereunder shall serve as the “*Committee*” and, unless otherwise determined by the Board, shall consist of no fewer than two Directors, each of whom is: (a) a “*Non-Employee Director*” within the meaning of Rule 16b-3 of the Exchange Act; and (b) an “*independent director*” for purpose of the rules of the applicable Securities Exchange on which the Shares are traded, to the extent required by such rules.

2.6. “*Consultant*” shall mean any consultant or advisor who is a natural person and who provides services to the Company or any Subsidiary, so long as such person: (a) renders bona fide services that are not in connection with the offer and sale of the Company's securities in a capital-raising transaction; (b) does not directly or indirectly promote or maintain a market for the Company's securities; and (c) otherwise qualifies as a consultant under the applicable rules of the Securities and Exchange Commission for registration of shares of stock on a Form S-8 registration statement.

2.7. “*Director*” shall mean a non-employee member of the Board.

2.8. “*Dividend Equivalents*” shall have the meaning set forth in Section 8.2.

2.9. “*Effective Date*” shall have the meaning set forth in Section 13.13.

2.10. “*Employee*” shall mean any employee of the Company or any Subsidiary.

2.11. “*Equity Restructuring*” means a nonreciprocal transaction between the Company and its stockholders, such as a stock dividend, stock split, spin-off or recapitalization through a large, nonrecurring cash dividend, that affects the number or kind of Shares (or other Company securities) or the price of a Share (or other Company securities) and causes a change in the per Share value of a Share underlying outstanding Awards.

2.12. “*Exchange Act*” shall mean the Securities Exchange Act of 1934, as amended.

2.13. “*Fair Market Value*” shall mean, with respect to Shares as of any date: (a) the closing price of the Shares as reported on the Securities Exchange on which the Shares are listed and traded on such date, or, if there is no closing price on that date, then on the last preceding date on which such a closing price was reported; (b) if the Shares are not listed on any Securities Exchange but are quoted in an inter-dealer quotation system on a last sale basis, the final ask price of the Shares reported on the inter-dealer quotation system for such date, or, if there is no such sale on such date, then on the last preceding date on which a sale was reported; or (c) if the Shares are neither listed on a Securities Exchange nor quoted on an inter-dealer quotation system on a last sale basis, the amount determined by the Committee to be the fair market value of the Shares as determined by the Committee in its sole discretion. The Fair Market Value of any property other than Shares shall mean the market value of such property determined by such methods or procedures as shall be established from time to time by the Committee.

2.14. “*Incentive Stock Option*” shall mean an Option which when granted is intended to qualify as an incentive stock option for purposes of Section 422 of the Code.

2.15. “*Non-Qualified Stock Option*” shall mean an Option not intended or not qualifying as an Incentive Stock Option.

2.16. “*Option*” shall mean any right granted to a Participant under the Plan allowing such Participant to purchase Shares at such price or prices and during such period or periods as the Committee shall determine.

2.17. “*Other Share-Based Award*” shall have the meaning set forth in Section 8.1.

2.18. “*Participant*” shall mean an Employee, Director or Consultant who is selected by the Committee to receive an Award under the Plan.

2.19. “*Payee*” shall have the meaning set forth in Section 13.2.

2.20. “*Performance Award*” shall mean any Award of Performance Cash, Performance Shares or Performance Units granted pursuant to Article 9.

2.21. “*Performance Cash*” shall mean any cash incentives granted pursuant to Article 9 payable to the Participant upon the achievement of such performance goals as the Committee shall establish.

2.22. “*Performance Period*” shall mean the period established by the Committee during which any performance goals specified by the Committee with respect to a Performance Award are to be measured.

2.23. “*Performance Share*” shall mean any grant pursuant to Article 9 of a unit valued by reference to a designated number of Shares, which value may be paid to the Participant upon achievement of such performance goals as the Committee shall establish.

2.24. “*Performance Unit*” shall mean any grant pursuant to Article 9 of a unit valued by reference to a designated amount of cash or property other than Shares, which value may be paid to the Participant upon achievement of such performance goals during the Performance Period as the Committee shall establish.

2.25. “*Permitted Assignee*” shall have the meaning set forth in Section 12.3.

2.26. “*Plan*” shall mean the SkyWest, Inc. 2019 Long-Term Incentive Plan as set forth herein, and as subsequently amended from time to time.

2.27. “*Prior Plan*” shall mean the Company’s 2010 Long-Term Incentive Plan.

2.28. “*Prior Plan Award*” means an award outstanding under the Prior Plan.

2.29. “*Restricted Stock*” shall mean any Share issued with the restriction that the holder may not sell, transfer, pledge or assign such Share and with such other restrictions as the Committee, in its sole discretion, may impose, which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

2.30. “*Restricted Stock Award*” shall have the meaning set forth in Section 7.1.

2.31. “*Restricted Stock Unit*” means an Award that represents an unfunded, unsecured right to receive, on the applicable settlement date, one Share or an amount in cash or other consideration as determined by the Committee in its sole discretion upon the satisfaction of vesting restrictions as the Committee may establish, which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

2.32. “*Restricted Stock Unit Award*” shall have the meaning set forth in Section 7.1.

2.33. “*Securities Exchange*” means the principal U.S. national securities exchange on which the Shares are listed and traded on the date in question. As of the date hereof, the applicable Securities Exchange is The NASDAQ Global Select Market.

2.34. “*Shares*” shall mean the shares of common stock, no par value, of the Company.

2.35. “*Stock Appreciation Right*” shall mean the right granted to a Participant pursuant to Article 6.

2.36. “*Subsidiary*” shall mean any entity (other than the Company), whether domestic or foreign, in an unbroken chain of entities beginning with the Company if, at the relevant time each of the entities other than the last entity in the unbroken chain owns, at the time of the determination, securities or interests representing at least 50% or more of the total combined voting power of all classes of securities or interests in one of the other entities in the chain.

2.37. “*Substitute Awards*” shall mean Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for: (i) awards previously granted by an entity (other than the Company or a Subsidiary) that is acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines; or (ii) the right or obligation of any entity acquired by the Company or acquired by any Subsidiary, or with which the Company or any Subsidiary combines, to make future awards.

2.38. “*Vesting Period*” shall mean the period of time specified by the Committee during which vesting restrictions for an Award are applicable.

3. SHARES SUBJECT TO THE PLAN

3.1 *Number of Shares.*

(a) Subject to adjustment as provided in Section 12.2, such number of Shares shall be authorized for grant under the Plan as is equal to the sum of (i) 4,500,000 Shares, less (A) one (1) Share for every one (1) Share subject to an option or stock appreciation right granted after December 31, 2018 under the Prior Plan and prior to the Effective Date and (ii) one and sixty-five one-hundredths (1.65) Shares for every one (1) Share subject to a Prior Plan Award other than an option or stock appreciation right granted after December 31, 2018 under the Prior Plan and prior to the Effective Date, plus (ii) any Shares covered by awards granted under the Prior Plan that again become available for grant pursuant to Section 3.1(b). Any Shares that are subject to Options or Stock Appreciation Rights shall be counted against this limit as one (1) Share for every one (1) Share granted, and any Shares that are subject to Awards other than Options or Stock Appreciation Rights shall be counted against this limit as one and sixty-five one-hundredths (1.65) Shares for every one (1) Share granted. After the Effective Date as provided in Section 13.13, no further awards shall be granted under the Prior Plan.

