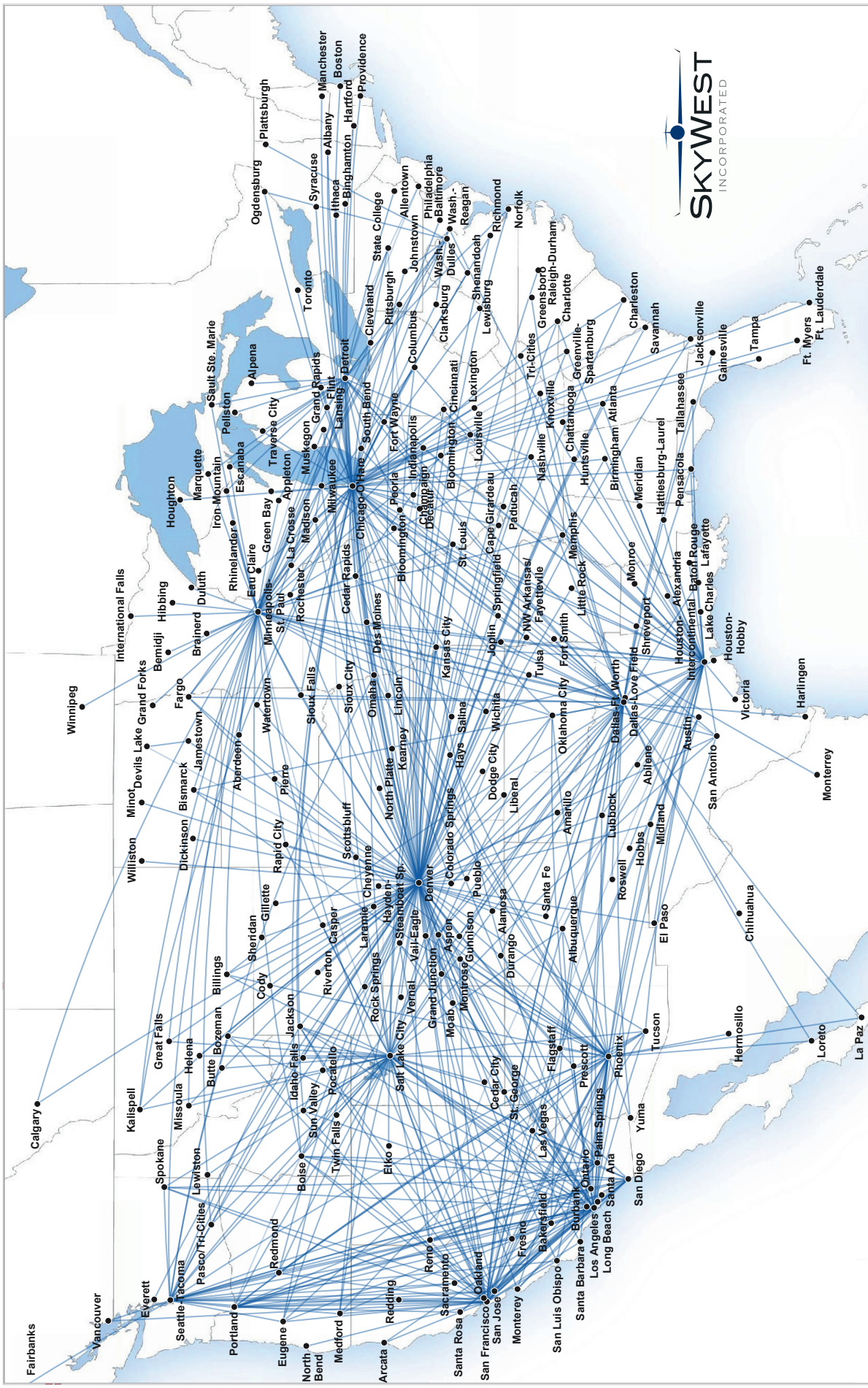




2020 ANNUAL REPORT

Notice of 2021 Annual Meeting and Proxy Statement



SKYWEST
INCORPORATED



To our Shareholders,

The COVID-19 pandemic changed the landscape of our industry in material ways. It tested the mettle of the airline industry, our business, and our people in every way. While we are still a long way from returning to 2019 demand levels, our teams continue to demonstrate remarkable flexibility. We've stayed proactive, maintained our focus, and learned invaluable lessons to adapt to the environment and keep our people, passengers, and business safe.

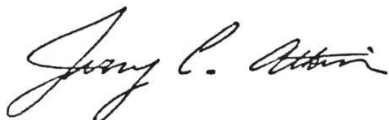
Very early in the pandemic, we set key priorities to ensure we successfully emerge from the crisis and ensure we play a key role in the recovery. First, the personal health and wellbeing of our people and passengers; second, maintaining strong cash and liquidity; and third, remaining strong and agile in working with our partners. We held firm to those priorities and are fortunate to maintain a strong balance sheet and product, and to have completed the year successfully avoiding furloughing any crewmember or mechanic.

During the most difficult year in our industry's history, SkyWest was honored to receive the Glassdoor Employees' Choice Award for the second year in a row, this year being named a top 50 recipient and the only regional airline company on the list. We have also been named to Forbes' America's Best Employers list for 2021, and again were the only regional airline on the list. This type of recognition is something we work together with our people to earn every day, and we're incredibly proud of our outstanding team of professionals.

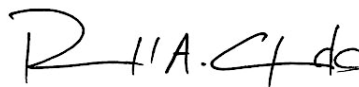
Against the challenging backdrop of 2020, we maintained our focus to successfully execute on our agreements and ensure we are prepared to play a central role in responding to demand recovery:

- Throughout the year, we maintained our strong delivery schedule while remaining flexible with our partners and their needs. We received 37 E175s for United and Delta, and removed 62 50-seat aircraft from service in our Delta and American operations. We also acquired additional aircraft within our leasing entity and have ensured that business is focused on assets within our operating footprint.
- We were among the first to successfully resume continued qualification training with expanded COVID testing across the operation, and maintained stringent requirements and processes for social distancing, cleaning and face coverings.
- We have stayed ahead of the latest industry and federal health guidance and our teams successfully adapted to the new normal.

We have spent the last several years reducing risk and enhancing fleet and financing flexibility to ensure we're well positioned. While the pandemic continues to impact the industry, we are confident our fleet will continue to fill a critical role in the return to travel. We are focused on remaining aggressive and deliberate to take care of our people and our customers as we seek to emerge from this crisis as a better, stronger business. We believe our competitive advantage is and will continue to be our ability to provide best in class operations, maintain strong liquidity, and invest for the future. We believe as we remain firm in our execution of these objectives, SkyWest will continue to create value for our employees, our customers and our investors. We want to thank our team of professionals for their good work in delivering exceptional performance and adapting to continue to deliver world-class service to our passengers last year.



Jerry C. Atkin
Chairman
SkyWest, Inc.



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

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, 2020

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	Trading Symbol(s)	Name of Each Exchange on which Registered
Common Stock, No Par Value	SKYW	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 for such shorter period that the registrant was required to file
such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically 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 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 has filed a report on and attestation to its management’s assessment of the
effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by
the registered public accounting firm that prepared or issued its audit report. ☒

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 30, 2020 was approximately \$1,635,572,360.

As of February 16, 2021, there were 50,344,080 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 2021 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, 2020.

SKYWEST, INC.
ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

	<u>Page No.</u>
PART I	
Cautionary Statement Concerning Forward-Looking Statements	3
Item 1. Business	3
Item 1A. Risk Factors	15
Item 1B. Unresolved Staff Comments	28
Item 2. Properties	28
Item 3. Legal Proceedings	29
Item 4. Mine Safety Disclosures	29
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	29
Item 6. Selected Financial Data	30
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ...	32
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	45
Item 8. Financial Statements and Supplementary Data	46
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure ...	81
Item 9A. Controls and Procedures	81
Item 9B. Other Information	83
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	83
Item 11. Executive Compensation	83
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	83
Item 13. Certain Relationships and Related Transactions	83
Item 14. Principal Accountant Fees and Services	83
PART IV	
Item 15. Exhibits and Financial Statement Schedules	83
Item 16. Form 10-K Summary	86
Signatures	88

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, 2018 and 2019 contained in this Report, include the financial results of ExpressJet for those respective periods through January 22, 2019, as the sale of ExpressJet did not qualify for presentation of discontinued operations (see Note 3 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 regarding the impact of the COVID-19 pandemic on our business, results of operations and financial condition and the impact of any measures, including travel restrictions, taken to mitigate the effect of the pandemic, 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 uncertainty of the duration, scope and impact of COVID-19; a further spread or worsening of COVID-19; the consequences of the COVID-19 pandemic to global economic conditions, the travel industry and our major airline partners in general and our financial condition and results of operations in particular; 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 Delta Air Lines, Inc. (“Delta”), United Airlines, Inc. (“United”), 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; 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. Additionally, the risks, uncertainties and other factors set forth above or otherwise referred to in the reports that the Company files with the Securities and Exchange Commission may be further amplified by the global impact of the COVID-19 pandemic. 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, we offer scheduled passenger service 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. As of December 31, 2020, we offered approximately 1,770 daily departures, of which approximately 620 were Delta Connection flights, 740 were United Express flights, 260 were American Eagle flights and

150 were Alaska Airlines flights. The number of flights we operated during 2020 was negatively impacted by the COVID-19 pandemic. See the section entitled “Competition and Economic Conditions” below for additional information regarding the COVID-19 impact on our operations.

We generally provide regional flying to our major airline partners under long-term, fixed-fee, code-share agreements. Under these fixed-fee agreements (commonly referred to as “capacity purchase 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 either directly pay for or reimburse us for specified direct operating expenses, including fuel expenses. Our operations are conducted principally at airports that support our major airline partners’ route network, including Chicago (O’Hare), Dallas, Denver, Detroit, Houston, Los Angeles, Minneapolis, Phoenix, Salt Lake City, San Francisco and Seattle.

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, 2020, we had 601 total aircraft in our fleet, including 452 aircraft in scheduled service under our code-share agreements, summarized as follows:

	<u>CRJ200</u>	<u>CRJ700</u>	<u>CRJ900</u>	<u>E175</u>	<u>Total</u>
Delta	26	6	39	71	142
United	104	19	—	90	213
American	—	65	—	—	65
Alaska	—	—	—	32	32
Aircraft in scheduled service	130	90	39	193	452
Leased to third parties	2	34	5	—	41
Other*	74	30	4	—	108
Total Fleet	206	154	48	193	601

*As of December 31, 2020, these aircraft have been removed from service and are in the process of being placed under a leasing arrangement with a third party, are aircraft transitioning between code-share agreements with our major airline partners and being used as supplemental spare aircraft, are available for future code-share agreements or are in the process of being parted out.

As of December 31, 2020, 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	70-76
Bombardier . .	CRJ700s	65-70
Bombardier . .	CRJ200s	50
Embraer	E175s	70-76

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 Bombardier CRJ900 and CRJ700 aircraft and the Embraer E175 (“E175”) aircraft we operate are configured with a first-class seating section. The Bombardier CRJ200 aircraft we operate are configured with single-class seating. 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 and any amendments to those reports filed with or furnished to 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.

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

Major airline partner	Agreement
United.	“United Express Agreements” and “United Express Prorate Agreement”
Delta.	“Delta Connection Agreement” and “Delta Connection Prorate Agreement”
American	“American 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 7.

SkyWest Leasing

SkyWest Leasing is a reportable segment which includes revenue associated with our financing of new aircraft with debt under our capacity purchase agreements, currently consisting of our E175 dual-class regional jet aircraft, and the depreciation and interest expense of our E175 aircraft. The SkyWest Leasing segment additionally includes the revenue and expense from leasing aircraft and engines to third parties. The SkyWest Leasing segment’s total assets and capital expenditures include the acquired E175 aircraft, and aircraft and engines leased to third parties.

As of December 31, 2020, SkyWest Leasing leased two CRJ200 aircraft, 34 CRJ700 aircraft and five CRJ900 aircraft and regional jet aircraft engines to third parties.

ExpressJet

ExpressJet was a reportable segment prior to our sale of ExpressJet in January 2019. ExpressJet’s operations were conducted principally from airports located in Atlanta, Chicago (O’Hare), Houston, Newark and New York.

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); Horizon Air Industries, Inc. (“Horizon”) (owned by Alaska Air Group, Inc.); GoJet Airlines, LLC, Mesa Air Group, Inc. (“Mesa”); and Republic Airways Holdings Inc. (“Republic”). 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. Additionally, each major airline may be limited in the number and type of regional aircraft it may use in its network due to agreements the major airline has with its own labor groups, commonly referred to in the industry as “scope limitations.” Given our major airline partners’ scope limitations, we currently do not operate a regional aircraft configured with more than 76 seats.

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 supporting 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. Also, major airline scope limitations may restrict growth opportunities for the regional carriers.

Impact of the COVID-19 Pandemic

COVID-19, which was declared a global health pandemic by the World Health Organization in March 2020, has continued to spread around the world and driven the implementation and continuation of significant, government-imposed measures to prevent or reduce its spread, including travel restrictions, closing of borders, “shelter in place” orders and business closures. Consequently, we and our major airline partners have experienced an unprecedented decline in the demand for air travel, which has materially and adversely affected our revenues, particularly under our prorate arrangements (as defined below). The continued spread of the virus and the ongoing global pandemic has affected nearly all of the domestic and international networks of our major airline partners for whom we conduct flight operations and rely on to set our flight schedules. While the length and severity of the reduction in demand due to COVID-19 is uncertain, we presently expect a continued negative impact on our results of operations in 2021 and possibly thereafter.

In response to these developments, we have implemented measures to focus on the personal safety of our passengers and employees, while at the same time seeking to mitigate the impact on our financial position and operations. These measures include, but are not limited to, the following:

Focus on the Personal Safety of Passengers and Employees. The safety and well-being of our passengers and employees are our priorities in every decision we make. As the COVID-19 pandemic has developed, we have taken numerous steps to help passengers and employees take appropriate safety measures on the ground and in the air in keeping with current Centers for Disease Control and Prevention recommendations, including:

- Working with our major airline partners to enhance our aircraft cleaning procedures.
- Working with our major airline partners to provide masks for crewmembers and ensuring that all fleet service personnel have the necessary personal protective equipment for disinfecting the aircraft.
- Providing a number of options to employees who are diagnosed with COVID-19, including pay protection and extended leave options.
- Implementing workforce social distancing and protection measures, and enhanced cleaning of our facilities, including training facilities, using methods and products similar to what we are using on our aircraft.

Capacity Reductions. Beginning in March 2020, we and our major airline partners experienced an unprecedented decrease in demand for air travel and expect this decline from pre-COVID-19 flight levels to continue throughout 2021 and possibly thereafter. We depend on our major airline partners to contract with us to operate scheduled flights. Therefore, in response to this decreased demand, we have significantly reduced our capacity.

Prior to the COVID-19 pandemic, we anticipated operating approximately 2,400 to 2,500 daily departures on average during each quarter of 2020. Due to COVID-19 related scheduled reductions, we operated approximately 2,300, 900, 1,500 and 1,700 average daily departures during the three months ended March 31, June 30, September 30 and December 31, 2020, respectively. We anticipate the number of daily scheduled flights we operate may not return to pre-COVID-19 levels by the end of 2021. We continue to work with our major airline partners regarding future schedules and make further demand-driven adjustments to our capacity as needed.

