

SKYWEST INC
Form 10-K
February 18, 2015

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from to

Commission File No. 0-14719

SKYWEST, INC.

Incorporated under the Laws of Utah

87-0292166

(IRS Employer ID No.)

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

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

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

Common Stock, No Par Value

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

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

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

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

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

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

Large accelerated
filer

Accelerated
filer

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

Smaller reporting
company

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

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

As of February 6, 2015, there were 51,337,574 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference

Portions of the registrant's proxy statement to be used in connection with the Registrant's 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report as specified.

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PART I

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

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

Cautionary Statement Concerning Forward-Looking Statements

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

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

ITEM 1. BUSINESS

General

Through SkyWest Airlines and ExpressJet, we offer scheduled passenger service with approximately 3,600 daily departures to destinations in the United States, Canada, Mexico and the Caribbean. Substantially all of our flights are operated as Delta Connection, United Express, US Airways Express, American Eagle or Alaska under code-share arrangements with Delta Air Lines, Inc. ("Delta"), United Air Lines, Inc. ("United"), US Airways Group, Inc. ("US Airways"), American Airlines, Inc. ("American") or Alaska Airlines, Inc. ("Alaska"), respectively. SkyWest Airlines and ExpressJet generally provide regional flying to our partners under long-term, fixed-fee code-share agreements. Among other features of our fixed-fee agreements, our partners generally reimburse us for specified direct operating expenses (including fuel expense, which is passed through to our partners), and pay us a fee for operating the aircraft.

On December 31, 2011, Atlantic Southeast and ExpressJet Delaware completed the ExpressJet Combination. Since November 17, 2011, the operations formerly conducted by Atlantic Southeast and

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ExpressJet Delaware have been conducted under a single operating certificate issued by the U.S. Federal Aviation Administration (the "FAA"). We currently anticipate that we will complete the integration of the labor groups of Atlantic Southeast and ExpressJet Delaware into ExpressJet during 2015 and 2016.

SkyWest Airlines and ExpressJet have developed industry-leading reputations for providing quality regional airline service during their long operating histories. SkyWest Airlines has been flying since 1972 and ExpressJet (and its predecessors) since 1979. As of December 31, 2014, our consolidated fleet consisted of a total of 749 aircraft, of which 425 were assigned to United, 239 were assigned to Delta, 29 were assigned to American, 15 were assigned to US Airways, nine were assigned to Alaska, two were subleased to unaffiliated entities and 30 were removed from service. We currently operate two types of regional jet aircraft: the Bombardier Aerospace ("Bombardier") regional jet, which comes in three different configurations: the 50-seat Bombardier CRJ200 Regional Jet (the "CRJ200"), the 70-seat Bombardier CRJ700 Regional Jet (the "CRJ700") and the 70-90-seat Bombardier CRJ900 Regional Jet (the "CRJ900"); and the Embraer S.A. ("Embraer") regional jet, which we operate in three different configurations the 50-seat Embraer ERJ-145 regional jet (the "ERJ145"), the 37-seat Embraer ERJ-135 regional jet (the "ERJ135"), and the 76-seat Embraer E-175 jet (the "E175"). We also operate the 30-seat Embraer Brasilia EMB- 120 turboprop (the "EMB120").

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

Our Operating Platforms

SkyWest Airlines

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

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

**

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

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

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

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

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

ExpressJet

ExpressJet provides regional jet service principally in the United States, primarily from airports located in Atlanta, Cleveland, Chicago (O'Hare), Denver, Houston, Detroit, Memphis, Newark, Minneapolis and Washington Dulles. ExpressJet offered more than 1,838 daily scheduled departures as of December 31, 2014, of which approximately 607 were Delta Connection flights, 1,138 were United Express flights and 93 were American Eagle flights. As of December 31, 2014, ExpressJet operated a fleet of 385 aircraft consisting of the following:

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

**

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

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

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

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

Competition and Economic Conditions

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

The principal competitive factors for code-share partner regional airlines are code-share agreement terms, customer service, aircraft types, fare pricing, flight schedules and markets and routes served. The principal competitive factors we experience with respect to our pro-rate flying include fare pricing, customer service, routes served, flight schedules, aircraft types and relationships with major partners.

The combined operations of SkyWest Airlines and ExpressJet represent the largest regional airline operations in the United States. However, many of the major and low-cost carriers are larger, and have greater financial and other resources than SkyWest Airlines and ExpressJet, individually or collectively. Additionally, regional carriers owned by major airlines, such as Endeavor, Envoy, PSA and Piedmont, may have access to greater resources, through their parent companies, than SkyWest Airlines and ExpressJet, and may have enhanced competitive advantages since they are subsidiaries of major airlines. Moreover, federal deregulation of the industry allows competitors to rapidly enter our markets and to quickly discount and restructure fares. The airline industry is particularly susceptible to price discounting because airlines incur only nominal costs to provide service to passengers occupying otherwise unsold seats.

Generally, the airline industry is highly sensitive to changes in general economic conditions, in large part due to the discretionary nature of a substantial percentage of both business and leisure travel. Many airlines have historically reported lower earnings or substantial losses during periods of economic recession, heavy fare discounting, high fuel costs and other disadvantageous environments. Economic downturns, combined with competitive pressures, have contributed to a number of reorganizations, bankruptcies, liquidations and business combinations among major and regional carriers. The effect of economic downturns may be somewhat mitigated by the predominantly contract-based flying arrangements of SkyWest Airlines and ExpressJet. In addition, if Delta or United, or any of our other code-share partners, experience a prolonged decline in passenger load or are negatively affected by low ticket prices or high fuel prices, they will likely seek to renegotiate their code-share agreements with SkyWest Airlines and ExpressJet, as applicable, or materially reduce scheduled flights in order to reduce their costs. In addition, adverse weather conditions can negatively impact our operations and financial condition.