(b) If an Award or any Shares subject to an Award (or after December 31, 2018, a Prior Plan Award or Shares subject to a Prior Plan Award) is forfeited, expires, or is settled for cash (in whole or in part), the Shares subject to such Award or Prior Plan Award shall, to the extent of such forfeiture, expiration or cash settlement, again be available for Awards under the Plan, in accordance with Section 3.1(d) below. Notwithstanding anything to the contrary contained herein, the following Shares shall not be added to the Shares authorized for grant under Section 3.1(a): (i) Shares tendered by the Participant or withheld by the Company in payment of the purchase price of an Option or an option granted under the Prior Plan, or to satisfy any tax withholding obligation with respect to an Award or an award granted under the Prior Plan; (ii) Shares subject to a Stock Appreciation Right or a stock appreciation right granted under the Prior Plan that are not issued in connection with its stock settlement on exercise thereof; and (iii) Shares reacquired by the Company on the open market or otherwise using cash proceeds from the exercise of Options or options granted under the Prior Plan. Any Shares of Restricted Stock forfeited by the Participant or repurchased by the Company under Section 7.3(d) hereof at the same price paid by the Participant so that such Shares are returned to the Company will again be available for Awards under the Plan, in accordance with Section 3.1(d) below. The payment of Dividend Equivalents in cash in conjunction with any outstanding Awards shall not be counted against the Shares available for issuance under the Plan. Notwithstanding the provisions of this Section 3.1(b), no Shares may again be optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an incentive stock option under Section 422 of the Code.

(c) Substitute Awards shall not reduce the Shares authorized for grant under the Plan (except that Shares acquired by exercise of substitute Incentive Stock Options will count against the maximum number of Shares that may be issued pursuant to the exercise of Incentive Stock Options under the Plan), nor shall Shares subject to a Substitute Award again be available for Awards under the Plan to the extent of any forfeiture, expiration or cash settlement as provided in paragraph (b) above. Additionally, in the event that a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for grant under Section 3.1(a) of the Plan; *provided that* Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees, Consultants or Directors prior to such acquisition or combination.

(d) Any Shares that again become available for grant pursuant to Section 3.1(b) shall be added back as: (i) one (1) Share if such Shares were subject to Options or Stock Appreciation Rights granted under the Plan or

options or stock appreciation rights granted under the Prior Plan; and (ii) as one and sixty-five one-hundredths (1.65) Shares if such Shares were subject to Awards other than Options or Stock Appreciation Rights granted under the Plan or awards other than options or stock appreciation rights granted under the Prior Plan.

(e) Solely for purposes of determining whether Shares are available for the grant of Incentive Stock Options under the Plan, the maximum aggregate number of Shares that may be issued pursuant to Incentive Stock Options granted under the Plan shall be 4,500,000 Shares, subject to adjustment as provided in Section 12.2.

3.2. *Character of Shares.* Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares purchased in the open market or otherwise.

4. ELIGIBILITY AND ADMINISTRATION

4.1. *Eligibility.* Any Employee, Director or Consultant shall be eligible to be selected as a Participant.

4.2. *Administration.*

(a) The Plan shall be administered by the Committee. The Committee shall have full power and authority, subject to the provisions of the Plan and subject to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board, to: (i) select the Employees, Directors and Consultants to whom Awards may from time to time be granted hereunder; (ii) determine the type or types of Awards to be granted to each Participant hereunder; (iii) determine the number of Shares (or dollar value) to be covered by each Award granted hereunder; (iv) determine the terms and conditions, not inconsistent with the provisions of the Plan, of any Award granted hereunder; (v) determine whether, to what extent and under what circumstances Awards may be settled in cash, Shares or other property; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other property and other amounts payable with respect to an Award made under the Plan shall be deferred either automatically or at the election of the Participant; (vii) subject to Section 12.1, determine whether, to what extent, and under what circumstances any Award shall be canceled or suspended; (viii) interpret and administer the Plan and any instrument or agreement entered into under or in connection with the Plan, including any Award Agreement; (ix) correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Award in the manner and to the extent that the Committee shall deem desirable to carry it into effect; (x) establish such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (xi) determine whether any Award, other than an Option or Stock Appreciation Right, will have Dividend Equivalents; (xii) accelerate the vesting, payment and/or settlement of any Award; (xiii) amend any Award or Award Agreement, provided that the rights or obligations of the Participant of the Award that is the subject of any such Award Agreement are not impaired by such amendment in any material respect, unless the consent of the Participant is obtained or such amendment is otherwise permitted under Section 11.1, 11.2, Section 12.2 or Section 13.5 or Section 13.15 or the other terms of this Plan; and (xiv) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan.

(b) Decisions of the Committee shall be final, conclusive and binding on all persons or entities, including the Company, any Participant, and any Subsidiary. A majority of the members of the Committee may determine its actions, including fixing the time and place of its meetings. Notwithstanding the foregoing, any action or determination by the Committee specifically affecting or relating to a Director shall require the prior approval of the Board.

(c) To the extent not inconsistent with applicable law, or the rules and regulations of the Securities Exchange on which the Shares are traded, the Board or the Committee may delegate to a committee of one or more directors of the Company or one or more officers of the Company any of the authority of the Committee under the Plan, including the right to grant, cancel or suspend Awards; *provided, however*, that in no event shall an officer of the Company be delegated the authority to grant Awards to, or amend Awards held by, the following individuals: (a)

individuals who are subject to Section 16 of the Exchange Act, or (b) officers of the Company (or Directors) to whom authority to grant or amend Awards has been delegated hereunder. Any delegation hereunder shall be subject to the restrictions and limits that the Board or Committee specifies at the time of such delegation, and the Board or Committee, as applicable, may at any time rescind the authority so delegated or appoint a new delegatee. At all times, the delegatee appointed under this Section 4.2(c) shall serve in such capacity at the pleasure of the Board or the Committee, as applicable, and the Board or the Committee may abolish any committee at any time and re-vest in itself any previously delegated authority.

4.3. *Director Limit.* Notwithstanding any provision to the contrary in the Plan, the Board may establish compensation for non-employee Directors from time to time, subject to the limitations in the Plan. The Board will from time to time determine the terms, conditions and amounts of all such non-employee Director compensation in its discretion and pursuant to the exercise of its business judgment, taking into account such factors, circumstances and considerations as it shall deem relevant from time to time, *provided* that the sum of any cash compensation, or other compensation, and the value (determined as of the grant date in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or any successor thereto) of Awards granted to a non-employee Director as compensation for services as a non-employee Director during any fiscal year of the Company may not exceed \$500,000 (increased to \$750,000 with respect to any non-employee Director serving as Chairman of the Board or Lead Independent Director or in the fiscal year of a non-employee Director's initial service as a non-employee Director) (with any compensation that is deferred counting towards this limit for the year in which the compensation is first earned, and not a later year of settlement). The Board may make exceptions to this limit for individual non-employee Directors in extraordinary circumstances, as the Board may determine in its discretion, *provided* that the non-employee Director receiving such additional compensation may not participate in the decision to award such compensation or in other contemporaneous compensation decisions involving non-employee Directors.

5. OPTIONS

5.1. *Grant of Options.* Options may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Any Option shall be subject to the terms and conditions of this Article and to such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall deem desirable.