During 2020, we removed 55 CRJ200 regional aircraft from the SkyWest Airlines Delta Connection Agreement. These 55 aircraft had scheduled contract expirations in 2020 and were not extended due to decreased demand. We also terminated our American Prorate Agreement on seven CRJ200 aircraft in the second quarter of 2020 and we may have further reductions in the number of CRJ200 aircraft operating under our prorate agreements with our other major airline partners. These 62 CRJ200 aircraft removed from the aforementioned Delta and American agreements were fully depreciated upon removal from service and had no outstanding financing. We may receive requests by our major airline partners to defer deliveries of new or used aircraft that were previously scheduled for delivery in 2021 and 2022.

Cost Reductions. With the reduction in revenue, we have, and may continue to implement, cost saving initiatives, including:

- Reducing employee-related costs including by:
 - Offering voluntary unpaid leave to employees.
 - Temporarily suspending all non-scale pay increases.
 - Temporarily instituting a company-wide hiring freeze.
 - Furloughed various employees in administrative and overhead positions.
- Delaying non-essential projects and reducing or suspending other discretionary spending.

Although future passenger demand in 2021 and beyond is currently uncertain, given the directional increases in our scheduled flight levels from April 2020 through January 2021, we believe it is an important long-term strategy to retain our pilots, flight attendants and mechanics when reasonably possible, to enhance our ability to respond to increased demand from our major airline partners in 2021. We will continue to evaluate our labor strategy in 2021.

Liquidity. At December 31, 2020, we had \$1,530.4 million in total available liquidity, consisting of \$825.9 million in cash and marketable securities, \$39.5 million available under SkyWest Airlines' line of credit and an additional \$665.0 million related to the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") under our secured loan and guarantee agreement (the "Treasury Loan Agreement") with the U.S. Department of the Treasury ("Treasury"). See Note 2 "Impact of the COVID-19 Pandemic," to the consolidated financial statements for more information on the Treasury Loan Agreement.

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 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 operate using a point-to-point network strategy, rather than a hub and spoke network.

Regional airlines, including SkyWest, typically operate smaller aircraft on shorter 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 and compete with the major airlines. Rather, regional airlines typically enter into agreements 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 fixed fees to operate the flight, termed "capacity purchase agreement," "capacity purchase contract," "contract" or "fixed-fee" flights, or the regional airline receives a percentage of applicable passenger ticket revenues on designated flights operated by the regional airline, 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 capacity purchase arrangements or prorate arrangements as explained below:

- *Capacity Purchase Arrangements.* Under a capacity purchase arrangement (also referred to as a “capacity purchase agreement,” “capacity purchase contract,” “flying contract,” “fixed-fee arrangement,” or a “fixed-fee contract,”), 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), 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 capacity purchase arrangement, which is accounted for as a lease of the aircraft to our major airline partner. In addition, under a capacity purchase arrangement, the major airline bears the risk of fuel price fluctuations and certain other costs. Regional airlines benefit from capacity purchase arrangements because they are protected from some of the elements that typically cause volatility in airline financial performance, including variations in ticket prices, number of passengers onboard each flight and increasing fuel prices. However, regional airlines in capacity purchase 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 decreasing fuel prices, because the major airlines retain passenger fare volatility risk and fuel costs associated with the regional airline flight.
- *Prorate Arrangements.* Under a prorate arrangement (also referred to as a “prorate agreement” or “revenue-sharing” 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 prorate 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 Delta, United, American and Alaska. During the year ended December 31, 2020, approximately 87% of our flying agreements revenue related to capacity purchase agreement 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, 2020 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. We ceased operating under a prorate agreement with American during the 2020 calendar year. The routes placed under our prorate arrangements typically include flight service between one of our partners’ hub cities and a city not served under our capacity purchase arrangements.

Under our capacity purchase 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 capacity purchase arrangements and our prorate arrangements as of December 31, 2020 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 (capacity purchase arrangement)	<ul style="list-style-type: none">• E175• CRJ 900• CRJ 700	<ul style="list-style-type: none">71396	<ul style="list-style-type: none">• Individual aircraft have scheduled removal dates from 2021 to 2030• The average remaining term of the aircraft under contract is 5.7 years
Delta Connection Prorate Agreement (prorate arrangement)	<ul style="list-style-type: none">• CRJ 200	<ul style="list-style-type: none">26	<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 (capacity purchase arrangement)	<ul style="list-style-type: none">• E175• CRJ 700• CRJ 200	<ul style="list-style-type: none">901970	<ul style="list-style-type: none">• Individual aircraft have scheduled removal dates under the agreement between 2022 and 2029• The average remaining term of the aircraft under contract is 4.9 years
United Express Prorate Agreement (prorate arrangement)	<ul style="list-style-type: none">• CRJ 200	<ul style="list-style-type: none">34	<ul style="list-style-type: none">• Terminable with 120-day notice

American Capacity Purchase Agreement

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
American Agreement (capacity purchase arrangement)	<ul style="list-style-type: none">• CRJ 700	<ul style="list-style-type: none">65	<ul style="list-style-type: none">• Individual aircraft have scheduled removal dates from 2022 to 2026• The average remaining term of the aircraft under contract is 3.3 years

Alaska Capacity Purchase Agreement

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
Alaska Agreement (capacity purchase arrangement)	<ul style="list-style-type: none">• E175	<ul style="list-style-type: none">32	<ul style="list-style-type: none">• Individual aircraft have scheduled removal dates from 2027 to 2030• The average remaining term of the aircraft under contract is 8.2 years

In addition to the aircraft operating under the respective arrangements outlined above, SkyWest Airlines has agreed with its major airline partners to place additional aircraft under a capacity purchase arrangement as summarized below. We are coordinating with our major airline partners to optimize the timing of upcoming fleet deliveries in response to COVID-19 and the delivery timing referenced below is subject to change.

- Capacity purchase agreement with American for 20 new E175 aircraft. Aircraft deliveries are anticipated to begin in the third quarter of 2021 and continue into 2022. All 20 E175s are expected to be placed into service in 2022. We anticipate financing the aircraft through debt.
- Capacity purchase agreement with American for 25 used CRJ700 aircraft. The aircraft are anticipated to be placed into service throughout 2021. We anticipate using CRJ700s we already possess that are not currently under contract with a major airline partner to fulfill this agreement. Following the placement of these 25 CRJ700s, we are scheduled to have a total of 90 CRJ700s under a capacity purchase agreement with American.
- Capacity purchase agreement with Delta for one new CRJ900 aircraft. The aircraft is anticipated to be placed into service in 2021 and Delta is expected to finance this aircraft.

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 2030. 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; or
- 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.

United Express Agreements

We and United are parties to two United Express agreements: a United Express agreement to operate certain CRJ200 aircraft and CRJ700 aircraft, 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 2029. 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 2026 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. Each aircraft placed under the agreement has a 12-year term and the last aircraft placed into service with

Alaska is scheduled to terminate in 2030. 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 capacity purchase agreements with Delta, United, American and Alaska require the respective major airline partner to pay for fuel costs, either directly to the fuel vendor or 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 and United, 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, 2020, United, Delta and American purchased the majority of the fuel for our aircraft flying under their respective capacity purchase 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.

Human Capital Resources

Employee Profile

As of December 31, 2020, we employed 12,502 full-time equivalent employees, consisting of 5,090 pilots, 3,834 flight attendants, 961 airport operations personnel, 1,269 mechanics, 777 other maintenance personnel, 162 dispatchers and 409 operational support and administrative personnel. All our employees are employed by SkyWest Airlines. Certain SkyWest Airlines employees also provide administrative support to the SkyWest Leasing segment. Approximately 90.5% of these employees were represented by in-house labor associations that have entered into collective bargaining agreements regarding employee compensation and work rules. None of these employees are currently represented by an outside union. Outside 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 a change in labor representation of our employees. SkyWest Airlines has never 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 are governed by the Railway Labor Act (the “RLA”), the federal law governing labor relations between air carriers and their employees. 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. SkyWest Airlines respects all employees’ legal rights, including the rights to free association and collective bargaining. This includes the right to decide whether to be represented by a union. Our employees are covered by the RLA. Under the RLA, employees have the right to decide whether they wish to be represented by a union. They also have the right to reject union representation.

Health & Safety

Safety is the primary focus and foundation of culture with our first guiding principle being Health and Safety First. We expect our employees to think, plan communicate and act appropriately to prevent injury, illness or harm to themselves, fellow employees, passengers and aircraft. In response to the COVID-19 pandemic SkyWest launched various programs and initiatives to enhance the health and safety for employees, including:

- Enhanced cleaning and sanitization protocols across all aircraft and facilities
- Establishing social distancing procedures for employees
- Implementing mask requirement protocols
- Providing gloves, masks and other personal protective equipment and cleaning supplies
- Requiring daily health assessments for on-duty employees
- Implementing protocols to address COVID-19 cases and potential exposure
- Adding work-from-home flexibility for administrative employees
- Regular, ongoing communication regarding impacts of the COVID-19 pandemic, including health and safety protocols and procedures

We have also implemented a Safety Management System (“SMS”) that is designed to identify, track and help mitigate potential safety risks before an incident or accident occurs. Our employees receive required SMS training to stay current with all SMS resources provided by our safety department. Employees are encouraged to participate in our voluntary programs to report potential safety concerns or violations to reduce safety risk, including, but not limited to our Aviation Safety Action Program and Safety Concern Report.

- Aviation Safety Action Program is a non-punitive program that allows employees in participating work groups to self-disclose violations of policies and procedures. Each report is reviewed by an Event Review Committee who helps identify any potential trends and whether corrective actions have been put into place to prevent the problem from occurring in the future.
- Safety Concern Report is a confidential program that allows all employees to identify potential safety risks within the operation. Each is reviewed and investigated, as needed, by the Safety and Quality Department. Employees may also report safety concerns to their direct manager, the facility manager, a facility safety committee member or confidentially through our safety hotline.

Attracting, Developing and Retaining Talent

Recruitment Strategies

We strive to be the employer of choice for aviation professionals pursuing a career in the regional airline industry and we continually update our recruiting strategies to attract quality aviation professionals. We adapt our recruitment efforts based on the supply of eligible aviation professionals and our outlook for anticipated future flight schedules. Our recruiting focus generally targets key aviation technical roles, especially pilots and mechanics. We seek qualified individuals through publishing all positions on both internal and external career websites, supporting

professional development leads, investment in targeted advertising, social media outreach, employee referrals and relationships with community-based organizations and educational institutions.

School Partnerships and Development

We maintain relationships with numerous flight schools and educational institutions across the country that are focused on developing the next generation of aviation professionals. We typically recruit pilots and maintenance technicians that have completed required coursework from an accredited flight or maintenance school, respectively, and have obtained other applicable certifications. We also provide other programs to enhance our recruiting efforts towards individuals who are in process of completing their training, including a Pilot Pathway Program and a Maintenance Apprentice Program.

- The SkyWest Pilot Pathway Program provides a direct path for qualified pilots seeking to begin their aviation career in the regional airline industry. Participants benefit from the SkyWest Pilot Pathway Program through accelerated starting seniority at SkyWest, final interview privileges and access to pilot mentors. The Pilot Pathway Program allows students to remain at their campus to complete their flight training until they meet SkyWest's Airline Transport Pilot standards and achieve their required minimum hours of flight time. Each participant may also participate in SkyWest recruiting events and outreach programs on their way to fulfilling commercial pilot jobs.
- The SkyWest Maintenance Apprentice Program provides a career path for maintenance technicians seeking employment with SkyWest. Participants benefit from the SkyWest Maintenance Apprentice Program through accelerated starting seniority at SkyWest, guaranteed final interview and access to mechanic advisors.

On-going Training and Retention

SkyWest invests in retaining its professionals by providing a range of talent development opportunities, including mandatory compliance training, new hire training and general professional development, as well as engaging in the training of leaders through leadership development courses. Our training programs include full-motion flight simulators for pilots and cabin trainers for flight attendants. We also reinforce our guiding principles, including but not limited to, health and safety, excellent service and quality, and respect and teamwork through our training and development programs, as well as through our employee appreciation and recognition programs.

Diversity & Inclusion

Our approach is to hire the best qualified individuals, regardless of race, religion, gender, national origin, disability, sexual orientation or similar classifications. We believe every employee brings unique education, skills and life experiences to SkyWest that supplement our ability to achieve our commitment to excellence to our customers and passengers. As part of SkyWest's commitment to diversity, we have:

- Organized an Inclusion Council made up of frontline employees who work directly with the executive team to continue enhancing SkyWest's culture of respect and inclusion.
- Developed required training for all employees, which reviews our company policies, provides opportunities to apply policy to real-world examples, and reaffirms our commitment to diversity and inclusion.
- Created ongoing opportunities to highlight employees from different cultures throughout the year on internal and external websites.

Total Rewards

SkyWest Airlines operates in a customer-focused, team-based environment and provides opportunities for dedicated individuals develop their career while receiving competitive compensation, benefits, and rewards. Our employees receive several compensation benefits, including but not limited to:

- Competitive wages and incentives based on our operating performance goals,

- Multiple insurance options including health care, disability coverage, and life insurance coverage,
- Access to a 401(k) plan with matching contributions and an employee stock purchase plan,
- Employee assistance programs that provide confidential counseling or psychiatric care,
- A variety of resources that promote scheduling flexibility with paid time away from work, and
- Space-available travel privilege programs for employees and eligible family members through our major airline partner programs.

Employee Reporting

Our Code of Conduct contains general guidelines for conducting business in an ethical manner. We are committed to a working environment that is safe and supports open and honest communication. We have established a reporting system for any SkyWest employee to report a violation of company policy including harassment, discrimination, drug and alcohol use, questionable financial practice, or a breach involving safety or security. A general grievance may also be filed even if an employee has already utilized their chain of command or chooses to remain anonymous. Reports can be filed using a toll-free ethics and grievance hotline or by using an online reporting system on SkyWest's intranet.

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 maintain current certifications and otherwise comply with the laws, rules and regulations to which we are subject. Our flight operations, maintenance programs, recordkeeping 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.

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. Our board of directors has oversight of our environment-related performance. 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.

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, aircraft cleaning procedures, 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 capacity purchase 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 That May Disrupt Our Operations

The outbreak and global spread of COVID-19 has resulted in a severe decline in demand for air travel which has adversely impacted our and our major airline partners' business, operating results, financial condition and liquidity. The duration and severity of the COVID-19 pandemic, and similar public health threats that we may face in the future, could result in additional adverse effects on our and our major airline partners' business, operating results, financial condition and liquidity.

In March 2020, the World Health Organization declared COVID-19 a global health pandemic. COVID-19 is present in nearly all regions around the world and has resulted in travel restrictions and business slowdowns or shutdowns in affected areas. As a result, the United States government implemented various domestic and international travel advisories and has also implemented enhanced screenings, mandatory quarantine requirements and other travel restrictions in connection with the COVID-19 pandemic. Many foreign and U.S. state governments have instituted similar measures and declared states of emergency.

The COVID-19 outbreak, along with the measures governments and private organizations worldwide have implemented in an attempt to contain the spread of this pandemic, has resulted in a severe decline in demand for air travel, which has adversely affected our and our major airline partners' business, operations and financial condition to an unprecedented extent. Measures ranging from travel restrictions, "shelter in place" and quarantine orders, limitations on public gatherings to cancellation of public events have resulted in a precipitous decline in demand for both domestic and international business and leisure travel. In response to this material decrease in demand, our major airline partners, upon whom we depend to contract with us and to set our flight schedules, have drastically reduced their capacity in 2020 compared to 2019. We in turn have significantly reduced our capacity. We also anticipate schedule reductions below our 2019 flight levels will likely continue in 2021 and may continue thereafter. We will continue to work with our major airline partners regarding future schedules and make further demand-driven adjustments to our capacity as needed. The duration and severity of the COVID-19 pandemic remain uncertain, and there can be no assurance that these actions will suffice to sustain our business and operations through this pandemic.