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Industry Overview

Majors, Low-Cost Carriers and Regional Airlines

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

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

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

In contrast to low-cost carriers, regional airlines generally do not try to establish an independent route system to compete with the major airlines. Rather, regional airlines typically enter into relationships with one or more major airlines, pursuant to which the regional airline agrees to use its smaller, lower-cost aircraft to carry passengers booked and ticketed by the major airline between a hub of the major airline and a smaller outlying city. In exchange for such services, the major airline pays the regional airline either a fixed flight fee, termed "contract" or "fixed-fee" flights, or receives a percentage of applicable passenger ticket revenues, termed "pro-rate" or "revenue-sharing" flights as described in more detail below.

Relationship of Regional and Major Airlines

Regional airlines generally enter into code-share agreements with major airlines, pursuant to which the regional airline is authorized to use the major airline's two-letter flight designator codes to identify the regional airline's flights and fares in the central reservation systems, to paint its aircraft with the colors and/or logos of its code-share partner and to market and advertise its status as a carrier for the code-share partner. For example, SkyWest Airlines primarily operates as United Express out of Chicago (O'Hare), Denver, Houston, Los Angeles and San Francisco; as Delta Connection out of Salt Lake City, Detroit and Minneapolis; as an Alaska carrier out of Seattle and Portland; as a US Airways carrier out of Phoenix; and as American Eagle out of Los Angeles. ExpressJet operates primarily as Delta Connection out of Atlanta and Detroit; as United Express out of Chicago (O'Hare), Houston, Cleveland, Newark, Denver and Washington Dulles; and as American Eagle out of Dallas. Code-share agreements also generally obligate the major airline to provide services such as reservations, ticketing, ground support and gate access to the regional airline, and both partners often coordinate marketing, advertising and other promotional efforts. In exchange, the regional airline provides a designated number of low-capacity (usually between 30 and 76 seats) flights between larger airports served by the major airline and surrounding cities, usually in lower-volume markets. The financial arrangements between the regional airlines and their code-share partners usually involve contractual or fixed-fee payments based on the flights or a revenue-sharing arrangement based on the flight ticket revenues, as explained below:

Fixed-Fee Arrangements. Under a fixed-fee arrangement (referenced in this report as a "fixed-fee arrangement," "contract flying" or a "capacity purchase agreement"), the major airline generally pays the regional airline a fixed-fee for each departure, flight or block time incurred, and an amount per aircraft in service each month with additional incentives based on completion of

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flights, on- time performance and baggage handling performance. In addition, the major and regional airline often enter into an arrangement pursuant to which the major airline bears the risk of changes in the price of fuel and other such costs that are passed through to the major airline partner. Regional airlines benefit from a fixed-fee arrangement because they are sheltered from some of the elements that cause volatility in airline financial performance, including variations in ticket prices, passenger loads and fuel prices. However, regional airlines in fixed-fee arrangements do not benefit from positive trends in ticket prices (including ancillary revenue programs), passenger loads or fuel prices because the major airlines absorb most of these costs associated with the regional airline flight, and the margin between the fixed-fees for a flight and the expected per-flight costs tends to be smaller than the margins associated with revenue-sharing arrangements.

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

Code-Share Agreements

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

These code-share agreements authorize Delta, United, American, Alaska and US Airways to identify our flights and fares under their two-letter flight designator codes ("DL," "UA" "AA", "AS" or "US," respectively) in the central reservation systems, and generally require us to paint our aircraft with their colors and logos and to market our status as Delta Connection, United Express, American Eagle, US Airways Express or Alaska, as applicable. Under each of our code-share agreements, our passengers participate in the major partner's frequent flyer program, and the major partner provides additional services such as reservations, ticket issuance, ground support services and gate access. We also coordinate our marketing, advertising and other promotional efforts with our major partners. During the year ended December 31, 2014, approximately 88.2% of our passenger revenues related to fixed-fee contract flights, where Delta, United, Alaska, American and US Airways controlled scheduling, ticketing, pricing and seat inventories. The remainder of our passenger revenues during the year ended December 31, 2014 related to pro-rate flights for Delta, United or American, where we controlled scheduling, ticketing, pricing and seat inventories, and shared revenues with Delta, United or American according to pro-rate formulas. The following summaries of our code-share agreements do not purport to be complete and are qualified in their entirety by reference to the applicable agreement. The number of aircraft under our fixed-fee arrangements and our pro-rate arrangements as of December 31, 2014 is reflected in the summary below.

Table of Contents**Delta Connection Agreements**

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

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United Express Agreements

Agreement	Number of aircraft under contract	Term / Termination Dates	Pass-through costs or costs paid directly by major partner	Performance Incentive Structure	Payment Structure
SkyWest Airlines United Express Agreements (fixed-fee arrangement)	CRJ 200 61	The contract expires on an individual aircraft basis with expirations commencing in 2015			
	CRJ 700 70				
	E175 20				
	EMB 120 9				