5.2. *Award Agreements.* All Options shall be evidenced by a written Award Agreement in such form and containing such terms and conditions as the Committee shall determine which are not inconsistent with the provisions of the Plan. The terms and conditions of Options need not be the same with respect to each Participant. Granting an Option pursuant to the Plan shall impose no obligation on the recipient to exercise such Option. Any individual who is granted an Option pursuant to this Article may hold more than one Option granted pursuant to the Plan at the same time.

5.3. *Option Price.* Other than in connection with Substitute Awards, the option price per each Share purchasable under any Option granted pursuant to this Article shall not be less than 100% of the Fair Market Value of one Share on the date of grant of such Option; *provided, however*, that in the case of an Incentive Stock Option granted to a Participant who, at the time of the grant, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Subsidiary, the option price per share shall be no less than 110% of the Fair Market Value of one Share on the date of grant.

5.4. *Option Term.* The term of each Option shall be fixed by the Committee in its sole discretion; *provided* that no Option shall be exercisable after the expiration of seven (7) years from the date the Option is granted, except in the event of death or disability; *provided, however*, that the term of the Option shall not exceed five (5) years from the date the Option is granted in the case of an Incentive Stock Option granted to a Participant who, at the time of the grant, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Subsidiary.

5.5. *Exercise of Options.*

(a) Vested Options granted under the Plan shall be exercised by the Participant or by a Permitted Assignee thereof (or by the Participant's executors, administrators, guardian or legal representative, as may be provided in an Award Agreement) as to all or part of the Shares covered thereby, by giving notice of exercise to the Company or its designated agent, specifying the number of Shares to be purchased. The notice of exercise shall be in such form, made in such manner, and shall comply with such other requirements consistent with the provisions of the Plan as the Committee may prescribe from time to time.

(b) Unless otherwise provided in an Award Agreement, full payment of such purchase price shall be made at the time of exercise and shall be made: (i) in cash or cash equivalents (including certified check or bank check or wire transfer of immediately available funds); (ii) by tendering previously acquired Shares (either actually or by attestation) with a fair market value on the date of delivery equal to the amount of the purchase price to be paid by the Participant; (iii) with the consent of the Committee, by delivery of other consideration having a fair market value on the exercise date equal to the total purchase price; (iv) with the consent of the Committee, by the withholding of Shares issuable upon exercise of such Options by the Company with a fair market value on the date of delivery equal to the amount of the purchase price to be paid by the Participant; (v) through any other method specified in an Award Agreement (including through delivery (including telephonically to the extent permitted by the Company) of a notice that the Participant has placed a market sell order with a broker acceptable to the Company with respect to Shares then issuable upon exercise of such Options, and that the broker has been directed to deliver promptly to the Company funds sufficient to satisfy the applicable purchase price (*provided* that such amount is paid to the Company at such time as may be required by the Company)); or (vi) any combination of any of the foregoing. The notice of exercise, accompanied by such payment, shall be delivered to the Company at its principal business office or such other office as the Committee may from time to time direct, and shall be in such form, containing such further provisions consistent with the provisions of the Plan, as the Committee may from time to time prescribe. In no event may any Option granted hereunder be exercised for a fraction of a Share.

(c) Notwithstanding the foregoing, an Award Agreement evidencing an Option may provide that if on the last day of the term of the Option the Fair Market Value of one Share exceeds the option price per Share, the Participant has not exercised the Option (or a tandem Stock Appreciation Right, if applicable) and the Option has not expired, the Option shall be deemed to have been exercised by the Participant on such day with payment made by withholding Shares otherwise issuable in connection with the exercise of the Option (subject to Section 13.2). In such event, the Company shall deliver to the Participant the number of Shares for which the Option was deemed exercised, less the number of Shares required to be withheld for the payment of the total purchase price and required withholding taxes; *provided, however*, any fractional Share shall be settled in cash.

5.6. *Form of Settlement.* In its sole discretion, the Committee may provide that the Shares to be issued upon an Option's exercise shall be in the form of Restricted Stock or other similar securities.

5.7. *Incentive Stock Options.* The Committee may grant Incentive Stock Options to any Employee of the Company or any of its present or future parent or subsidiary corporations, as defined in Sections 424(e) or (f) of the Code, respectively, and any other entities the employees of which are eligible to receive Incentive Stock Options under the Code. All Incentive Stock Options will be subject to and construed consistently with Section 422 of the Code. By accepting an Incentive Stock Option, the Participant agrees to give prompt notice to the Company of dispositions or other transfers (other than in connection with a Change in Control) of Shares acquired under the Option made within (a) two (2) years from the grant date of the Option or (b) one (1) year after the transfer of such Shares to the Participant, specifying the date of the disposition or other transfer and the amount the Participant realized, in cash, other property, assumption of indebtedness or other consideration, in such disposition or other transfer. Neither the Company nor the Committee will be liable to a Participant, or any other party, if an Incentive Stock Option fails or ceases to qualify as an "incentive stock option" under Section 422 of the Code. Any Incentive Stock Option or portion thereof that fails to qualify as an "incentive stock option" under Section 422 of the Code for any reason, including becoming exercisable

with respect to Shares having a fair market value exceeding the \$100,000 limitation under Treasury Regulation Section 1.422-4, will be a Non-Qualified Stock Option.

6. STOCK APPRECIATION RIGHTS

6.1. *Grant and Exercise.* Stock Appreciation Rights may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan.

6.2. *Terms and Conditions.* Stock Appreciation Rights shall be subject to the terms and conditions of this Article and to such additional terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

(a) Upon the exercise of a Stock Appreciation Right, the holder shall have the right to receive the excess of: (i) the Fair Market Value of one Share on the date of exercise (or such amount less than such Fair Market Value as the Committee shall so determine at any time during a specified period before the date of exercise), over (ii) the grant price of the Stock Appreciation Right.

(b) The Committee shall determine in its sole discretion whether payment on exercise of a Stock Appreciation Right shall be made in cash, in whole Shares or other property, or any combination thereof.

(c) The terms and conditions of Stock Appreciation Rights need not be the same with respect to each recipient.

(d) The Committee may impose such other terms and conditions on the exercise of any Stock Appreciation Right, as it shall deem appropriate. A Stock Appreciation Right shall: (i) have a grant price per Share of not less than the Fair Market Value of one Share on the date of grant, except in the case of Substitute Awards or in connection with an adjustment provided in Section 12.2; and (ii) have a term not greater than seven (7) years.

(e) An Award Agreement evidencing a Stock Appreciation Right may provide that if on the last day of the term of a Stock Appreciation Right the Fair Market Value of one Share exceeds the grant price per Share of the Stock Appreciation Right, the Participant has not exercised the Stock Appreciation Right or the tandem Option (if applicable), and the Stock Appreciation Right has not expired, the Stock Appreciation Right shall be deemed to have been exercised by the Participant on such day. In such event, the Company shall make payment to the Participant in accordance with this Section, reduced by the number of Shares (or cash) required for withholding taxes (subject to Section 13.2). Any fractional Share shall be settled in cash.