During 2020, the COVID-19 pandemic had a negative impact on our revenues. Our total revenue decreased from \$2,972.0 million for the year ended December 31, 2019 to \$2,127.1 million for the year ended December 31, 2020, or 28.4%. Our total block hours on flights we operated decreased from 1.46 million for the year ended December 31, 2019 to 0.97 million for the year ended December 31, 2020, or 33.5%. Our prorate revenue, which is derived from passenger fares on flights we operate under our prorate agreements, decreased from \$521.0 million for the year ended December 31, 2019 to \$268.9 million for the year ended December 31, 2020, or 48.4%. The number of aircraft operating under our prorate agreements decreased from 67 aircraft as of December 31, 2019 to 60 aircraft as of December 31, 2020, or 10.4%. The negative impact to our revenues due to the COVID-19 pandemic and its associated effects on the travel industry is anticipated to continue into 2021 and potentially thereafter. Due to the materially reduced flight activity during 2020 from historical levels and based on anticipated increases in future monthly flight volumes over the remaining capacity purchase agreements term, we determined the fixed monthly cash payments per aircraft we received during 2020 was disproportionately high relative to the number of flights we operated during 2020. Accordingly, we deferred recognizing revenue of \$110.7 million of fixed monthly cash payments we received under our capacity purchase agreements during 2020. Our deferred revenue related to the fixed payments will adjust over the remaining contract term for each capacity purchase agreement based on the number of flights we complete each reporting period relative to the number of flights we anticipate completing over the remaining contract term of each capacity purchase agreement. The deferred revenue balance applicable to each contract will be recorded as revenue by the end of each respective contract term. Additionally, the majority of our capacity purchase agreements set forth an expectation of minimum levels of flight operations which our major airline partners are expected to schedule for our operations and we are expected to provide. These minimum flight operating levels are intended to provide a baseline expectation for aircraft utilization, which allows us to plan for labor requirements, maintenance facilities and related flight operations support. Historically, our major airline partners have scheduled our aircraft utilization which meet or exceed the minimum levels set forth in our code-share agreements; however, the COVID-19 pandemic has caused multiple of our major airline partners to reduce our utilization below the minimum expected levels for portions of 2020. In the event our fleet utilization does not return to pre-COVID levels, we may not be able to maintain operating efficiencies previously obtained, which would negatively impact our operating results and financial condition.

On April 23, 2020, SkyWest Airlines entered into a Payroll Support Program Agreement with Treasury that provides certain payroll support relief payments under the CARES Act, under which we received \$450.7 million through December 31, 2020. Additionally, on January 15, 2021 SkyWest Airlines entered into a Payroll Support Program Extension Agreement with Treasury under the Consolidated Appropriations Act, 2021 (the "2021 Appropriations Act") that provides similar payroll support relief payments, under which SkyWest Airlines expects to receive approximately \$233.1 million, of which SkyWest Airlines received \$116.5 in January 2021 and expects to receive the remaining balance in February 2021. Of the combined \$683.8 million expected to be received under the Payroll Support Program Agreement and Payroll Support Program Extension Agreement, approximately \$145.1 million was in the form of a ten-year unsecured term loan. The payroll support programs include certain restrictions, including requirements to maintain certain levels of scheduled service, restrictions on the payment of dividends and the repurchase of our common stock through October 1, 2022, and certain limitations on executive compensation. There is no assurance that we will receive additional payroll support from Treasury.

Additionally, during 2020 SkyWest Airlines entered into a secured loan and guarantee agreement with Treasury (the “Treasury Loan Agreement”), which permits us to borrow up to \$725 million under a five-year term. We have through May 28, 2021 to increase our borrowings under the Treasury Loan Agreement up to the permissible amount. As of December 31, 2020, we borrowed \$60 million under the Treasury Loan Agreement. The Treasury Loan Agreement, includes certain restrictions, including on the payment of dividends, repurchase of our common stock and executive compensation for a twelve-month period following repayment of the loan in full. The Treasury Loan Agreement is secured by certain aircraft and spare aircraft parts and is subject to periodical appraisals and loan-to-value ratios. The substance and duration of these restrictions may have materially negative affect our operations and financial results. We lose our ability to draw additional amounts under the Treasury Loan Agreement after May 28, 2021. In the event we repay the full amount outstanding under the Treasury Loan Agreement, the Treasury Loan Agreement will terminate.

We may also take additional actions to improve our financial position, including measures to improve liquidity, such as drawing down on SkyWest Airlines’ line of credit, the issuance of secured debt securities, and/or the entry into other debt facilities. There can be no assurance as to the timing of any such drawdown or issuance, which may be in the near term, or that any such additional financing will be completed on favorable terms, or at all. Any such actions could be conducted in the near term, may be material in nature and could result in significant additional borrowing. Measures to improve liquidity or other strategic actions that we may take in the future in response to COVID-19 may not be effective in offsetting decreased demand, and we will not be permitted to take certain strategic actions as a result of the CARES Act and the Payroll Support Program Extension Agreement, which could result in a material adverse effect on our business, operating results and financial condition.

The full extent of the ongoing impact of COVID-19 on our longer-term operational and financial performance will depend on future developments, many of which are outside of our control, including the effectiveness of the mitigation strategies discussed above, the duration and spread of COVID-19 and related travel advisories and restrictions, the impact of COVID-19 on overall long-term demand for air travel, the impact of COVID-19 on our financial health and operations and that of our major airline partners, and future governmental actions, all of which are highly uncertain and cannot be predicted. The COVID-19 pandemic has had a material impact, and the continuation of reduced demand could have a material adverse effect, on our business, operating results, financial condition and liquidity.

In addition, a further outbreak of COVID-19, an outbreak of another disease or similar public health threat, or fear of such an event, that affects travel demand, travel behavior or travel restrictions could have a material adverse impact on our business, financial condition and operating results and those of our major airline partners. Outbreaks of other diseases could also result in increased government restrictions and regulation, such as those actions described above or otherwise, which could adversely affect our operations.

Various 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, public health emergencies (including the COVID-19 pandemic), 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, new airlines entering the market, our major airline partners operating smaller sized aircraft that may reduce the demand for regional aircraft and other factors;
- actual or potential disruptions to U.S. air traffic control systems;
- price of jet fuel and oil that may negatively impact the number of flights we are scheduled to operate by our major airline partners under our capacity purchase agreements and may negatively impact the profitability of our prorate agreements;

- outbreaks of diseases and other illnesses 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.

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 supporting our major airline partners' route network 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 Chicago, Denver, Salt Lake City and San Francisco. A significant interruption or disruption in service at one of our hubs, due to adverse weather, system malfunctions, airport construction, 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.

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 and could affect our relationships with our major airline partners.

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

We rely on third party 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.

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; recordkeeping 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.

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.

Risks Related to Our Code-Share Agreements With Our Major Airline Partners

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 or acquiring a regional airline. 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 or regional airline could have a material adverse effect on our financial results. Additionally, our major airline partners may be limited in the number of regional aircraft they can operate in their network due to aircraft scope limitations they have with their labor groups. Scope limitations could limit our ability to increase the number of aircraft operating under our code-share agreements.

As of December 31, 2020, 355 out of our total 452 aircraft in scheduled service were operating under a capacity purchase arrangement or a prorate 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, and may not be a viable alternative.

Additionally, each of our agreements with our major airline partners is subject to certain early termination provisions, including uncured material performance breaches. We also currently use the systems, facilities and services of our major airline partners 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 our major airline partners ceased 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 personnel working for our major airline partners 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, our major airline partners could require us to sell or assign to them certain airport related 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. We may be unable to arrange such replacements on satisfactory terms, or at all.

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 we 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.

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

Various factors could change our major airline partners' long-term strategy in using regional aircraft to support their network objectives. Such changes could result in a reduction in the number of regional aircraft our major airline partners operate in the future. If our major airline partners' future strategies include a material reduction in regional aircraft generally or for specific aircraft types, such as 50-seat regional aircraft, the resulting decrease in demand in the aircraft we operate could have a material negative impact on our business and financial condition.

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.

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

Our prorate 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.

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. 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.

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 compete with other regional airlines on various factors including, but not limited to, labor resources, including pilots and mechanics; low operating costs; financial resources, including the ability to finance aircraft at competitive terms; geographical infrastructure; and overall customer service levels relating to on-time arrival and flight completion percentages. Our major airline partners rely on us to fly passengers from various locations into their hubs under our code-share agreements at competitive terms. 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 indirectly face competition from low-cost carriers, such as Southwest, Allegiant, Spirit and JetBlue among others, who compete with our major airline partners on many routes we operate. 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 inability to remain competitive on the various factors valued by our major airline partners could adversely affect our operating results and financial condition.

The airline industry has undergone substantial consolidation in recent years, 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.

Risks Related to Our Operating Costs and Personnel

Increases in labor costs, including pilot costs, maintenance costs and overhead costs may result in lower operating margins under our capacity purchase contracts.

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. Increases in our labor costs could result in a material reduction in our earnings. For example, during the year ended December 31, 2019 and 2020, our salary, wage and benefit costs constituted approximately 40.7% and 40.9% of our total operating costs, respectively. 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 capacity purchase 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, 2020, approximately 89.0% of our code-share operating costs were reimbursable at pre-determined rates and 11.0% of our code-share operating costs were directly reimbursed costs, or often referred to as 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. Also, on an individual aircraft basis, various in-depth maintenance procedures are typically scheduled to occur at multi-year intervals, which can result in maintenance expense fluctuations year-to-year. If our operating costs for labor, aircraft maintenance and overhead costs exceed the compensation earned from our pre-determined rates under our capacity purchase arrangements, our financial position and operating results will be negatively affected.

We may experience difficulty recruiting and retaining qualified pilots and maintenance technicians.

Our operations rely on qualified personnel, including pilots, flight attendants and maintenance technicians. Our pilots, flight attendants and maintenance technicians may seek employment at mainline airlines, which generally offer higher salaries and more extensive benefit programs than regional airlines are financially able to offer. Should the turnover of employees, particularly pilots and maintenance technicians, sharply increase, we may not be able to hire sufficient pilots and maintenance technicians to replace those leaving. Additionally, FAA regulations regarding personnel certification and qualifications, and potential future changes in FAA regulations, could limit the number of qualified new entrants that we could hire. In the event we are unable to hire and retain qualified personnel, including pilots and mechanics, our business and financial condition could be adversely affected.

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. 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 union-involved collective bargaining may increase our operating expenses and negatively 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 difficult 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 capacity purchase 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, 2020, we operated 34 CRJ200s under a prorate agreement with United and 26 CRJ200s under a prorate agreement with Delta. 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.

Risks Related to Operating and Leasing Regional Jet Aircraft and Engines

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 and availability of new aircraft deliveries could be delayed beyond our control.

We have a significant amount of contractual long-term debt obligations.

As of December 31, 2020, we had a total of approximately \$3.2 billion in total long-term debt obligations. Our long-term debt obligations include \$3.07 billion related to the acquisition of aircraft, \$105.2 million related to borrowings under the Payroll Support Program Agreement with Treasury under the CARES Act and \$60.0 million related to borrowings under the Treasury Loan Agreement. Excluding aircraft financed by our major partners that we operate for them under contract, we had 41 aircraft under long-term lease agreements as of December 31, 2020, with remaining terms up to ten years. Future minimum lease payments due under all long-term operating leases were approximately \$359.7 million at December 31, 2020. At a 6.1% discount factor, which is the average rate used to approximate the implicit rates within the applicable leases, the present value of these lease obligations was equal to approximately \$288.6 million at December 31, 2020. 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.

Under our capacity purchase agreements, 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. In the event any of our major airline partners defaults under a capacity purchase agreement or we are unable to extend the flying contract terms on aircraft with ongoing financial obligations, our financial position and financial results could be materially adversely affected.

In addition, in response to the travel restrictions, decreased demand and other effects the COVID-19 pandemic has had and is expected to have on our business, we may seek material amounts of additional financial liquidity in the short-term, which may include drawing down on SkyWest Airlines' line of credit, the issuance of secured debt securities and/or the entry into other debt facilities, among other items. There can be no assurance as to the timing of any such drawdown or issuance, which may be in the near term, or that any such additional financing will be completed on favorable terms, or at all. In addition, we have received financial assistance that is available to the airline industry under the CARES Act and the 2021 Appropriations Act, which financial assistance subjects us and our business to certain restrictions, including, but not limited to, restrictions on the payment of dividends and the repurchase of our common stock, and certain limitations on executive compensation for a twelve-month period following the full repayment of borrowings under the Treasury Loan Agreement.

If our liquidity is materially diminished, we might not be able to timely pay our leases and debts or comply with certain covenants under SkyWest Airlines' line of credit, Treasury Loan Agreement or with other material provisions of our contractual obligations.

Our anticipated fleet replacement would require a significant increase in our leverage and the related cash requirements.

We currently have 206 CRJ200s, of which 130 were in-service as of December 31, 2020, with an average life of 18.5 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 and results of operations 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.

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

As of December 31, 2020, we had approximately \$5.4 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. An impairment on any of our aircraft types we operate or an increased level of depreciation expense resulting from a change to our depreciation policy and assumptions could result in a material negative impact to our financial results.

We have aircraft lease and debt commitments that extend beyond our existing capacity purchase contractual term on certain aircraft.

Under our capacity purchase agreement with one of our major airline partners, we have a total of 18 CRJ700s with flying contract expirations scheduled between 2022 and 2023. Our underlying 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.

We lease aircraft and engines to third parties and the lessee may default under the lease terms, which could negatively affect our financial condition, cash flow and results of operations.

We lease CRJ aircraft and engines used on CRJ aircraft to third parties. In the event a lessee defaults under the terms of the lease agreement, we may incur additional costs, including legal and other expenses necessary to repossess the aircraft or engines, particularly if the lessee is contesting the proceedings or is in bankruptcy. We could also incur substantial maintenance, refurbishment or repair costs if a defaulting lessee fails to pay such costs and where such maintenance, refurbishment or repairs are necessary to put the aircraft or engines in suitable condition for remarketing or sale. We may also incur storage costs associated with any aircraft or engine that we repossess and are unable to place immediately with another lessee. Even if we are able to immediately place a repossessed aircraft or engine into service ourselves, or place the aircraft and engines under another lessee, we may not be able to do so at a similar or favorable lease rate. A lessee default under one of our lease agreements could negatively affect our financial condition, cash flow and results of operations.

We have entered into a strategic engine leasing joint venture that operates under joint control with a third party that involves significant risk.

We have entered into a strategic engine joint venture with a third party to lease engines to other parties. This strategic venture involves significant risks, including:

- we may not realize a satisfactory return on our investment;
- the joint venture may divert management's attention from our core business;
- our joint venture partner could have investment goals that are not consistent with our investment objectives, including the timing, terms and strategies for any investments; and
- our joint venture partner might fail to fund their share of required capital contributions or fail to fulfill their other obligations.

Although we currently participate in the management of our engine joint venture, our joint venture agreement requires unanimous approval over all significant actions. In addition, if we were unable to resolve a dispute with our joint venture partner that retains material managerial veto rights, we might reach an impasse that could require us to dissolve the joint venture at a time and in a manner that could negatively affect our financial results.

We are subject to various environmental requirements, including laws and regulations related to climate change and emissions. Compliance with new or existing environmental requirements could materially and adversely affect the Company's business plans, strategies, and results of operations.

We are subject to federal, state, and local laws and regulations relating to the protection of the environment, including those relating to aircraft and ground-based emissions, discharges into water systems, safe drinking water, and the management of hazardous substances and waste materials. Certain legislative bodies and regulatory authorities are increasingly focused on climate change and have taken actions to implement additional laws, regulations, and programs intended to protect the environment. For example, the federal government, as well as several state and local governments, have implemented legislative and regulatory proposals and voluntary measures intended to reduce greenhouse gas emissions. Compliance with laws, regulations, and other programs intended to reduce emissions or otherwise protect the environment may require us to reduce our emissions, secure carbon offset credits or otherwise pay for emissions, or make capital investments to modify certain aspects of our operations to reduce emissions. Future policy, legal, and regulatory developments relating to the protection of the environment could increase our costs and have a material adverse effect on our operations.

Risks Related to Dividends, Share Repurchases and Our Common Stock

We are currently restricted from paying dividends or repurchasing our stock under the CARES Act Treasury Loan Agreement we executed in 2020 and the Payroll Support Program Extension Agreement we executed in January 2021.

Historically, we have paid dividends and repurchased shares of our common stock in varying amounts. During 2020, we entered into two agreements with Treasury under the CARES Act, the Payroll Support Program Agreement and the Treasury Loan Agreement. Additionally, in January 2021 we entered into the Payroll Support Program Extension Agreement with Treasury under the 2021 Appropriations Act. Each of these agreements restrict us from the payment of dividends and the repurchase of our common stock. The dividend and share repurchase restriction term is longer under the Treasury Loan Agreement, which is a twelve-month period following repayment of the loan in full. Although the Treasury Loan Agreement has a five-year term, we may repay the loan in full prior to the termination date without penalty. There is no assurance we will repay the loan in full prior to the loan termination date.

Following the dividend and share repurchase restriction lapse under the Treasury Loan Agreement, there can be no assurance that we will resume our past practice of paying dividends on our common stock or that we will have the financial resources to pay such dividends. Similarly, 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. The future payment of dividends 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.

If we resume paying cash dividends or resume a share repurchase program in the future, such dividends and repurchases 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, resuming 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.

We issued warrants to purchase shares of our common stock to Treasury for relief we received under the CARES Act and the 2021 Appropriations Act, and we are obligated to issue additional warrants to Treasury if we borrow additional amounts under our Treasury Loan Agreement.

During 2020, we issued warrants to purchase 370,220 shares of our common stock with an exercise price of \$28.38 per share to Treasury as consideration for payroll support payments we received under the CARES Act payroll support program. Also, during 2020 we issued warrants to purchase 211,416 shares of our common stock with an exercise price of \$28.38 per share to Treasury as consideration for borrowing \$60.0 million under the Treasury Loan Agreement. We are eligible to borrow up to \$725.0 million under the Treasury Loan Agreement through May 28, 2021, subject to the terms of the Treasury Loan Agreement. On the date of any subsequent borrowing under the Treasury Loan Agreement, we obligated to issue to Treasury an additional warrant for a number of shares of our common stock equal to 10% of such borrowing amount, divided by the exercise price of \$28.38 per share. Additionally, in January 2021, we agreed to issue warrants to purchase up to 98,815 shares of our common stock with an exercise price of \$40.41 per share to Treasury as consideration for payroll support payments we received under the 2021 Appropriations Act. As of February 22, 2021, we had issued 12,288 of such warrants.

If we increase our borrowings under the Treasury Loan Agreement, our obligation to issue additional warrants to Treasury may be dilutive to existing shareholders. Additionally, if Treasury exercises its option to purchase shares of our common stock under warrants previously issued to Treasury, such exercise will be dilutive to our shareholders.

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.

General Risk Factors

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 be a party to litigation in the normal course of business or otherwise, which could affect our financial condition and results of operations.

We may become party to or otherwise involved in legal proceedings, claims and government inspections or investigations and other legal matters, arising in the ordinary course of our business or otherwise, including those related to tort, environmental, employment and commercial legal issues. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within our control. Litigation is subject to significant uncertainty and may be expensive, time-consuming, and disruptive to our operations. Although we will vigorously defend ourselves in such legal proceedings, their ultimate resolution and potential financial and other impacts on us are uncertain. If a legal proceeding is resolved against us, it could result in significant compensatory damages or injunctive relief that could materially adversely affect our financial condition, results of operations and cash flows.

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.

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 U.S. air traffic control systems, power, telecommunications or the internet, may disrupt our internal network. Any individual failure 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, cybersecurity threats pose a potential risk to the security of our information technology systems, networks and services, as well as the confidentiality and integrity of our data. Cybersecurity risks may include security breaches, computer viruses, malicious or destructive code, ransomware and other attacks. 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Flight Equipment

As of December 31, 2020, our fleet operating under our code-share agreements 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	15	24	70-76	1,500	530	9.9
CRJ700s	63	27	65-70	1,600	530	15.0
CRJ200s	120	10	50	1,500	530	18.1
E175s	162	31	70-76	2,100	530	3.9

Several factors may impact our fleet size throughout 2021 and thereafter, including, but not limited to, contract expirations that are not renewed, reductions in our prorated fleet, lease expirations that are not extended and growth opportunities. Below is our 2021 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 due to demand uncertainty resulting from COVID-19 and other factors.

- E175s – We anticipate taking delivery of 20 new E175 aircraft under a capacity purchase agreement with American. We anticipate financing these aircraft with debt and deliveries are anticipated to begin in the third quarter of 2021 and continue in 2022. We anticipate placing the aircraft into service in 2022.
- CRJ900s – We anticipate taking delivery of one new CRJ900 aircraft under a capacity purchase agreement with Delta during 2021, with Delta financing the aircraft.
- CRJ700s – We anticipate placing 25 used CRJ700s into service under a capacity purchase agreement with American during 2021. We will use aircraft we own and were not operating under a code-share agreement with any of our major airline partners as of December 31, 2020. Following the placement of these 25 CRJ700s, we are scheduled to have a total of 90 CRJ700s under a capacity purchase agreement with American.
- CRJ200s – As a result of the COVID-19 demand decrease in 2020, we reduced the number of CRJ200s operating under code-share agreements from 190 as of December 31, 2019 to 130 as of December 31, 2020. Various factors, including but not limited to, changes in passenger demand on routes typically serviced by CRJ200 aircraft and anticipated costs to maintain our older CRJ200 fleet could result in higher or lower demand for our CRJ200 fleet in 2021 and subsequent periods.

Ground Facilities

We lease many of the buildings and associated land that we occupy. Most of these leases are for facilities at airports with various government agencies that control the use of the airport. We lease maintenance, training and office facilities in Salt Lake City, Utah, and we lease additional maintenance facilities in Boise, Idaho; Fresno, California; Tucson, Arizona; Chicago, Illinois; Detroit, Michigan; Nashville, Tennessee; South Bend, Indiana; Fort Wayne, Indiana; and San Luis Obispo, California. We also lease ticket counters, passenger hold rooms, operating areas and other terminal space in many of the airports that we serve.

We own our corporate headquarters facilities located in St. George, Utah and a maintenance accessory shop facility in Salt Lake City, Utah. We also own maintenance facilities on land leases with airport authorities in Milwaukee, Wisconsin; Oklahoma City, Oklahoma; Colorado Springs, Colorado; and Palm Springs, California.

ITEM 3. LEGAL PROCEEDINGS

We are subject to certain legal actions which we consider routine to our business activities. As of December 31, 2020, 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 16, 2021, there were approximately 4,010 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

In February 2020, our Board of Directors declared a regular dividend of \$0.14 per share. No subsequent dividends were declared during the 2020 calendar year. During 2019, our Board of Directors declared regular quarterly dividends of \$0.12 per share. Pursuant to the terms of our Treasury Loan Agreement, we are restricted from paying dividends for a twelve-month period following repayment of the loan in full. We had borrowings outstanding under the Treasury Loan Agreement as of December 31, 2020.

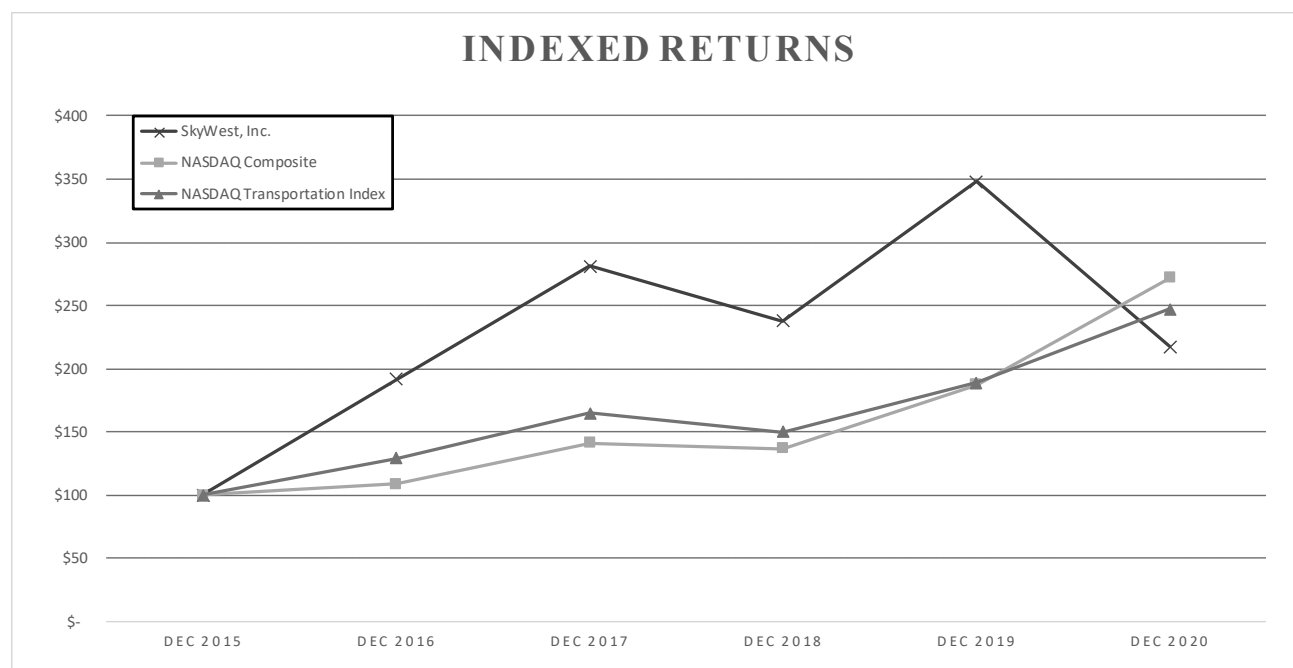
Issuer Purchases of Equity Securities

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. Our stock repurchase program currently authorizes the repurchase of up to \$250.0 million of our common stock. No shares of common stock were repurchased under our repurchase program during the three months ended December 31, 2020. Pursuant to the terms of our Treasury Loan Agreement, we are restricted from repurchasing shares of our common stock for a twelve-month period following repayment of the loan in full. We had borrowings outstanding under the Treasury Loan Agreement as of December 31, 2020.

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, 2020, 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				
	2015	2016	2017	2018	2019	2020
SkyWest, Inc.	100	191.90	281.25	237.66	347.96	217.78
NASDAQ Composite.	100	108.87	141.13	137.12	187.44	271.64
NASDAQ Transportation Index.	100	129.22	164.82	149.92	188.80	247.07

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,				
	2020	2019	2018	2017	2016
Operating revenues	\$ 2,127,106	\$ 2,971,963	\$ 3,221,679	\$ 3,122,592	\$ 3,063,702
Operating income (loss)(1)	108,802	512,258	474,280	388,199	(172,684)
Net income (loss)(2)	(8,515)	340,099	280,372	428,907	(161,586)
Net income (loss) per common share:					
Basic	\$ (0.17)	\$ 6.68	\$ 5.40	\$ 8.28	\$ (3.14)
Diluted	\$ (0.17)	\$ 6.62	\$ 5.30	\$ 8.08	\$ (3.14)
Weighted average shares:					
Basic	50,195	50,932	51,914	51,804	51,505
Diluted	50,195	51,375	52,871	53,100	51,505
Total assets(3)	\$ 6,887,622	\$ 6,657,129	\$ 6,313,212	\$ 5,474,400	\$ 5,007,966
Current assets(3)	982,802	760,346	1,020,794	995,133	917,792
Current liabilities	941,722	924,676	924,826	820,825	747,265
Long-term debt, net of current maturities	2,801,538	2,628,989	2,809,768	2,377,346	2,240,051
Stockholders' equity	2,139,545	2,175,014	1,964,281	1,754,322	1,350,943
Return (loss) on average equity(4)	(0.4)%	16.4 %	15.1 %	27.6 %	(12.0)%
Cash dividends declared per common share	\$ 0.14	\$ 0.48	\$ 0.40	\$ 0.32	\$ 0.19

- (1) Our 2019 operating income included a special charge of \$21.9 million, primarily consisting of a non-cash write-off of aircraft manufacturer part credits that SkyWest Airlines forfeited to settle future lease return obligations. 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.
- (2) Our net income for 2019 included a \$46.5 million gain on the sale of ExpressJet. 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 Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("Topic 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,				
	2020	2019 (1)	2018	2017	2016
Block hours	973,338	1,464,405	1,757,047	1,839,779	1,938,492
Departures	585,257	842,098	1,010,053	1,087,052	1,153,480
Passengers carried	21,255,931	43,660,766	48,350,470	51,483,552	53,539,438
Average passenger trip length	500	500	523	512	523
Number of operating aircraft at end of year(2)	452	483	596	595	652

- (1) Excludes ExpressJet operating data since ExpressJet was sold during January 2019.
- (2) Excludes aircraft we are not operating under code-share agreement with our major airline partners, such as aircraft leased to third parties and aircraft in storage following removal from a flying agreement.

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, 2020, 2019 and 2018. Also discussed is our financial position as of December 31, 2020 and 2019. 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.

This section of this Annual Report on Form 10-K generally discusses 2020 and 2019 items and year-to-year comparisons between 2020 and 2019. Discussions of 2018 items and year-to-year comparisons between 2019 and 2018 that are not included in this Annual Report on Form 10-K can be found in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Overview

We have the largest regional airline operation in the United States. As of December 31, 2020, we offered scheduled passenger and air freight service with approximately 1,770 total daily departures to destinations in the United States, Canada, Mexico and the Caribbean. The number of flights we operated during 2020 was negatively impacted by the COVID-19 pandemic. See Competition and Economic Conditions section for additional information regarding the COVID-19 impact on our operations on page 5. As of December 31, 2020, we had 601 total aircraft in our fleet, including 452 aircraft in scheduled service under our code-share agreements, summarized as follows:

	CRJ200	CRJ700	CRJ900	E175	Total
Delta	26	6	39	71	142
United	104	19	—	90	213
American	—	65	—	—	65
Alaska	—	—	—	32	32
Aircraft in scheduled service	130	90	39	193	452
Leased to third parties	2	34	5	—	41
Other*	74	30	4	—	108
Total Fleet	206	154	48	193	601

*As of December 31, 2020, these aircraft have been removed from service and are in the process of being placed under a leasing arrangement with a third party, are aircraft transitioning between code-share agreements with our major airline partners and being used as supplemental spare aircraft, are available for future code-share agreements or are in the process of being parted out.