7. RESTRICTED STOCK AND RESTRICTED STOCK UNITS

7.1. *Grants.* Awards of Restricted Stock and of Restricted Stock Units may be issued hereunder to Participants either alone or in addition to other Awards granted under the Plan (a “*Restricted Stock Award*” or “*Restricted Stock Unit Award*” respectively), and such Restricted Stock Awards and Restricted Stock Unit Awards shall also be available as a form of payment of Performance Awards and other earned cash-based incentive compensation. Each Restricted Stock Award and Restricted Stock Unit Award shall be subject to vesting restrictions imposed by the Committee covering a period of time specified by the Committee (the “*Vesting Period*”). The Committee has absolute discretion to determine whether any consideration (other than services) is to be received by the Company or any Subsidiary as a condition precedent to the issuance of Restricted Stock Awards or Restricted Stock Unit Awards; *provided* that the consideration shall in all events equal or exceed the par value per Share.

7.2. *Award Agreements.* The terms of any Restricted Stock Award or Restricted Stock Unit Award granted under the Plan shall be set forth in an Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan, including whether any such Restricted Stock Unit Awards shall have

Dividend Equivalents. The terms of Restricted Stock Awards and Restricted Stock Unit Awards need not be the same with respect to each Participant.

7.3. *Rights of Holders of Restricted Stock and Restricted Stock Units.*

(a) Unless otherwise provided in the applicable Award Agreement, beginning on the date of grant of the Restricted Stock Award and subject to execution of the Award Agreement, the Participant shall become a stockholder of the Company with respect to all Shares subject to the Award Agreement and shall have all of the rights of a stockholder, including the right to vote such Shares and, subject to Section 7.3(c), the right to receive dividends and other distributions made with respect to such Shares.

(b) A Participant receiving a Restricted Stock Unit Award shall not possess voting rights or the right to receive any dividends or other distributions with respect to such Award. The applicable Award Agreement may, however, grant the Participant Dividend Equivalents with respect to Restricted Stock Units.

(c) Notwithstanding the provisions of this Section, cash dividends with respect to any Restricted Stock Award and any other property (other than cash) distributed as a dividend or otherwise with respect to any Restricted Stock Award shall be subject to restrictions and risk of forfeiture to the same extent as the Restricted Stock with respect to which such cash, Shares or other property has been distributed and shall either (i) be paid at the time such restrictions and risk of forfeiture lapse or (ii) forfeited to the extent the underlying Restricted Stock is forfeited.

(d) Except as otherwise determined by the Committee at the time of the grant of a Restricted Stock Award or thereafter, (a) if no purchase price was paid by the Participant for the Restricted Stock, upon a termination of the Participant's employment or service relationship, the Participant's rights in unvested Restricted Stock then subject to restrictions shall lapse and be forfeited, and such Restricted Stock shall be surrendered to the Company and cancelled without consideration, and (b) if a purchase price was paid by the Participant for the Restricted Stock, upon a termination of the Participant's employment or service relationship, the Company shall have the right to repurchase from the Participant the unvested Restricted Stock then subject to restrictions at a cash price per share equal to the price paid by the Participant for such Restricted Stock or such other amount as may be specified in the applicable Award Agreement.

7.4 *Issuance of Shares.* Any Restricted Stock granted under the Plan may be evidenced in such manner as the Board may deem appropriate, including book-entry registration or issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the restrictions applicable to such Restricted Stock.

8. OTHER SHARE-BASED AWARDS; DIVIDEND EQUIVALENTS

8.1. *Grants of Other Share-Based Awards.* Other Awards of Shares and other Awards that are valued in whole or in part by reference to, or are otherwise based on, Shares or other property ("*Other Share-Based Awards*"), including deferred stock units, may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Other Share-Based Awards shall also be available as a form of payment of other Awards granted under the Plan and other earned cash-based compensation. Other Share-Based Awards shall be subject to such vesting restrictions as are imposed by the Committee covering a period of time specified by the Committee (the "*Vesting Period*").

8.2. *Dividend Equivalents.* Subject to the provisions of the Plan and any Award Agreement, the recipient of an Award other than an Option or Stock Appreciation Right may, if so determined by the Committee, be entitled to receive amounts equivalent to cash, stock or other property dividends on Shares ("*Dividend Equivalents*") with respect to the number of Shares covered by the Award, as determined by the Committee, in its sole discretion. The Committee

may provide that the Dividend Equivalents (if any) shall be deemed to have been reinvested in additional Shares or otherwise reinvested and shall provide that the Dividend Equivalents are subject to the same vesting or performance conditions as the underlying Award. Notwithstanding the foregoing, dividends or Dividend Equivalents with respect to an Award that is subject to vesting that are based on dividends paid prior to the vesting of such Award shall only be paid out to the Participant to the extent that the vesting conditions are subsequently satisfied and the Award vests.

8.3. *Award Agreements.* The terms of Other Share-Based Award and Dividend Equivalents granted under the Plan shall be set forth in an Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan, including whether any such Other Share-Based Awards shall have Dividend Equivalents. The terms of such Awards need not be the same with respect to each Participant.

8.3. *Payment.* Except as may be provided in an Award Agreement, Other Share-Based Awards and Dividend Equivalents may be paid in cash, Shares, other property, or any combination thereof, in the sole discretion of the Committee.

9. PERFORMANCE AWARDS

9.1. *Grants.* Performance Awards in the form of Performance Cash, Performance Shares or Performance Units, as determined by the Committee in its sole discretion, may be granted hereunder to Participants, for no consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The performance goals to be achieved for each Performance Period shall be conclusively determined by the Committee and may be based upon, without limitation, the criteria set forth in Section 10.1.

9.2. *Award Agreements.* The terms of any Performance Award granted under the Plan shall be set forth in an Award Agreement (or, if applicable, in a resolution duly adopted by the Committee) which shall contain provisions determined by the Committee and not inconsistent with the Plan, including whether such Awards shall have Dividend Equivalents. The terms of Performance Awards need not be the same with respect to each Participant.

9.3. *Terms and Conditions.* The performance criteria to be achieved during any Performance Period and the length of the Performance Period shall be determined by the Committee upon the grant of each Performance Award. The amount of the Award to be distributed shall be conclusively determined by the Committee.

9.4. *Payment.* Except as provided in Article 11 or as may be provided in an Award Agreement, Performance Awards will be distributed only after the end of the relevant Performance Period. Performance Awards may be paid in cash, Shares, other property, or any combination thereof, in the sole discretion of the Committee.

10. PERFORMANCE CRITERIA

10.1. *Performance Criteria.* If the Committee determines that the lapsing of restrictions on an Award and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be subject to the achievement of one or more objective performance goals established by the Committee, such performance goals may, without limitation, be based on the attainment of specified levels of one or any combination of the following: net sales; revenue; revenue growth or product revenue growth; operating income (before or after taxes); pre- or after-tax income or loss (before or after allocation of corporate overhead and bonus); earnings or loss per share; net income or loss (before or after taxes); return on equity; total stockholder return; return on assets or net assets; appreciation in and/or maintenance of the price of the Shares or any other publicly-traded securities of the Company; market share; gross profits; earnings or losses (including earnings or losses before taxes, before interest and taxes, or before interest, taxes, depreciation and amortization); economic value-added models or equivalent metrics; comparisons with various stock market indices; reductions in costs; cash flow or cash flow per share (before or after dividends); return on capital (including return on

total capital or return on invested capital); cash flow return on investment; improvement in or attainment of expense levels or working capital levels, including cash and accounts receivable; operating margin; gross margin; year-end cash; cash margin; debt reduction; stockholders equity; operating efficiencies; market share; customer satisfaction; customer growth; employee satisfaction; regulatory achievements (including submitting or filing applications or other documents with regulatory authorities or receiving approval of any such applications or other documents and passing pre-approval inspections (whether of the Company or the Company's third-party manufacturer)); strategic partnerships or transactions; co-development, co-marketing, profit sharing, joint venture or other similar arrangements; financial ratios, including those measuring liquidity, activity, profitability or leverage; cost of capital or assets under management; financing and other capital raising transactions (including sales of the Company's equity or debt securities; sales or licenses of the Company's assets, including its intellectual property, whether in a particular jurisdiction or territory or globally; or through partnering transactions); cost per available seat mile; revenue per available seat mile; revenue or cost per revenue seat mile; percentage of flights completed on time; percentage of scheduled flights completed; lost passenger baggage per passenger or per seat mile; aircraft utilization; revenue per employee; and implementation, completion or attainment of measurable objectives with respect to commercialization, projects, service volume levels, acquisitions and divestitures; transactions; and recruiting and maintaining personnel. Such performance goals also may be based on the Company's performance or the performance of a Subsidiary, division, business segment or business unit of the Company, or based upon the relative performance of other companies or upon comparisons of any of the indicators of performance relative to other companies. The Committee may also exclude charges related to an event or occurrence which the Committee determines should appropriately be excluded, including: (a) restructurings, discontinued operations, extraordinary items, and other unusual, infrequently occurring or non-recurring charges; (b) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management; or (c) the cumulative effects of tax or accounting changes in accordance with U.S. generally accepted accounting principles.

11. CHANGE IN CONTROL PROVISIONS

11.1. *Impact on Awards.* In the event of any Change in Control, the Committee, on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions whenever the Committee determines that such action is appropriate in order to (x) prevent dilution or enlargement of the benefits or potential benefits intended by the Company to be made available under the Plan or with respect to any Award granted or issued under the Plan, or (y) to facilitate such transaction or event:

(a) To provide for the cancellation of any such Award in exchange for either an amount of cash or other property with a value equal to the amount that could have been obtained upon the exercise or settlement of the vested portion of such Award or realization of the Participant's rights under the vested portion of such Award, as applicable; *provided* that, if the amount that could have been obtained upon the exercise or settlement of the vested portion of such Award or realization of the Participant's rights, in any case, is equal to or less than zero, then the Award may be terminated without payment;

(b) To provide that such Award shall vest and, to the extent applicable, be exercisable as to all shares covered thereby, notwithstanding anything to the contrary in the Plan or the provisions of such Award;

(c) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and/or applicable exercise or purchase price, in all cases, as determined by the Committee;

(d) To make adjustments in the number and type of Shares (or other securities or property) subject to outstanding Awards and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding Awards;

(e) To replace such Award with other rights or property selected by the Committee; and/or

(f) To provide that the Award will terminate and cannot vest, be exercised or become payable after the applicable event.

11.2. *Assumption or Substitution of Certain Awards.*

(a) Unless otherwise provided in the applicable Award Agreement, in the event of a Change in Control of the Company in which the successor company assumes or provides a substitute award for an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award, Other Share-Based Award or Dividend Equivalent Award (or in which the Company is the ultimate parent corporation and continues the Award), if a Participant's employment with such successor company (or the Company) or a subsidiary thereof terminates within 24 months following such Change in Control (or such other period set forth in the Award Agreement, including prior thereto if applicable) without "cause" or for "good reason" as defined in the Award Agreement or under other circumstances specified in the Award Agreement: (i) Options and Stock Appreciation Rights outstanding as of the date of such termination of employment will immediately vest, become fully exercisable, and may thereafter be exercised for 24 months (or such other longer period of time as is set forth in the applicable Award Agreement); (ii) the restrictions, limitations and other conditions applicable to Restricted Stock and Restricted Stock Units outstanding as of the date of such termination of employment shall lapse and the Restricted Stock and Restricted Stock Units shall become free of all restrictions, limitations and conditions and become fully vested; and (iii) the restrictions, limitations and other conditions applicable to any Other Share-Based Awards or any other Awards shall lapse, and such Other Share-Based Awards or such other Awards shall become free of all restrictions, limitations and conditions and become fully vested and transferable to the full extent of the original grant. For the purposes of this Section 11.2, an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award shall be considered assumed or substituted for if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) received in the transaction constituting a Change in Control by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); *provided, however*, that if such consideration received in the transaction constituting a Change in Control is not solely common stock of the successor company, the Committee may, with the consent of the successor company, provide that the consideration to be received upon the exercise or vesting of an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award, for each Share subject thereto, will be solely common stock of the successor company substantially equal in fair market value to the per Share consideration received by holders of Shares in the transaction constituting a Change in Control. The determination of such substantial equality of value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding.

(b) Unless otherwise provided in the applicable Award Agreement, in the event of a Change in Control of the Company to the extent the successor company does not assume or substitute for an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award (or in which the Company is the ultimate parent corporation and does not continue the Award), then immediately prior to the Change in Control: (i) those Options and Stock Appreciation Rights outstanding as of the date of the Change in Control that are not assumed or substituted for (or continued) shall immediately vest and become fully exercisable; (ii) all restrictions, limitations and other conditions applicable to Restricted Stock and Restricted Stock Units that are not assumed or substituted for (or continued) shall lapse and the Restricted Stock and Restricted Stock Units shall become free of all restrictions, limitations and conditions and become fully vested; and (iii) the restrictions, other limitations and other

conditions applicable to any Other Share-Based Awards or any other Awards that are not assumed or substituted for (or continued) shall lapse, and such Other Share-Based Awards or such other Awards shall become free of all restrictions, limitations and conditions and become fully vested and transferable to the full extent of the original grant.

11.3. *Definition of Change in Control.* For purposes of the Plan, unless otherwise provided in an Award Agreement, Change in Control means the occurrence of any one of the following events:

(a) During any twenty-four (24) month period, individuals who, as of the beginning of such period, constitute the Board (the “*Incumbent Directors*”) cease for any reason to constitute at least a majority of the Board, *provided* that any person becoming a director subsequent to the beginning of such period whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; *provided, however*, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director;

(b) Any “person” (as such term is defined in the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company’s then outstanding securities eligible to vote for the election of the Board (the “*Company Voting Securities*”); *provided, however*, that the event described in this paragraph (b) shall not be deemed to be a Change in Control by virtue of any of the following acquisitions: (i) by the Company or any Subsidiary; (ii) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary; (iii) by any underwriter temporarily holding securities pursuant to an offering of such securities; (iv) pursuant to a Non-Qualifying Transaction, as defined in paragraph (c); or (v) by any person of Voting Securities from the Company, if a majority of the Incumbent Board approves in advance the acquisition of beneficial ownership of 50% or more of Company Voting Securities by such person;

(c) The consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or any of its Subsidiaries that requires the approval of the Company’s stockholders, whether for such transaction or the issuance of securities in the transaction (a “*Business Combination*”), unless immediately following such Business Combination: (i) more than 50% of the total voting power of (A) the corporation resulting from such Business Combination (the “*Surviving Corporation*”), or (B) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the “*Parent Corporation*”), is represented by Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (ii) no person (other than any employee benefit plan (or related trust) sponsored or maintained by the Surviving Corporation or the Parent Corporation), is or becomes the beneficial owner, directly or indirectly, of 50% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) and (iii) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board’s approval of the execution of the initial agreement providing for such Business Combination (any Business Combination which satisfies all of the criteria specified in (i), (ii) and (iii) above shall be deemed to be a “*Non-Qualifying Transaction*”); or

(d) The stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or the consummation of a sale of all or substantially all of the Company’s assets.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of 50% or more of the Company Voting Securities as a result of the acquisition of Company Voting Securities by the Company which reduces the number of Company Voting Securities outstanding; *provided, that* if after such acquisition by the Company such person becomes the beneficial owner of additional Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Change in Control of the Company shall then occur.