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. The COVID-19 pandemic had a significant impact to our operations including a reduction in the number of flights we were scheduled to operate during 2020 and changes we made to enhance the safety of our passengers and employees, including aircraft cleaning procedures and use of personal protective equipment.

During the 2020 calendar year, we made several changes to our fleet count under our flying agreements, including the addition of 37 new E175 aircraft, and the removal of four CRJ900 aircraft, four CRJ700 aircraft and 60 CRJ200 aircraft. Additionally, during the 2020 calendar year, we increased the number of CRJ700 aircraft we leased to third parties from 10 aircraft to 34 aircraft. Leases on two CRJ200 aircraft with third parties terminated during 2020.

We anticipate our fleet will continue to evolve, as we are scheduled to add 20 new E175 aircraft with American, 25 used CRJ700 aircraft with American and one new CRJ900 aircraft with Delta by the end of 2022. Timing of these anticipated deliveries may be subject to change as we are coordinating with our major airline partners in response to the COVID-19 pandemic's impact on demand. Our primary objective in the fleet changes is to improve our profitability by adding new E175 aircraft to capacity purchase agreements, and potentially removing older aircraft from service that typically require more maintenance cost.

For the year ended December 31, 2020, approximately 47.1% of our aircraft in scheduled service were operated for United, approximately 31.4% were operated for Delta, approximately 14.4% were operated for American and approximately 7.1% 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 capacity purchase arrangements and our prorate flying arrangements. For the year ended December 31, 2020, contract flying revenue and prorate revenue represented approximately 87.0% and 13.0%, 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, the number of aircraft under contract and other operating measures. On prorate routes, we have more control over scheduling, pricing and seat inventories, we share passenger fares with our major airline partners according to prorate formulas and we are responsible for the operating costs of the prorate flights, including fuel and airport costs.

Our financial and operating results for the years ended December 31, 2018 and 2019 contained in this Report, include the financial results and position of ExpressJet through January 22, 2019 for those respective periods.

Financial Highlights

We had total operating revenues of \$2.1 billion for the year ended December 31, 2020, a 28.4% decrease compared to total operating revenues of \$3.0 billion for the year ended December 31, 2019. We had a net loss of \$8.5 million, or \$0.17 loss per share, for the year ended December 31, 2020, compared to net income of \$340.1 million, or \$6.62 per diluted share, for the year ended December 31, 2019. The significant items affecting our revenue and operating expenses during the year ended December 31, 2020 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 capacity purchase arrangements. The number of flights we operate and the corresponding number of passengers we carry are the primary drivers to our revenue under our prorate flying agreements. As a result of lower passenger demand from the COVID-19 pandemic, the number of aircraft we operated decreased from 483 as of December 31, 2019 to 452 as of December 31, 2020; the number of block hours decreased from 1.5 million in 2019 to 1.0 in 2020, or by 33.5%; and the number of passengers we carried decreased from 43.7 million in 2019 to 21.3 in 2020, or by 51.3%.

As a result of reduced flight schedules and fewer aircraft operating under our capacity purchase agreements in 2020 compared to 2019, our capacity purchase revenue decreased \$576.4 million, or 24.3% in 2020. Additionally, we deferred recognizing revenue on \$110.7 million of fixed monthly payments received under our capacity purchase agreements during 2020 as a result of significant reductions to our flight schedules as further described in the section of this Report entitled "Results of Operations." Also, as a result of a reduction in the number of aircraft operating under our prorate agreements and fewer passengers carried on our prorate routes, our prorate revenue decreased by \$252.1 million, or 48.4% in 2020. The negative impact to our revenues due to the COVID-19 pandemic and its associated effects on the travel industry is anticipated to continue in 2021 and may continue into subsequent periods.

Operating Expenses

Our total operating expenses decreased \$441.4 million, or 17.9% for the year ended December 31, 2020 compared to the year ended December 31, 2019. This decrease was primarily due to a significant reduction in the number of flights we operated as a result of the COVID-19 pandemic. Departures decreased from 842,098 in 2019 to 585,257 in 2020, or by 30.5%. Additionally, during 2020 we recorded \$345.5 million in payroll support grants received from Treasury under the CARES Act as an offset to our operating expenses. Additional details regarding the decrease 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 2020:

Aircraft in Service	December 31, 2019	Additions	Removals	December 31, 2020
E175s	156	37	—	193
CRJ900s	43	—	(4)	39
CRJ700s	94	3	(7)	90
CRJ200s	190	2	(62)	130
Total	483	42	(73)	452

During 2020, we took delivery of 37 new E175 aircraft and placed the aircraft into service under capacity purchase agreements. We removed four CRJ900 aircraft from service, four (net) CRJ700 aircraft from service and 60 (net) CRJ200 aircraft from service. We are evaluating alternative uses for the four CRJ900 aircraft removed from service and we anticipate placing the four (net) CRJ700 aircraft into service with American in 2021. We returned 19 CRJ200s to the lessor and we anticipate storing the remaining 41 CRJ200s removed from service. We own the 41 CRJ200 aircraft removed from service and the aircraft are fully depreciated with no outstanding financial obligations.

Results of Operations

2020 Compared to 2019

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, 2020, compared to the year ended December 31, 2019, was due to the decrease in demand related to the COVID-19 pandemic.

	For the year ended December 31,		
	2020	2019	% Change
Block hours by aircraft type:			
E175s	435,557	529,008	(17.7)%
CRJ900s	66,640	124,860	(46.6)%
CRJ700s	200,860	298,599	(32.7)%
CRJ200s	270,281	511,938	(47.2)%
Total block hours	973,338	1,464,405	(33.5)%
Departures	585,257	842,098	(30.5)%
Passengers carried	21,255,931	43,660,766	(51.3)%
Passenger load factor	56.4 %	82.3 %	(25.9)pts
Average passenger trip length (miles)	500	500	NC

NC = No Change

Operating Revenues

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

	For the year ended December 31,			
	2020	2019	\$ Change	% Change
Flying agreements	\$ 2,060,801	\$ 2,889,265	\$ (828,464)	(28.7)%
Lease, airport services and other	66,305	82,698	(16,393)	(19.8)%
Total operating revenues	\$ 2,127,106	\$ 2,971,963	\$ (844,857)	(28.4)%

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. Lease, airport services and other revenues consist of revenue earned from leasing aircraft and spare engines to third parties separate from our capacity purchase agreements and providing airport counter, gate and ramp services.

We disaggregate our flying agreements revenue into the following categories (dollar amounts in thousands):

	For the year ended December 31,			
	2020	2019	\$ Change	% Change
Capacity purchase agreements revenue: flight operations	\$ 945,008	\$ 1,538,062	\$ (593,054)	(38.6)%
Capacity purchase agreements revenue: aircraft lease and fixed revenue	846,933	830,247	16,686	2.0 %
Prorate agreements revenue	268,860	520,956	(252,096)	(48.4)%
Flying agreements revenue	\$ 2,060,801	\$ 2,889,265	\$ (828,464)	(28.7)%

The decrease in “Capacity purchase agreements revenue: flight operations” of \$593.1 million was due to a reduction in flights we were scheduled to operate by our major airline partners in 2020 as a result of decreased passenger demand in response to the COVID-19 pandemic. Our completed departures decreased 30.5% and completed block hours decreased 33.5% during 2020 compared to 2019.

The increase in “Capacity purchase agreements revenue: aircraft lease and fixed revenue” of \$16.7 million was due to the incremental lease revenue generated from six new E175 aircraft that we acquired through debt added to capacity purchase agreements and increases to the fixed monthly rates made to certain existing capacity purchase agreements that were extended since December 31, 2019. For clarity, we added a total of 37 new E175 to our capacity purchase agreements during 2020, however our major airline partners acquired 31 of these E175s and we have no aircraft ownership lease revenue associated with these 31 E175s.

The increase in “Capacity purchase agreements revenue: aircraft lease and fixed revenue” in 2020 compared to 2019 was partially offset by deferred revenue we recorded in 2020 attributed to the fixed cash payments per aircraft we received under our capacity purchase agreements compared to 2019. Under our capacity purchase agreements, we are paid a fixed amount per month per aircraft over the contract term. We recognize the fixed amount per aircraft as revenue proportionately to the number of flights we complete, our performance obligation, for each reporting period. We operated a materially lower number of flights during 2020 from previous levels due to a reduction in flight schedules resulting from the COVID-19 pandemic. We also anticipate the future number of flights we will complete over the remaining capacity purchase agreements will significantly increase from 2020 levels. Due to the materially reduced flight activity during 2020 from historical levels and based on anticipated increases in future monthly flight volumes over the remaining contract terms, we determined the fixed monthly cash payments per aircraft we received during 2020 was disproportionately high relative to the number of flights we operated during 2020. Accordingly, we deferred recognizing revenue of \$110.7 million of fixed monthly cash payments we received under our capacity purchase agreements during 2020. Our deferred revenue related to the fixed payments will adjust over the remaining contract term for each capacity purchase agreement based on the number of flights we complete each reporting period relative to the number of flights we anticipate completing over the remaining contract term of each capacity purchase agreement. The deferred revenue balance applicable to each contract will be recorded as revenue by the end of each respective contract term.

The decrease in prorate agreements revenue of \$252.1 million was due to the impact of COVID-19 and the corresponding decrease in passengers and passenger revenue we received on routes we operated under our prorate agreements during 2020 compared to 2019.

The decrease in lease, airport services and other revenues of \$16.4 million was primarily due to the decrease in the number of flights operated at locations where we were contracted to provide airport customer service during 2020 compared to 2019.

Operating Expenses

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

	For the year ended December 31,			
	2020	2019	\$ Change	% Change
	Amount	Amount	Amount	Percent
Salaries, wages and benefits	\$ 826,109	\$ 1,001,746	\$ (175,637)	(17.5)%
Aircraft maintenance, materials and repairs	618,989	514,313	104,676	20.4 %
Depreciation and amortization	474,959	368,098	106,861	29.0 %
Airport-related expenses	93,886	118,837	(24,951)	(21.0)%
Aircraft rentals	65,316	71,998	(6,682)	(9.3)%
Aircraft fuel	61,739	119,115	(57,376)	(48.2)%
CARES Act payroll support grant	(345,491)	—	(345,491)	NM
Special items	—	21,869	(21,869)	(100.0)%
Other operating expenses	222,797	243,729	(20,932)	(8.6)%
Total operating expenses	\$ 2,018,304	\$ 2,459,705	\$ (441,401)	(17.9)%
Interest expense	123,173	127,755	(4,582)	(3.6)%
Total airline expenses	\$ 2,141,477	\$ 2,587,460	\$ (445,983)	(17.2)%

NM = Not Measurable

Salaries, wages and benefits. The \$175.6 million, or 17.5%, decrease in salaries, wages and benefits was due to a reduction in direct labor costs that resulted from a significantly lower number of flights we operated during 2020 in response to the COVID-19 pandemic and reductions in overhead and other labor costs. In response to the COVID-19 pandemic, we initiated various cost saving measures, including a reduction in various administrative and support positions, temporarily placed a freeze on hiring new employees, temporarily suspended all non-scale pay increases and offered voluntary unpaid leave to our employees.

Aircraft maintenance, materials and repairs. The \$104.7 million, or 20.4%, increase in aircraft maintenance expense was primarily due to an increase in direct maintenance costs incurred on a portion of SkyWest Airlines' CRJ200 and CRJ700 fleet intended to extend the operational performance and reliability of these older aircraft, including increased engine maintenance expense during 2020 compared to 2019.

Depreciation and amortization. The \$106.9 million, or 29.0%, increase in depreciation and amortization expense was primarily due to a shortened estimated useful life of our owned CRJ200 fleet that resulted in approximately \$74.5 million of incremental depreciation expense during 2020. During 2020, we removed 55 CRJ200 aircraft from a capacity purchase agreement with Delta, of which we returned 19 leased aircraft to the lessor and we own 36 aircraft. We also removed seven CRJ200 aircraft that we own from a prorate agreement with American. Prior to the COVID-19 pandemic, we were anticipating the agreement terms for these aircraft would have been extended beyond 2020. As we were unable to extend the flying contracts on these CRJ200s with our major airline partners and given the age of these aircraft, we shortened the estimated useful life on these aircraft to coincide with the agreement termination dates. Our depreciation also increased due to the acquisition of six new E175 aircraft and spare engines since December 31, 2019.

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. For clarity, our employee airport customer service labor costs are reflected in salaries, wages and benefits and customer service labor costs we outsource to third parties are included in airport-related expenses. The \$25.0 million, or 21.0%, decrease in airport-related expenses was primarily due to a decrease in airport service activities as a result of COVID-19 related flight schedule reductions.

Aircraft rentals. The \$6.7 million, or 9.3%, decrease in aircraft rentals was primarily related to a reduction of our fleet size that was financed through leases from third parties as a result of scheduled lease expirations subsequent to December 31, 2019.

Aircraft fuel. The \$57.4 million, or 48.2%, decrease in fuel cost was primarily due to a decrease in the number of flights we operated under our prorate agreements and corresponding decrease in gallons of fuel we purchased and a decrease in our average fuel cost per gallon from \$2.51 in 2019 to \$1.89 in 2020. We purchase and incur expense for all fuel on flights operated under our prorate agreements. All fuel costs incurred under our capacity purchase 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,		
	2020	2019	% Change
Fuel gallons purchased	32,590	47,535	(31.4)%
Fuel expense	\$ 61,739	\$ 119,115	(48.2)%

CARES Act payroll support grant. In April 2020, we entered into an agreement with Treasury and received \$450.7 million in emergency relief through the CARES Act payroll support program through 2020, of which \$345.5 million was in the form of payroll support grants that are being recognized as a reduction in labor expense over the periods the grants are intended to compensate. We recognized \$345.5 million in payroll support grant proceeds we received as a reduction to our operating expenses in 2020. We did not have a comparable payroll support grant in 2019.

Special Items. The \$21.9 million special items expense for 2019 related to a non-cash write-off of \$18.5 million in aircraft manufacturer part credits that we forfeited to settle future lease return obligations with the aircraft manufacturer. The \$18.5 million of expense was included in the SkyWest Airlines segment. The special items expense also included \$3.4 million of expense associated with a cash payout of certain ExpressJet employees' stock equity grants as part of the sale of ExpressJet, which was reflected in the ExpressJet segment. We did not incur comparable special items expense in 2020.

Other operating expenses. Other operating expenses primarily consist of property taxes, hull and liability insurance, simulator costs, crew per diem, crew hotel costs and credit loss reserves. The \$20.9 million, or 8.6%, decrease in other operating expenses was primarily related to a reduction in other operating costs that correspond to the significantly lower number of flights we operated during 2020 compared to 2019, such as crew per diem, crew hotel costs and simulator costs. These reductions were partially offset by an increase to our credit loss reserves of \$30.8 million we recorded in 2020 following our adoption of the Financial Accounting Standards Board ("FASB") "Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments" ("Topic 326") on January 1, 2020. The increase to our credit loss reserves in 2020 was primarily due to a reserve we recorded on a note receivable that originated from our sale of ExpressJet in 2019 that became uncertain during 2020 due to ExpressJet ceasing operations in 2020. Our credit loss reserves also increased due to reductions in credit ratings during 2020 on certain entities for which we have outstanding accounts receivable or notes receivable.

Interest Expense. The \$4.6 million, or 3.6%, decrease in interest expense related to an overall lower effective interest rate on our outstanding debt from 2019 to 2020. Our average debt balance, for the 2019 calendar year and the 2020 calendar year was \$3.1 billion for both periods (using the average of the beginning and ending balances of each year).