Notwithstanding the foregoing, if a Change in Control constitutes a payment event with respect to any Award (or portion of any Award) that provides for the deferral of compensation that is subject to Section 409A, to the extent required to avoid the imposition of additional taxes under Section 409A, the transaction or event shall only constitute a Change in Control for purposes of the payment timing of such Award if such transaction also constitutes a “change in control event,” as defined in Treasury Regulation Section 1.409A-3(i)(5).

11.4. *No Restriction on Company Rights.* The existence of the Plan, any Award Agreement and the Awards granted hereunder shall not affect or restrict in any way the right or power of the Company or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company’s capital structure or its business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Shares or the rights thereof or which are convertible into or exchangeable for Shares, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

11.5. *Administrative Convenience.* In the event of any Change in Control or any transaction described in Section 12.2, including any Equity Restructuring, for reasons of administrative convenience, the Company, in its discretion, may refuse to permit the exercise of any Award during a period of up to thirty (30) days prior to the consummation of any such transaction.

12. GENERALLY APPLICABLE PROVISIONS

12.1. *Amendment and Termination of the Plan; Prohibition on Repricing.* The Board or the Committee may, from time to time, alter, amend, suspend or terminate the Plan as it shall deem advisable, subject to any requirement for stockholder approval imposed by applicable law, including the rules and regulations of the Securities Exchange on which the Shares are then traded. However, subject to Section 12.2 hereof, without approval of the Company’s stockholders given within twelve (12) months before or after the action by the Board or the Committee, no action of the Board or the Committee may, except as provided in Section 12.2, increase the limits imposed in Section 3.1 on the maximum number of Shares which may be issued under the Plan or the maximum number of Shares that may be issued pursuant to Incentive Stock Options under the Plan. Subject to Article 11 and Section 12.2 hereof, the Committee shall not, without the approval of the stockholders of the Company, (a) authorize the amendment of any outstanding Option or Stock Appreciation Right to reduce its price per share, or (b) cancel any Option or Stock Appreciation Right in exchange for cash or another Award when the Option or Stock Appreciation Right price per share exceeds the Fair Market Value of the underlying Shares. Subject to Section 12.2 hereof, the Committee shall have the authority, without the approval of the stockholders of the Company, to amend any outstanding Award to increase the price per share or to cancel and replace an Award with the grant of an Award having a price per share that is greater than or equal to the price per share of the original Award.

12.2. *Adjustments.*

(a) In the event of any merger, reorganization, consolidation, recapitalization, dividend or distribution (whether in cash, shares or other property, other than a regular cash dividend), stock split, reverse stock split, spin-off or similar transaction or other change in corporate structure affecting the Shares or the value thereof, such

adjustments and other substitutions may be made to the Plan and to Awards as the Committee deems equitable or appropriate taking into consideration the accounting and tax consequences, including such adjustments in the aggregate number, class and kind of securities that may be delivered under the Plan, the maximum number of Shares that may be issued pursuant to Incentive Stock Options, and, in the aggregate, in the number, class, kind and exercise price or grant price (if applicable) of securities subject to outstanding Awards granted under the Plan (including, if the Committee deems appropriate, the substitution of similar options to purchase the shares of, or other awards denominated in the shares of, another company) as the Committee may determine to be appropriate; provided, however, that the number of Shares subject to any Award shall always be a whole number.

(b) In connection with any Equity Restructuring, notwithstanding anything to the contrary in this Section 12.2 or Article 11, the Committee will equitably adjust each outstanding Award as it deems appropriate to reflect the Equity Restructuring, which may include adjusting the number, class and kind of securities subject to each outstanding Award and/or the Award's exercise price or grant price (if applicable), granting new Awards to Participants, and making a cash payment to Participants. The adjustments provided under this Section 12.2(b) will be nondiscretionary and final and binding on the affected Participant and the Company; *provided* that the Committee will determine whether an adjustment is equitable.

12.3. *Transferability of Awards.* Except as provided below, no Award and no Shares that have not been issued or as to which any applicable restriction, performance or deferral period has not lapsed, may be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution, and such Award may be exercised during the life of the Participant only by the Participant or the Participant's guardian or legal representative. To the extent and under such terms and conditions as determined by the Committee, a Participant may assign or transfer an Award (each transferee thereof, a "*Permitted Assignee*") to: (i) the Participant's spouse, children or grandchildren (including any adopted and step children or grandchildren), parents, grandparents or siblings; (ii) to a trust for the benefit of one or more of the Participant or the persons referred to in clause (i); (iii) to a partnership, limited liability company or corporation in which the Participant or the persons referred to in clause (i) are the only partners, members or shareholders; or (iv) for charitable donations; *provided* that such transfer is not effectuated for any value or consideration and such Permitted Assignee shall be bound by and subject to all of the terms and conditions of the Plan and the Award Agreement relating to the transferred Award and shall execute an agreement satisfactory to the Company evidencing such obligations; and *provided, further*, that such Participant shall remain bound by the terms and conditions of the Plan. The Company shall cooperate with any Permitted Assignee and the Company's transfer agent in effectuating any transfer permitted under this Section.

12.4. *Termination of Employment or Services.* The Committee shall determine and set forth in each Award Agreement whether any Awards granted in such Award Agreement will continue to be exercisable, continue to vest or be earned and the terms of such exercise, vesting or earning, on and after the date that a Participant ceases to be employed by or to provide services to the Company or any Subsidiary (including as a Director), whether by reason of death, disability, voluntary or involuntary termination of employment or services, or otherwise. The date of termination of a Participant's employment or services will be determined by the Committee, which determination will be final.

12.5. *Deferral.* The Committee in its sole discretion shall be authorized to establish procedures pursuant to which the payment of any Award may be deferred.

12.6. *Payment.* The Committee shall determine the methods by which payments by any Participant with respect to any Awards granted under the Plan shall be made, including, without limitation: (a) in cash or cash equivalents (including certified check or bank check or wire transfer of immediately available funds), (b) Shares (including, in the case of payment of the exercise or purchase price of an Award, Shares issuable pursuant to the exercise or settlement of the Award) held for such period of time as may be required by the Committee in order to avoid adverse accounting consequences, in each case, having a fair market value on the date of delivery equal to the aggregate payments required, (c) through delivery (including telephonically to the extent permitted by the Company) of a written or electronic notice that the Participant has placed a market sell order with a broker acceptable to the Company with respect to Shares then-

issuable upon exercise or vesting of an Award, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required; *provided, however*, that payment of such proceeds is then made to the Company upon settlement of such sale, (d) other form of legal consideration acceptable to the Committee, or (e) any combination of the foregoing. The Committee shall also determine the methods by which Shares shall be delivered or deemed to be delivered to Participants. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a Director or an “executive officer” of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to make payment with respect to any Awards granted under the Plan, or continue any extension of credit with respect to such payment with a loan from the Company or a loan arranged by the Company in violation of Section 13(k) of the Exchange Act. In all events, valid consideration shall be paid for all Shares issued under the Plan, which consideration shall in all events equal or exceed the par value per Share.

13. MISCELLANEOUS

13.1. *Award Agreements.* Each Award Agreement shall either be: (a) in writing in a form approved by the Committee and executed by the Company by an officer duly authorized to act on its behalf; or (b) an electronic notice in a form approved by the Committee and recorded by the Company (or its designee) in an electronic recordkeeping system used for the purpose of tracking one or more types of Awards as the Committee may provide; in each case and if required by the Committee, the Award Agreement shall be executed or otherwise electronically accepted by the recipient of the Award in such form and manner as the Committee may require. The Committee may authorize any officer of the Company to execute any or all Award Agreements on behalf of the Company. The Award Agreement shall set forth the material terms and conditions of the Award as established by the Committee consistent with the provisions of the Plan.

13.2. *Tax Withholding.* The Company shall have the right to make all payments or distributions pursuant to the Plan to a Participant (or a Permitted Assignee thereof) (any such person, a “Payee”) net of any applicable federal, state and local taxes required to be paid or withheld as a result of any taxable event concerning a Payee arising in connection with any Award. The Company or any Subsidiary shall have the right to withhold or deduct from wages or other amounts otherwise payable to such Payee such withholding taxes as may be required by law, or to otherwise require the Payee to pay such withholding taxes. The Committee may in its sole discretion and in satisfaction of the foregoing requirement allow a Payee to satisfy such obligations by any payment means described in Section 12.6 hereof, including without limitation, by allowing such Payee to elect to have the Company or a Subsidiary withhold Shares otherwise issuable under an Award (or allow the surrender of Shares). Notwithstanding any other provision of the Plan, the number of Shares which may be so delivered or retained shall be limited to the number of Shares which have a fair market value on the date of delivery or retention no greater than the aggregate amount of such liabilities based on such Payee’s minimum applicable statutory tax withholding rates for federal, state, local and foreign income tax and payroll tax purposes or such other higher rates approved by the Committee (which rates shall in no event exceed the maximum individual statutory tax rate in the applicable jurisdiction at the time of such withholding (or such other rate as may be required to avoid the liability classification of the applicable award under generally accepted accounting principles in the United States of America)); *provided, however*, unless otherwise approved by the Committee, to the extent such Shares were acquired by the Payee from the Company as compensation, the Shares must have been held for the minimum period required by applicable accounting rules to avoid a charge to the Company’s earnings for financial reporting purposes; *provided, further*, that the number of Shares delivered or retained shall be rounded up to the nearest whole Share sufficient to cover the applicable tax withholding obligation to the extent rounding up to the nearest whole Share does not result in the liability classification of the applicable Award under generally accepted accounting principles in the United States of America, even if such rounding would cause the fair market value of the Shares tendered or withheld to exceed the minimum applicable statutory withholding rate. The Committee shall determine the fair market value of the Shares, consistent with applicable provisions of the Code, for tax withholding obligations due in connection with a broker-assisted cashless Option or Stock Appreciation Right exercise involving the sale of Shares to pay the Option or Stock Appreciation Right exercise price or any tax withholding obligation.

13.3. *Right of Discharge Reserved; Claims to Awards.* Nothing in the Plan nor the grant of an Award hereunder shall confer upon any Employee, Director or Consultant the right to continue in the employment or service of the Company or any Subsidiary or affect any right that the Company or any Subsidiary may have to terminate the employment or service of (or to demote or to exclude from future Awards under the Plan) any such Employee, Director or Consultant at any time for any reason “at will.” Except as specifically provided by the Committee, the Company shall not be liable for the loss of existing or potential profit from an Award granted in the event of termination of an employment or other relationship. No Employee, Director or Consultant shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Employees, Directors or Consultants under the Plan.

13.4. *Substitute Awards.* Notwithstanding any other provision of the Plan, the terms of Substitute Awards may vary from the terms set forth in the Plan to the extent the Committee deems appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are granted.

13.5. *Cancellation of Award; Forfeiture of Gain; Clawbacks.*

(a) Notwithstanding anything to the contrary contained herein, an Award Agreement may provide that the Award shall be canceled if the Participant, without the consent of the Company, while employed by or providing services to the Company or any Subsidiary or after termination of such employment or service, violates a non-competition, non-solicitation or non-disclosure covenant or agreement or otherwise engages in activity that is in conflict with or adverse to the interest of the Company or any Subsidiary (including conduct contributing to any financial restatements or financial irregularities), as determined by the Committee in its sole discretion. The Committee may provide in an Award Agreement that if within the time period specified in the Agreement the Participant establishes a relationship with a competitor or engages in an activity referred to in the preceding sentence, the Participant will forfeit any gain realized on the vesting or exercise of the Award and must repay such gain to the Company.

(b) All Awards (including, without limitation, any proceeds, gains or other economic benefit actually or constructively received by Participant upon any receipt or exercise of any Award or upon the receipt or resale of any Shares underlying the Award) shall be subject to the provisions of any claw-back policy implemented by the Company, including, without limitation, any claw-back policy adopted to comply with Applicable Laws (including the Dodd-Frank Wall Street Reform and Consumer Protection Act and any rules or regulations promulgated thereunder) as and to the extent set forth in such claw-back policy or the Award Agreement.

13.6. *Stop Transfer Orders.* All certificates for Shares delivered under the Plan pursuant to any Award shall be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the U.S. Securities and Exchange Commission (“SEC”), any stock exchange upon which the Shares are then listed, and any applicable federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

13.7. *Nature of Payments.* All Awards made pursuant to the Plan are in consideration of services performed or to be performed for the Company or any Subsidiary, division or business unit of the Company. Any income or gain realized pursuant to Awards under the Plan constitutes a special incentive payment to the Participant and shall not be taken into account, to the extent permissible under applicable law, as compensation for purposes of any of the employee benefit plans of the Company or any Subsidiary except as may be determined by the Committee or by the Board or board of directors of the applicable Subsidiary.

13.8. *Other Plans.* Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

13.9. *Severability.* The provisions of the Plan shall be deemed severable. If any provision of the Plan shall be held unlawful or otherwise invalid or unenforceable in whole or in part by a court of competent jurisdiction or by reason of change in a law or regulation, such provision shall: (a) be deemed limited to the extent that such court of competent jurisdiction deems it lawful, valid and/or enforceable and as so limited shall remain in full force and effect; and (b) not affect any other provision of the Plan or part thereof, each of which shall remain in full force and effect. If the making of any payment or the provision of any other benefit required under the Plan shall be held unlawful or otherwise invalid or unenforceable by a court of competent jurisdiction, such unlawfulness, invalidity or unenforceability shall not prevent any other payment or benefit from being made or provided under the Plan, and if the making of any payment in full or the provision of any other benefit required under the Plan in full would be unlawful or otherwise invalid or unenforceable, then such unlawfulness, invalidity or unenforceability shall not prevent such payment or benefit from being made or provided in part, to the extent that it would not be unlawful, invalid or unenforceable, and the maximum payment or benefit that would not be unlawful, invalid or unenforceable shall be made or provided under the Plan.