Total airline expenses. Our total airline expenses, comprising of our total operating expenses and interest expense, decreased \$446.0 million, or 17.2%, due to reduction in direct operating costs attributed to the reduced number of completed flights in 2020 compared to 2019 and due to the CARES Act payroll grant benefit we recorded in 2020. As our interest expense is primarily attributed to debt associated with financing aircraft under our capacity purchase agreements and as revenue earned under our capacity purchase agreements is intended to compensate us for our aircraft ownership costs, including interest expense, we believe our total airline expense is meaningful expense measure for management discussion and analysis purposes.

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

Interest income. Interest income decreased \$8.3 million, or 58.4%, during 2020, compared to 2019. The decrease in interest income was primarily related to a decrease in average interest rates attributed to our marketable securities from 2019 to 2020.

Other income (expense), net. During 2020, we had other income, net of \$1.2 million primarily related to income earned from our investment in a joint venture with a third party. During 2019, we had other income, net of \$47.7 million primarily related to the gain on sale of ExpressJet.

Summary of provision for income taxes:

Provision for income taxes. For the years ended December 31, 2020 and December 31, 2019, our income tax provision rates were 16.2% and 23.8%, respectively, which include the statutory federal income tax rate of 21% and other reconciling income tax items, including state income taxes and the impact of non-deductible expenses. For the year ended December 31, 2020, the lower effective tax rate was primarily due to pre-tax loss of \$7.3 million and non-deductible expenses which resulted in a \$1.2 million provision for income taxes. Our income tax provision rate may fluctuate each reporting period based on various factors including but not limited to, the amount of our non-deductible operating expenses, such as a portion of or crew per diem expenses, relative to our income before income taxes.

Net Income. Primarily due to the factors described above, we generated net loss of \$8.5 million, or \$0.17 loss per share, for the year ended December 31, 2020, compared to a net income of \$340.1 million, or \$6.62 per diluted share, for the year ended December 31, 2019.

Our Business Segments 2020 compared to 2019:

Prior to our sale of ExpressJet on January 22, 2019, our reporting segments consisted of the operations of SkyWest Airlines and ExpressJet, and the activities of SkyWest Leasing. We concluded the sale of ExpressJet did not meet the criteria for a discontinued operation. Following the sale of ExpressJet, our reporting segments include SkyWest Airlines and SkyWest Leasing.

Our chief operating decision maker analyzes the profitability of operating aircraft under our code-share agreements separately from the profitability of our financing new aircraft acquired through debt and cash placed under our capacity purchase agreements, currently consisting of our E175 fleet, and our return on such aircraft financing. More specifically, the SkyWest Leasing segment includes an allocation of revenue from our capacity purchase agreements attributed to our financing of new aircraft through debt and cash covered under such agreements (aircraft lease revenue), and the respective depreciation and interest expense of such financed aircraft. The SkyWest Leasing segment also includes the activity of acquiring and leasing used regional jet aircraft and regional aircraft engines to other entities. The SkyWest Leasing segment's total assets and capital expenditures include new E175 aircraft acquired through the issuance of debt and our aircraft and engines leased to other entities.

The SkyWest Airlines segment includes all other revenue and operating expenses attributed to operating aircraft under our capacity purchase agreements and all revenue and operating expenses attributed to our prorate agreements and airport service agreements.

Corporate overhead expenses, primarily consisting of administrative labor costs, were allocated to the operating expenses of SkyWest Airlines, ExpressJet (prior to our sale of ExpressJet) and SkyWest Leasing. Overhead expenses allocated to SkyWest Leasing reflect our estimated labor expense incurred to support SkyWest Leasing activities.

The following table sets forth our segment data for the years ended December 31, 2020 and 2019 (in thousands):

	For the year ended December 31, (dollar amounts in thousands)			
	2020 Amount	2019 Amount	\$ Change Amount	% Change Percent
Operating Revenues:				
SkyWest Airlines operating revenue	\$ 1,636,762	\$ 2,478,681	\$ (841,919)	(34.0)%
ExpressJet operating revenues	—	24,050	(24,050)	(100.0)%
SkyWest Leasing operating revenues	490,344	469,232	21,112	4.5 %
Total Operating Revenues	\$ 2,127,106	\$ 2,971,963	\$ (844,857)	(28.4)%
Airline Expenses:				
SkyWest Airlines airline expense	\$ 1,729,189	\$ 2,228,157	\$ (498,968)	(22.4)%
ExpressJet airline expense	—	28,690	(28,690)	(100.0)%
SkyWest Leasing segment expense	412,288	330,613	81,675	24.7 %
Total Airline Expense(1)	\$ 2,141,477	\$ 2,587,460	\$ (445,983)	(17.2)%
Segment profit (loss):				
SkyWest Airlines segment profit (loss)	\$ (92,427)	\$ 250,524	\$ (342,951)	(136.9)%
ExpressJet segment loss	—	(4,640)	4,640	(100.0)%
SkyWest Leasing segment profit	78,056	138,619	(60,563)	(43.7)%
Total Segment Profit (loss)	\$ (14,371)	\$ 384,503	\$ (398,874)	(103.7)%
Interest Income	5,879	14,131	(8,252)	(58.4)%
Other Income, net	1,165	47,671	(46,506)	(97.6)%
Consolidated Income (Loss) Before Taxes	\$ (7,327)	\$ 446,305	\$ (453,632)	(101.6)%

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

SkyWest Airlines Segment Profit. SkyWest Airlines segment profit decreased \$343.0 million, or 136.9%, during 2020, compared to 2019.

SkyWest Airlines block hour production decreased to 973,338, or 33.5%, for 2020 from 1,464,405 for 2019, primarily due to reduced flight schedules in response to the COVID-19 pandemic. Significant items contributing to the SkyWest Airlines segment profit are set forth below.

SkyWest Airlines operating revenues decreased \$841.9 million, or 34.0%, from 2019 to 2020 due to reduced flight schedules under our capacity purchase agreements, lower passenger demand and under our prorate agreements, and fewer flights we handled under our airport service agreements, collectively as a result of the COVID-19 pandemic. SkyWest Airlines capacity purchase agreement revenue decreased \$570.1 million from 2019 to 2020 due to the reduction in flight scheduled and block hours, which included deferred revenue of \$110.7 million of payments received under our capacity purchase agreements during 2020. SkyWest Airlines prorate and other revenue decreased \$271.8 million from 2019 to 2020 due to decreased passenger demand and reduced flight schedules.

SkyWest Airlines airline expense decreased \$499.0 million, or 22.4%, from 2019 to 2020 due to the following primary factors:

- SkyWest Airlines' salaries, wages and benefits expense decreased by \$161.8 million, or 16.4%, primarily due to a reduction in direct labor costs that resulted from a significantly lower number of flights we operated during 2020 as a result the COVID-19 pandemic and reductions in overhead and other labor costs.
- SkyWest Airlines' aircraft maintenance, materials and repairs expense increased by \$107.7 million, or 21.6%, primarily due to an increase in direct maintenance costs incurred on a portion of SkyWest Airlines' CRJ200 and CRJ700 fleet intended to extend the operational performance and reliability of these older aircraft, including increased engine maintenance expense during 2020 compared to 2019.

- SkyWest Airlines' depreciation and amortization expense increased by \$53.0 million, or 31.5%, primarily due to a shortened estimated useful life of our owned CRJ200 fleet that resulted in incremental depreciation expense during 2020.
- SkyWest Airlines' fuel expense decreased \$57.4 million, or 48.2%, due to a decrease in the number of flights we operated under our prorate agreements and a corresponding decrease in gallons of fuel we purchased and a decrease in our average fuel cost per gallon from \$2.51 in 2019 to \$1.89 in 2020.
- SkyWest Airlines' recognized \$345.5 million in payroll support grant proceeds we received through the CARES Act payroll support program as a reduction to our operating expenses in 2020. SkyWest Airlines did not have a comparable grant in 2019.
- SkyWest Airlines' included special items related to a non-cash write-off of \$18.5 million in aircraft manufacturer part credits that we forfeited to settle future lease return obligations with the aircraft manufacturer during 2019. SkyWest Airlines did not have a comparable special items expense in 2020.
- SkyWest Airlines' remaining airline expenses decreased \$76.4 million, or 17.4%, primarily related to a reduction in other operating costs that correspond to the significantly lower number of flights we operated during 2020 compared to 2019, such as crew per diem, crew hotel costs and simulator costs.

SkyWest Leasing Segment Profit. SkyWest Leasing profit decreased \$60.6 million, or 43.7%, during 2020, compared to 2019, primarily related to credit loss reserves we recorded on a note receivable that originated from our sale of ExpressJet in 2019 that became uncertain during 2020 due to ExpressJet ceasing operations in 2020. Our credit loss reserves also increased due to reductions in credit ratings during 2020 on certain entities for which we have an outstanding accounts receivable or notes receivable. The reduction in the SkyWest Leasing segment was also due to additional depreciation expense resulting from a shortened estimated useful life of certain CRJ200 spare engines. These reductions were partially offset by an additional six new E175 aircraft added to our fleet subsequent to December 31, 2019.

Liquidity and Capital Resources

As of December 31, 2020, we had \$825.9 million in cash and cash equivalents and marketable securities. As of December 31, 2020, we had \$665.0 million available for borrowings under the Treasury Loan Agreement and \$39.5 million available for borrowings under our line of credit. We have until May 28, 2021 to draw additional borrowings under the Treasury Loan Agreement. If we do not increase our borrowings under the Treasury Loan Agreement before May 28, 2021, our pledged collateral under the \$725 million facility will be significantly reduced and any excess pledged collateral will be released and available to use for new debt, if needed. Given our available liquidity as of December 31, 2020 and given the measures we have implemented to reduce the impact of the COVID-19 pandemic on our financial position and operations, we believe the working capital currently available to us (including funds from government assistance provided or may be provided pursuant to the CARES Act and the 2021 Appropriations Act) will be sufficient to meet our present financial requirements, including planned capital expenditures, scheduled lease payments, debt service obligations for at least the next 12 months.

Our total of cash and marketable securities increased from \$520.2 million as December 31, 2019 to \$825.9 million as of December 31, 2020, or by \$305.7 million. Our total long-term debt, including current maturities increased from \$2,993.1 million as of December 31, 2019 to \$3,203.7 million as of December 31, 2020, or by \$210.6 million. Thus, our total long-term debt, net of cash and marketable securities, decreased from \$2,472.9 million as of December 31, 2019 to \$2,377.8 million as of December 31, 2020, or \$95.2 million. At December 31, 2020, our total capital mix was 43.3% equity and 56.7% long-term debt, compared to 45.3% equity and 54.7% long-term debt at December 31, 2019.

As of December 31, 2020 and 2019, we had \$61.1 million and \$61.7 million, respectively, in letters of credit and surety bonds outstanding with various banks and surety institutions. We had no restricted cash as of December 31, 2020 and 2019.

Sources and Uses of Cash

Cash Position and Liquidity. The following table provides a summary of the net cash provided by (used in) our operating, investing and financing activities for the years ended December 31, 2020 and 2019, and our total cash and marketable securities position as of December 31, 2020 and December 31, 2019 (in thousands). See “Liquidity and Capital Resources” in Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 for a discussion of our sources and used of cash in 2019 compared to 2018.

	For the year ended December 31,			
	2020	2019	\$ Change	% Change
Net cash provided by operating activities	\$ 633,563	\$ 721,030	\$ (87,467)	(12.1)%
Net cash used in investing activities	(683,471)	(657,034)	(26,437)	4.0 %
Net cash provided by (used in) financing activities	178,425	(305,174)	483,599	(158.5)%
	December 31, 2020	December 31, 2019	\$ Change	% Change
Cash and cash equivalents.	\$ 215,723	\$ 87,206	\$ 128,517	147.4 %
Marketable securities	610,185	432,966	177,219	40.9 %
Total	<u>\$ 825,908</u>	<u>\$ 520,172</u>	<u>\$ 305,736</u>	58.8 %

Cash Flows provided by Operating Activities

Our cash flows provided by operating activities was \$633.6 million in 2020, compared to \$721.0 million in 2019. Our operating cash flows are typically impacted by various factors including our net income, adjusted for non-cash expenses and gains such as depreciation expense, stock-based compensation expense, and gains or losses on the disposal of assets; and timing of cash payments and cash receipts attributed to our various current asset and liability accounts, such as accounts receivable, inventory, accounts payable and accrued liabilities.

The decrease in our cash flow from operations in 2020 compared to 2019 was primarily due to a reduction in our net income of \$348.6 million, the difference between net income of \$340.1 million in 2019 and a net loss of \$8.5 million in 2020, partially offset by an increase in non-cash depreciation expense of \$106.9 million in 2020 from 2019, a decrease in deferred income taxes of \$103.6 million in 2020 from 2019, and due to timing cash payments and cash receipts related to our current assets and liabilities in 2020 compared to 2019.

Cash Flows used in Investing Activities

Our cash flows used in investing activities was \$683.5 million in 2020, compared to \$657.0 million in 2019. Our investing cash flows are typically impacted by various factors including our capital expenditures, including the acquisition aircraft and spare engines; deposit payments and receipts on new aircraft; purchase and sales of marketable securities; proceeds from the sale of assets; and timing of cash payments and cash receipts attributed to our various long-term asset and long-term liability accounts.

The increase in our cash flow used in investing activities in 2020 compared to 2019 was primarily due to an increase cash used for purchases of marketable securities, net of sales of marketable securities, of \$105.2 million in 2020 from \$72.0 million in 2019 and an increase in our long-term assets resulting from an increase in long-term receivables from our major airline partners under our capacity purchase agreements. We amended certain debt agreements on our aircraft which suspended our obligation to make debt service payments for an approximate a six-month period during 2020. Concurrently, we suspended required aircraft ownership payments due to us from our major airline partners under our capacity purchase agreements during the same period. We anticipate collecting these payments from our major airline partners over the remaining contract terms, which was the primary factor in the increase in our long-term other assets of \$94.3 million from December 31, 2019 to December 31, 2020.

The increase in our cash flows used in investing activities was significantly offset by reduction in capital expenditures of \$223.6 million in 2020 from \$661.9 million in 2019. During 2020, we acquired six new E175 aircraft

and 22 used CRJ aircraft compared to ten new E175 aircraft and 85 used CRJ aircraft in 2019, including 56 used CRJ aircraft purchased under an early lease buyout in 2019.

Cash Flows provided by (used in) Financing Activities

Our cash flows provided by financing activities was \$178.4 million in 2020, compared to cash used for financing activities of \$305.2 million in 2019. Our investing cash flows are typically impacted by various factors including proceeds from issuance of debt, principal payments on debt obligations, repurchases our common stock and payment of cash dividends.

The \$483.6 million increase in cash provided by financing activities included the additional proceeds from the issuance of long-term debt to Treasury of \$105.2 million under the Payroll Support Program Agreement and \$60.0 under the Treasury Loan Agreement during 2020. Additionally, we amended certain debt agreements on our aircraft which suspended our obligation to make debt service payments for an approximate a six-month period during 2020, which was the primary factor to our reduction in principal payments on long-term debt of \$195.0 million from 2019 to 2020. See Significant Commitments and Obligations for our summary of principal maturities on our long-term debt for the next five years. We also reduced our cash used to repurchase shares of our common stock, treasury stock and payment of dividends by \$16.1 million, \$52.3 million, and \$10.4 million, respectively, due to restrictions under the Payroll Support Program Agreement and the Treasury Loan Agreement that began in April 2020.

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>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Thereafter</u>
Operating lease payments for aircraft and facility obligations	\$ 359,740	\$ 85,869	\$ 77,780	\$ 69,530	\$ 28,091	\$ 15,751	\$ 82,719
Firm aircraft and spare engine commitments	547,900	479,164	68,736	—	—	—	—
Interest commitments(A)	547,569	122,194	106,252	88,501	72,329	57,108	101,185
Principal maturities on long-term debt	<u>3,236,002</u>	<u>406,005</u>	<u>407,554</u>	<u>418,048</u>	<u>372,322</u>	<u>447,251</u>	<u>1,184,822</u>
Total commitments and obligations	<u>\$4,691,211</u>	<u>\$1,093,232</u>	<u>\$ 660,322</u>	<u>\$ 576,079</u>	<u>\$ 472,742</u>	<u>\$ 520,110</u>	<u>\$ 1,368,726</u>

(A) At December 31, 2020, all of our total long-term debt associated with aircraft had fixed interest rates.

Purchase Commitments and Options

We are coordinating with our major airline partners and aircraft manufacturers on the timing of upcoming fleet deliveries under previously announced deals in response to COVID-19 schedule reductions. The anticipated future aircraft delivery dates are subject to change. As of December 31, 2020, we had a firm purchase commitment for 20 E175 aircraft from Embraer with scheduled delivery dates anticipated through 2022.

At the time of each aircraft acquisition, we evaluate the financing alternatives available to us, and select one or more of these methods to fund the acquisition. In recent years, we have issued long-term debt to finance our new aircraft. At present, we intend to fund our aircraft purchase commitments 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 20 E175 aircraft with approximately 80-85% 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. Excluding aircraft financed by our major partners that we operate for them under contract, we had 41 aircraft under lease with remaining terms ranging from less than one to ten years as of December 31, 2020. Future minimum lease payments due under all long-term operating leases were approximately \$359.7 million at December 31, 2020. Assuming a 6.1% discount rate, which is the average incremental borrowing rate we anticipate we would have incurred on debt obtained over a similar term to acquire these assets, the present value of these lease obligations would have been equal to approximately \$288.6 million at December 31, 2020.

Long-term Debt Obligations

As of December 31, 2020, we had \$3.07 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 4.0% at December 31, 2020. We also had \$165.2 million of long-term debt obligations under the Payroll Support Program Agreement and the Treasury Loan Agreement.

Under our capacity purchase 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.

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 leases, long-lived assets, self-insurance and income tax 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 capacity purchase and prorate flying agreements with our major airline partners, our performance obligation is determined on a per completed flight basis. Under our capacity purchase agreements, the performance obligation of each completed flight is measured using block hours incurred for each completed flight, which factors the duration of each flight. Under our airport customer service agreements, our performance obligation is measured on per departure basis for each flight we provide customer service.

A portion of our compensation under our capacity purchase 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 capacity purchase agreement, which we believe approximates fair value for the aircraft leases.

Additionally, under our capacity purchase agreements, we typically receive a fixed monthly payment for each aircraft under contract over the agreement term ("Fixed Monthly Payments"). We recognize revenue attributed to the Fixed Monthly Payments proportionate to the number of block hours complete during each reporting period, relative to the estimated number of block hours we anticipate completing over the remaining contract term. Due to the material decrease in completed block hours in 2020 from historical levels and from anticipated future levels over the remaining contract terms, we determined the amount of Fixed Monthly Payments we received in 2020 was disproportionately high

relative to the number of block hours we completed during 2020. As of December 31, 2020, we deferred recognizing revenue of \$110.7 million in Fixed Monthly Payments we received during the 2020 calendar year. We deferred recognizing revenue of \$69.1 million during the second quarter of 2020 when we generated 126,026 block hours, \$29.6 million during the third quarter of 2020 when we generated 222,561 block hours and \$12.0 million during the fourth quarter of 2020 when we generated 267,528 block hours. The amount of deferred revenue from Fixed Monthly Payments we recognize will increase or decrease in future reporting periods depending on the number of block hours we complete during such reporting period and our then-current forecast of block hours we anticipate completing over the remaining contract term based on information available to us as that time. We anticipate we will continue to defer recognizing revenue into 2021 and may begin recognizing previously deferred amounts as revenue by late 2021 or in 2022, depending upon future block hour production and flight schedules.

Our revenues could be impacted by a number of factors, such as our flight schedules, passenger fares we receive under our prorate agreements, terminations, extensions or other amendments to our code-share agreements, our estimates used to determine the amount of revenue we defer under our capacity purchase agreements, 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. Our rates were finalized under our code-share agreements as of December 31, 2020.

Aircraft Leases

As of December 31, 2020, our fleet of aircraft in scheduled service included 41 aircraft under lease, excluding 58 aircraft financed by our major partners that we operate for them under contract. In order to determine the proper classification of our leased aircraft, 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 the lease classification. 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 the majority of our operating leases, we are required to meet certain lease return conditions with the aircraft, which presumes a certain 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. Several factors can impact the estimated liability for lease return costs including, but not limited to, timing of scheduled maintenance events and anticipated condition of the aircraft at the end of the lease term. We believe it is unlikely that materially different estimates for lease return obligations would be made or reported based on other reasonable assumptions or conditions suggested by actual historical experience and other data available at the time estimates were made.

Long-Lived Assets

As of December 31, 2020, we had approximately \$5.4 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. Factors that may impact our estimates used for depreciation include anticipated useful lives of each aircraft type and estimated residual values of each aircraft. As we operate all of our aircraft under code-share agreements with our major airline partners, changes in anticipated demand by our major airline partners for regional aircraft may impact our estimated useful lives and residual values for our aircraft, spare engines and other long-lived

assets. At December 31, 2020, we had 108 aircraft that were not in scheduled service with our partners, including 74 CRJ200s, 30 CRJ700s, and 4 CRJ900s. The CRJ200 aircraft that were removed from the Delta and American agreements were fully depreciated as of December 31, 2020. The remaining aircraft are in the process of being placed under a leasing arrangement with a third party, are aircraft transitioning between code-share agreements with our major airline partners and being used as supplemental spare aircraft or are available for future code-share agreements.

Self-Insurance

We use a combination of insurance and self-insurance mechanisms to provide for the potential liability of certain risks, including workers' compensation, healthcare benefits, general liability, product liability, property insurance and directors' and officers' liability insurance. Liabilities associated with risks retained by us are not discounted and are estimated by considering historical claims experience, demographics, exposure and severity factors and other actuarial assumptions.

Our workers' compensation liability includes estimated outstanding losses of unpaid claims and allocated loss adjustment expenses ("ALAE"), which includes case reserves, the development of known claims and incurred but not reported claims. ALAE are the direct expenses for settling specific claims. The amounts reflect per occurrence and annual aggregate limits maintained by us. The estimated liability analysis does not include estimating a provision for unallocated loss adjustment expenses. We believe that the liability recorded at December 31, 2020 is adequate to cover all workers' compensation claims incurred through December 31, 2020. If the actual costs of such claims and related expenses exceed the amount estimated, additional reserves may be required which could have a material negative effect on our operating results. Holding other factors constant, a 10 percent increase in our estimated workers compensation liability as of December 31, 2020, would have resulted in additional expense of approximately \$2.1 million for the year ended December 31, 2020.

The liability related to our self-insured group medical insurance plans includes an estimate for claims incurred but not paid. This estimate is created using general actuarial principles and our historical claims experience. The cost of general liability, product liability and commercial auto liability is accrued based on estimates of the aggregate liability claims incurred using certain actuarial assumptions and historical claims experience.

Income Tax

Deferred income taxes are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Estimating our tax liabilities involves judgments related to uncertainties in the application of complex tax regulations. We make certain estimates and judgments to determine tax expense for financial statement purposes as we evaluate the effect of tax credits, tax benefits and deductions, some of which result from differences in the timing of recognition of revenue or expense for tax and financial statement purposes. Changes to these estimates may result in significant changes to our tax provision in future periods. Each fiscal quarter we re-evaluate our tax provision and reconsider our estimates and assumptions related to specific tax assets and liabilities, making adjustments as circumstances change.

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.

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, Delta, United, 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, 2020, 2019 and 2018, approximately 13%, 18% and 16% of our total flying agreements revenue was derived from prorate arrangements. For the years ended December 31, 2020, 2019 and 2018, the average price per gallon of aircraft fuel was \$1.89, \$2.51 and \$2.60, 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 \$15.4 million, \$29.8 million and \$29.4 million in fuel expense for the years ended December 31, 2020, 2019 and 2018, respectively.

Interest Rates

As of December 31, 2020, 97.7% of our total long-term debt had fixed interest rates. We currently intend to finance the acquisition of aircraft through manufacturer financing or long-term borrowings. Changes in interest rates may impact the actual cost to us to acquire future aircraft. To the extent we place new aircraft in service under our capacity purchase agreements with Delta, United, American, Alaska or other carriers, our capacity purchase agreements currently provide that reimbursement rates will be adjusted to reflect the interest rates effective at the closing of the respective aircraft financing.

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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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, 2020, 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 22, 2021 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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of fixed overhead deferred revenue

Description of the Matter . . . At December 31, 2020, the Company's deferred revenue balance totaled \$110.7 million, which was presented as a component of other long-term liabilities on the balance sheet. As discussed in Note 1 to the consolidated financial statements, under the Company's capacity purchase agreements, the Company is paid a fixed amount per aircraft each month over the contract term. The Company recognizes revenue related to the fixed amount per aircraft per month based upon completed block hours proportionate to total forecasted block hours over the contract term. To perform the allocation over the contract, the Company estimates revenue per block hour using historical data and forecasted flight activity and utilizing trends within the industry.

Auditing the forecasted block hours over the term of the contract, which is the primary input used in the deferred revenue calculation, required extensive audit effort due to the estimation uncertainty of the forecasted block hours over the contract term resulting from the COVID-19 pandemic.

How We Addressed the Matter in Our Audit We obtained an understanding, evaluated the design and tested the operating effectiveness of management's controls over recognition and deferral of revenue related to block hours flown. This included controls over the forecasting process used to develop the estimated future block hours used in the calculation. We also tested controls over management's review of the data used in the deferred revenue calculation.

To test the Company's estimated deferred revenue liability, we performed audit procedures that included, among others, assessing the methodology and assumptions used by the Company in the deferred revenue calculation, including testing of the forecasted block hours and validating completeness and accuracy of the underlying data used by the Company. Specifically, we compared management's forecasted block hours to historical flight activity, existing flight schedules with partner airlines and industry trends and publications. We evaluated management's ability to accurately forecast flight activity by performing hindsight analyses comparing actual historical results to past forecasts, including forecasts developed during the COVID-19 pandemic. We also performed sensitivity analyses to understand the impact of fluctuations in forecasted block hours to the deferred revenue liability.

/s/ Ernst & Young LLP

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

Salt Lake City, Utah
February 22, 2021

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

ASSETS

	December 31, 2020	December 31, 2019
CURRENT ASSETS:		
Cash and cash equivalents	\$ 215,723	\$ 87,206
Marketable securities	610,185	432,966
Income tax receivable	3,916	11,141
Receivables, net	34,462	82,977
Inventories, net	91,196	110,503
Other current assets	27,320	35,553
Total current assets	<u>982,802</u>	<u>760,346</u>
PROPERTY AND EQUIPMENT:		
Aircraft and rotatable spares	7,527,555	7,078,801
Deposits on aircraft	31,625	48,858
Buildings and ground equipment	258,863	265,398
	<u>7,818,043</u>	<u>7,393,057</u>
Less-accumulated depreciation and amortization	<u>(2,455,995)</u>	<u>(1,998,376)</u>
Total property and equipment, net	<u>5,362,048</u>	<u>5,394,681</u>
OTHER ASSETS		
Operating lease right-of-use assets	282,362	336,009
Other long-term assets	260,410	166,093
Total other assets	<u>542,772</u>	<u>502,102</u>
Total assets	<u>\$ 6,887,622</u>	<u>\$ 6,657,129</u>

See accompanying notes to consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2020	December 31, 2019
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 402,158	\$ 364,126
Accounts payable	278,677	284,473
Accrued salaries, wages and benefits	125,944	133,856
Current maturities of operating lease liabilities	82,641	94,806
Taxes other than income taxes	26,183	15,004
Other current liabilities	26,119	32,411
Total current liabilities	<u>941,722</u>	<u>924,676</u>
 LONG-TERM DEBT, net of current maturities	 <u>2,801,538</u>	 <u>2,628,989</u>
 DEFERRED INCOME TAXES PAYABLE	 <u>625,931</u>	 <u>623,580</u>
 NONCURRENT OPERATING LEASE LIABILITIES	 <u>205,845</u>	 <u>259,237</u>
 OTHER LONG-TERM LIABILITIES	 <u>173,041</u>	 <u>45,633</u>
 COMMITMENTS AND CONTINGENCIES (Note 6)		
 STOCKHOLDERS' EQUITY:		
Preferred stock, 5,000,000 shares authorized; none issued	—	—
Common stock, no par value, 120,000,000 shares authorized; 82,094,985 and 81,742,937 shares issued, respectively	 704,675	 686,806
Retained earnings	2,052,006	2,079,179
Treasury stock, at cost, 31,913,635 and 31,420,179 shares, respectively	(617,136)	(590,971)
Total stockholders' equity	<u>2,139,545</u>	<u>2,175,014</u>
Total liabilities and stockholders' equity	<u><u>\$ 6,887,622</u></u>	<u><u>\$ 6,657,129</u></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,		
	2020	2019	2018
OPERATING REVENUES:			
Flying agreements	\$ 2,060,801	\$ 2,889,265	\$ 3,169,520
Lease, airport services and other	66,305	82,698	52,159
Total operating revenues	<u>2,127,106</u>	<u>2,971,963</u>	<u>3,221,679</u>
OPERATING EXPENSES:			
Salaries, wages and benefits	826,109	1,001,746	1,201,518
Aircraft maintenance, materials and repairs	618,989	514,313	556,259
Depreciation and amortization	474,959	368,098	334,589
Airport-related expenses	93,886	118,837	109,605
Aircraft rentals	65,316	71,998	154,945
Aircraft fuel	61,739	119,115	117,657
CARES Act payroll support grant	(345,491)	—	—
Special items	—	21,869	—
Other operating expenses	222,797	243,729	272,826
Total operating expenses	<u>2,018,304</u>	<u>2,459,705</u>	<u>2,747,399</u>
OPERATING INCOME	<u>108,802</u>	<u>512,258</u>	<u>474,280</u>
OTHER INCOME (EXPENSE):			
Interest income	5,879	14,131	8,823
Interest expense	(123,173)	(127,755)	(120,409)
Other, net	1,165	47,671	3,620
Total other expense, net	<u>(116,129)</u>	<u>(65,953)</u>	<u>(107,966)</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>(7,327)</u>	<u>446,305</u>	<u>366,314</u>
PROVISION FOR INCOME TAXES	1,188	106,206	85,942
NET INCOME (LOSS)	<u>\$ (8,515)</u>	<u>\$ 340,099</u>	<u>\$ 280,372</u>
BASIC EARNINGS (LOSS) PER SHARE	\$ (0.17)	\$ 6.68	\$ 5.40
DILUTED EARNINGS (LOSS) PER SHARE	\$ (0.17)	\$ 6.62	\$ 5.30
Weighted average common shares:			
Basic	50,195	50,932	51,914
Diluted	50,195	51,375	52,871
COMPREHENSIVE INCOME (LOSS):			
Net income (loss)	\$ (8,515)	\$ 340,099	\$ 280,372
Net unrealized appreciation on marketable securities, net of taxes ..	—	32	18
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ (8,515)</u>	<u>\$ 340,131</u>	<u>\$ 280,390</u>

See accompanying notes to consolidated financial statements.