13.10. *Construction.* As used in the Plan, the words “include” and “including,” and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words “without limitation.”

13.11. *Unfunded Status of the Plan.* The Plan is intended to constitute an “unfunded” plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver the Shares or payments in lieu of or with respect to Awards hereunder; *provided, however*, that the existence of such trusts or other arrangements is consistent with the unfunded status of the Plan.

13.12. *Governing Law.* The Plan and all determinations made and actions taken thereunder, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Utah, without reference to principles of conflict of laws, and construed accordingly.

13.13. *Effective Date of Plan; Termination of Plan.* The Plan shall be effective on the date of the approval of the Plan by the stockholders of the Company (the “Effective Date”). If the Plan is not approved by the Company’s stockholders, the Plan will not become effective, no Awards will be granted under the Plan and the Prior Plan will continue in full force and effect in accordance with its terms. The Plan will be submitted for the approval of the Company’s stockholders within twelve (12) months after the date of the Board’s adoption of the Plan. Notwithstanding anything herein to the contrary, no Incentive Stock Option shall be granted under the Plan after the tenth (10th) anniversary of the date on which the Plan is adopted by the Board.

13.14. *Foreign Employees and Consultants.* Awards may be granted to Participants who are foreign nationals or employed or providing services outside the United States, or both, on such terms and conditions different from those applicable to Awards to Employees or Consultants providing services in the United States as may, in the judgment of the Committee, be necessary or desirable in order to recognize differences in local law or tax policy. The Committee also may impose conditions on the exercise or vesting of Awards in order to minimize the Company’s obligation with respect to tax equalization for Employees or Consultants on assignments outside their home country.

13.15. *Compliance with Section 409A of the Code.*

(a) The Company intends that all Awards be structured to comply with, or be exempt from, Section 409A, such that no adverse tax consequences, interest, or penalties under Section 409A apply. Notwithstanding anything in the Plan or any Award Agreement to the contrary, the Committee may, without a Participant’s consent, amend this Plan or Awards, adopt policies and procedures, or take any other actions (including amendments, policies, procedures and retroactive actions) as are necessary or appropriate to preserve the intended tax treatment of Awards,

including any such actions intended to (A) exempt this Plan or any Award from Section 409A, or (B) comply with Section 409A, including regulations, guidance, compliance programs and other interpretative authority that may be issued after an Award's grant date. The Company makes no representations or warranties as to an Award's tax treatment under Section 409A or otherwise. The Company will have no obligation under this Section 13.15. otherwise to avoid the taxes, penalties or interest under Section 409A with respect to any Award and will have no liability to any Participant or any other person if any Award, compensation or other benefits under the Plan are determined to constitute noncompliant "nonqualified deferred compensation" subject to taxes, penalties or interest under Section 409A.

(b) If an Award constitutes "nonqualified deferred compensation" under Section 409A, any payment or settlement of such Award upon a termination of a Participant's employment or service relationship will, to the extent necessary to avoid taxes under Section 409A, be made only upon the Participant's "separation from service" (within the meaning of Section 409A), whether such "separation from service" occurs upon or after the termination of the Participant's employment or service relationship. For purposes of this Plan or any Award Agreement relating to any such payments or benefits, references to a "termination," "termination of employment" or like terms means a "separation from service."

(c) Notwithstanding any contrary provision in the Plan or any Award Agreement, any payment(s) of "nonqualified deferred compensation" required to be made under an Award to a "specified employee" (as defined under Section 409A and as the Committee determines) due to his or her "separation from service" will, to the extent necessary to avoid taxes under Section 409A(a)(2)(B)(i) of the Code, be delayed for the six-month period immediately following such "separation from service" (or, if earlier, until the specified employee's death) and will instead be paid (as set forth in the Award Agreement) on the day immediately following such six-month period or as soon as administratively practicable thereafter (without interest). Any payments of "nonqualified deferred compensation" under such Award payable more than six months following the Participant's "separation from service" will be paid at the time or times the payments are otherwise scheduled to be made.

13.16 *No Registration Rights; No Right to Settle in Cash.* The Company has no obligation to register with any governmental body or organization (including, without limitation, the SEC) any of: (a) the offer or issuance of any Award; (b) any Shares issuable upon the exercise of any Award; or (c) the sale of any Shares issued upon exercise of any Award, regardless of whether the Company in fact undertakes to register any of the foregoing. In particular, in the event that any of: (i) any offer or issuance of any Award; (ii) any Shares issuable upon exercise of any Award; or (iii) the sale of any Shares issued upon exercise of any Award are not registered with any governmental body or organization (including, without limitation, the SEC), the Company will not under any circumstance be required to settle its obligations, if any, under this Plan in cash.

13.17. *Captions.* The captions in the Plan are for convenience of reference only, and are not intended to narrow, limit or affect the substance or interpretation of the provisions contained herein.

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OFFICERS AND DIRECTORS SKYWEST, INC and SUBSIDIARIES

SKYWEST, INC

Russell A. Childs

Chief Executive Officer & President
Member of the Board since 2016

Robert J. Simmons

Chief Financial Officer

Wade J. Steel

Chief Commercial Officer

Eric J. Woodward

Chief Accounting Officer

Justin L. Esplin

Vice President, Information Technology

SKYWEST AIRLINES, INC

Michael B. Thompson

Chief Operating Officer

G. Steve Black

Vice President, Customer Service

Bill C. Dykes

Vice President, Maintenance

Tracy T. Gallo

Vice President, Flight Operations

Lori A. Hunt

Vice President, People

Sonya P. Wolford

Vice President, InFlight Services

Bradley W. Blake

Vice President, Operation Control Center

BOARD OF DIRECTORS

Jerry C. Atkin

Chairman of the Board
Elected Chairman 1991
Member of the Board since 1974

Steven F. Udvar-Hazy

Executive Chairman, Air Lease Corporation
Board Lead Director
Chairman, Nominating & Corporate Governance Committee
Member, Compensation Committee
Member of the Board since 1986

W. Steve Albrecht

Emeritus Professor, Brigham Young University
Chairman, Audit Committee
Member, Nominating & Corporate Governance Committee
Member of the Board since 2012 (also served from 2003-2009)

Henry J. Eyring

President, Brigham Young University Idaho
Member, Audit Committee
Member, Compensation Committee
Member of the Board since 2006 (also served from 1995-2003)

Meredith S. Madden

Chief Executive Officer, NORDAM
Member, Compensation Committee
Member, Safety & Compliance Committee
Member of the Board since 2015

Ronald J. Mittelstaedt

Chairman, President & CEO, Waste Connections Inc
Member, Compensation Committee
Member, Nominating & Corporate Governance
Member, Safety & Compliance Committee
Member of the Board since 2013

Andrew C. Roberts

Chairman, STS Aviation Group, LLC
Chairman, Safety & Compliance Committee
Member, Audit Committee
Member of the Board since 2015

Keith E. Smith

President & Chief Executive Officer, Boyd Gaming Corporation
Chairman, Compensation Committee
Member, Audit Committee
Member of the Board since 2013

James L. Welch

Retired, Chief Executive Officer, YRC Worldwide, Inc
Member, Audit Committee
Member, Nominating & Corporate Governance Committee
Member, Safety & Compliance Committee
Member of the Board since 2007

CORPORATE INFORMATION

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Stock Transfer Department
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