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

	Common Stock		Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount		Shares	Amount		
Balance at December 31, 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
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	—	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
Change in accounting principle and other (see Note 7)	—	—	(13,141)	—	—	—	(13,141)
Balance at December 31, 2018, as adjusted	81,239	690,910	1,763,444	(29,851)	(503,182)	(32)	1,951,140
Net income	—	—	340,099	—	—	—	340,099
Net unrealized appreciation on marketable securities, net of tax of \$10	—	—	—	—	—	32	32
Exercise of common stock options and vested restricted stock units	707	3,106	—	—	—	—	3,106
Shares acquired from vested employee stock awards for income tax withholdings	—	—	—	(173)	(9,313)	—	(9,313)
Sale of common stock under employee stock purchase plan	65	3,165	—	—	—	—	3,165
Stock based compensation expense	—	5,770	—	—	—	—	5,770
Common stock purchased and cancelled	(268)	(16,145)	—	—	—	—	(16,145)
Treasury stock purchases	—	—	—	(1,396)	(78,476)	—	(78,476)
Cash dividends declared (\$0.48 per share)	—	—	(24,364)	—	—	—	(24,364)
Balance at December 31, 2019	81,743	686,806	2,079,179	(31,420)	(590,971)	—	2,175,014
Change in accounting principle and other (see Note 1)	—	—	(11,639)	—	—	—	(11,639)
Balance at December 31, 2019, as adjusted	81,743	686,806	2,067,540	(31,420)	(590,971)	—	2,163,375
Net income (loss)	—	—	(8,515)	—	—	—	(8,515)
Exercise of common stock options and vested restricted stock units	287	38	—	—	—	—	38
Shares acquired from vested employee stock awards for income tax withholdings	—	—	—	(108)	(6,165)	—	(6,165)
Sale of common stock under employee stock purchase plan	65	2,781	—	—	—	—	2,781
Stock based compensation expense	—	6,802	—	—	—	—	6,802
Treasury stock purchases	—	—	—	(386)	(20,000)	—	(20,000)
Cash dividends declared (\$0.14 per share)	—	—	(7,019)	—	—	—	(7,019)
Warrants issued under CARES Act agreements	—	8,248	—	—	—	—	8,248
Balance at December 31, 2020	82,095	\$ 704,675	\$ 2,052,006	(31,914)	\$ (617,136)	\$ —	\$ 2,139,545

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (8,515)	\$ 340,099	\$ 280,372
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	474,959	368,098	334,589
Stock based compensation expense	6,802	10,274	13,105
Write-off of maintenance assets	3,255	—	—
Increase in credit loss reserves	17,087	—	—
Loss on disposal of fixed assets	445	—	—
Net increase in deferred income taxes	6,100	109,654	99,139
Gain on sale of ExpressJet subsidiary	—	(46,525)	—
Special items	—	21,869	—
Changes in operating assets and liabilities:			
Decrease (increase) in receivables	26,831	(40,700)	(21,464)
Decrease (increase) in income tax receivable	7,225	14,795	(20,620)
Decrease (increase) in inventories	19,307	(4,303)	(7,935)
Decrease in other current assets	8,233	2,707	77,484
Decrease in operating lease right-of-use assets	53,647	—	—
Increase in operating lease liabilities	(65,557)	(895)	—
Increase in deferred revenue	110,728	—	—
Decrease in deferred aircraft credits	—	—	(14,243)
Increase (decrease) in accounts payable and other current liabilities	(26,984)	(54,043)	62,107
NET CASH PROVIDED BY OPERATING ACTIVITIES	633,563	721,030	802,534
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of marketable securities	(1,347,775)	(1,938,750)	(2,308,768)
Sales of marketable securities	1,170,556	1,866,761	2,451,344
Net cash received from sale of ExpressJet subsidiary	—	53,200	—
Acquisition of property and equipment:			
Aircraft and rotatable spare parts	(425,618)	(581,329)	(1,062,380)
Buildings and ground equipment	(12,678)	(80,586)	(34,397)
Proceeds from the sale of aircraft, property and equipment	3,239	26,008	—
Deposits on aircraft	(9,625)	(52,817)	(41,937)
Return of deposits applied towards acquired aircraft	27,858	46,346	49,550
Decrease (increase) in other assets	(89,428)	4,133	(36,816)
NET CASH USED IN INVESTING ACTIVITIES	(683,471)	(657,034)	(983,404)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	406,364	200,040	784,665
Principal payments on long-term debt	(187,404)	(382,442)	(370,775)
Net proceeds from issuance of common stock	2,819	6,271	5,212
Purchase of treasury stock	(20,000)	(78,476)	(54,448)
Purchase of common stock	—	(16,145)	—
Employee income tax paid on vested equity awards	(6,165)	(9,313)	(13,556)
Payment of debt issuance cost	(4,130)	(1,642)	(3,892)
Payment of cash dividends	(13,059)	(23,467)	(19,744)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	178,425	(305,174)	327,462
Increase (decrease) in cash and cash equivalents	128,517	(241,178)	146,592
Cash and cash equivalents at beginning of period	87,206	328,384	181,792
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 215,723	\$ 87,206	\$ 328,384

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2020	2019	2018
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Non-cash investing and financing activities:			
Acquisition of rotatable spare parts	\$ 22,187	\$ 16,514	\$ 367
Debt assumed on aircraft acquired under operating leases	\$ —	\$ 14,475	\$ 59,132
Engines contributed to joint venture	\$ —	\$ 22,313	\$ —
Non-cash assets used to acquire aircraft under operating leases	\$ —	\$ 153,566	\$ —
Lease liability arising from the recognition of right-of-use asset	\$ —	\$ 456,472	\$ —
Warrants issued under CARES Act agreements	\$ 8,248	\$ —	\$ —
Cash paid during the period for:			
Interest, net of capitalized amounts	\$ 125,440	\$ 131,733	\$ 118,268
Income taxes.	\$ 1,780	\$ 2,490	\$ 2,661
SUPPLEMENTAL DISCLOSURE OF SALE OF SUBSIDIARY:			
Decrease in carrying amount of assets	\$ —	\$ (101,448)	\$ —
Decrease in carrying amount of liabilities	—	68,341	—
Cash received from buyers	—	79,632	—
Gain on sale of subsidiary	\$ —	\$ 46,525	\$ —

See accompanying notes to consolidated financial statements.

SKYWEST, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

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

SkyWest, Inc. (the “Company”), through its subsidiary, SkyWest Airlines, Inc. (“SkyWest Airlines”) operates the largest regional airline in the United States. On January 22, 2019, the Company completed the sale of its former wholly owned subsidiary, ExpressJet Airlines, Inc. (“ExpressJet”). As of December 31, 2020, SkyWest Airlines offered scheduled passenger service under code-share agreements with Delta Air Lines, Inc. (“Delta”), United Airlines, Inc. (“United”), American Airlines, Inc. (“American”) and Alaska Airlines, Inc. (“Alaska”) with approximately 1,770 total daily departures to 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. As of December 31, 2020, the Company had 601 total aircraft in its fleet, including 452 aircraft in scheduled service under its code-share agreements, summarized as follows:

	<u>CRJ200</u>	<u>CRJ700</u>	<u>CRJ900</u>	<u>E175</u>	<u>Total</u>
Delta.....	26	6	39	71	142
United.....	104	19	—	90	213
American.....	—	65	—	—	65
Alaska.....	—	—	—	32	32
Aircraft in scheduled service.....	130	90	39	193	452
Leased to third parties.....	2	34	5	—	41
Other*.....	74	30	4	—	108
Total Fleet.....	206	154	48	193	601

*As of December 31, 2020, these aircraft have been removed from service and are in the process of being placed under a leasing arrangement with a third party, are aircraft transitioning between code-share agreements with the Company’s major airline partners and being used as a supplemental spare aircraft, or are in the process of being parted out.

For the year ended December 31, 2020, approximately 47.1% of the Company’s aircraft in scheduled service operated for United, approximately 31.4% was operated for Delta, approximately 14.4% was operated for American and approximately 7.1% 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, 2020, SkyWest Airlines operated as a Delta Connection carrier primarily in Salt Lake City, Detroit 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, Dallas, Los Angeles and Phoenix and an Alaska carrier primarily in the Pacific Northwest.

SkyWest Airlines operates the following aircraft manufactured by Bombardier Aerospace (“Bombardier”): CRJ200s, CRJ700s and CRJ900s, and E175s manufactured by Embraer S.A. (“Embraer”). The CRJ200 is a single-class 50-seat aircraft. The CRJ700, CRJ900 and E175 aircraft have a dual-class seat configuration typically configured with 65 to 76 seats.

Basis of Presentation

The Company's consolidated financial statements include the accounts of the Company and the SkyWest Airlines, ExpressJet (for the periods owned by the Company) 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, 2020, through the filing date of the Company's annual report with the U.S. Securities and Exchange Commission.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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, 2020 and 2019.

Marketable Securities

The Company's investments in debt securities 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. At December 31, 2020 and 2019, the fair market value of the available-for-sale securities was the amortized cost. The Company's position in marketable securities as of December 31, 2020 and 2019 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, 2020				
Total cash and cash equivalents	\$ 215,723	\$ —	\$ —	\$ 215,723
Marketable securities:				
Bond and bond funds	\$ 117,928	\$ —	\$ —	\$ 117,928
Commercial Paper	492,257	—	—	492,257
Total marketable securities.	\$ 610,185	\$ —	\$ —	\$ 610,185
Total assets measured at fair value.	<u>\$ 825,908</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 825,908</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, 2019				
Total cash and cash equivalents	\$ 87,206	\$ —	\$ —	\$ 87,206
Marketable securities:				
Bond and bond funds	\$ 267,243	\$ —	\$ —	\$ 267,243
Commercial Paper	165,723	—	—	165,723
Total marketable securities.	\$ 432,966	\$ —	\$ —	\$ 432,966
Total assets measured at fair value.	<u>\$ 520,172</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 520,172</u>

As of December 31, 2020 and 2019, the Company had classified \$610.2 million and \$433.0 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, 2020 and 2019 was \$19.7 million and \$15.9 million, respectively.

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, 2020, the Company had approximately \$5.4 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, 2020, 2019 and 2018.

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, 2020, 2019 and 2018, the Company capitalized interest costs of approximately \$1.7 million, \$1.6 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 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. During the year ended December 31, 2020, the Company wrote-off \$3.7 million of long-lived maintenance assets at maintenance locations the Company vacated during the year.

Flying Agreements and Airport Customer Service and Other Revenues

The Company recognizes flying agreements revenue 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 "capacity purchase agreements", "fixed-fee arrangements," or "fixed-fee contracts") 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 pays for or reimburses the Company for certain direct expenses incurred under the capacity purchase arrangement, such as fuel, airport landing fees and airport rents. Under the capacity purchase arrangements, the Company's performance obligation is met and revenue is recognized when each flight is completed, measured in completed block hours, and is reflected in flying agreements revenue. The transaction price for the capacity purchase agreements is determined from the fixed-fee consideration, incentive consideration and directly reimbursed expenses earned as flights are completed over the agreement term. For the year ended December 31, 2020, capacity purchase arrangements represented approximately 87.0% of the Company's flying agreements revenue.

Under the Company's prorate arrangements (referred to as a "prorate" or "revenue-sharing" 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. Under the Company's prorate flying agreements, the performance obligation is met and revenue is recognized 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, 2020, prorate flying arrangements represented approximately 13.0% of the Company's flying agreements revenue.

Lease, airport services 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 customer service agreements is determined from an agreed-upon rate by location applied to the applicable number of flights handled by the Company over the agreement term. Additionally, airport customer service and other revenues includes revenue generated from aircraft and spare engines leased to third parties. Of the Company's \$5.4 billion of property and equipment, net as of December 31, 2020, \$271.1 million of regional jet aircraft and spare engines were leased to third parties under operating leases. The Company mitigates the residual asset risks of these assets by leasing aircraft and engine types that can be operated by the Company in the event of a default. A portion of the Company's leases to third parties contain variable payments from lessees based on departures where the Company pays for maintenance. Additionally, the operating leases typically have specified lease return condition requirements paid by the lessee to the Company and the Company typically maintains inspection rights under the leases.

The following table represents the Company's flying agreements revenue by type for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	For the year ended December 31,		
	2020	2019	2018
Capacity purchase agreements revenue: flight operations .	\$ 945,008	\$ 1,538,062	\$ 1,856,253
Capacity purchase agreements revenue: aircraft lease	846,933	830,247	814,518
Prorate agreements revenue	268,860	520,956	498,749
Flying agreements revenue	\$ 2,060,801	\$ 2,889,265	\$ 3,169,520

A portion of the Company's compensation under its capacity purchase 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 capacity purchase 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 lease revenue associated with the Company's capacity purchase agreements is accounted for as an operating lease and is reflected as flying agreements revenue on the Company's consolidated statements of comprehensive income. The Company has not separately stated aircraft rental income and aircraft rental expense in the consolidated statement of comprehensive income since the use of the aircraft is not a separate activity of the total service provided.

Under the Company's capacity purchase agreements, the Company is paid a fixed amount per month per aircraft over the contract term. The Company recognizes revenue attributed to the Fixed Monthly Payments proportionate to the number of block hours complete during each reporting period, relative to the estimated number of block hours we anticipate completing over the remaining contract term. Due to the material decrease in completed block hours in 2020 from historical levels and from anticipated future levels over the remaining contract terms, the Company determined the amount of Fixed Monthly Payments received in 2020 was disproportionately high relative to the number of block hours completed during 2020. The Company anticipates the future number of block hours it will complete over the remaining capacity purchase agreements will significantly increase from 2020 levels. Accordingly, the Company deferred recognizing revenue of \$110.7 million of fixed monthly cash payments the Company received under its capacity purchase agreements during 2020. The Company's deferred revenue related to the fixed payments will adjust over the remaining contract term for each capacity purchase agreement based on the number of block hours it completes each reporting period relative to the number of block hours it anticipates completing over the remaining contract term of each capacity purchase agreement.

The Company's capacity purchase 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 (capacity purchase arrangement)	<ul style="list-style-type: none"> • E175 • CRJ 900 • CRJ 700 	71 39 6	<ul style="list-style-type: none"> • Individual aircraft have scheduled removal dates from 2021 to 2030 • The average remaining term of the aircraft under contract is 5.7 years
Delta Connection Prorate Agreement (prorate arrangement)	<ul style="list-style-type: none"> • CRJ 200 	26	<ul style="list-style-type: none"> • Terminable with 30-day notice

United Express Agreements

<u>Agreement</u>	<u>Aircraft type</u>	<u>Number of Aircraft</u>	<u>Term / Termination Dates</u>
United Express Agreements (capacity purchase arrangement)	<ul style="list-style-type: none"> • E175 • CRJ 700 • CRJ 200 	90 19 70	<ul style="list-style-type: none"> • Individual aircraft have scheduled removal dates under the agreement between 2022 and 2029 • The average remaining term of the aircraft under contract is 4.9 years
United Express Prorate Agreement (prorate arrangement)	<ul style="list-style-type: none"> • CRJ 200 	34	<ul style="list-style-type: none"> • Terminable with 120-day notice

American Capacity Purchase Agreement

<u>Agreement</u>	<u>Aircraft type</u>	<u>Number of Aircraft</u>	<u>Term / Termination Dates</u>
American Agreement (capacity purchase arrangement)	<ul style="list-style-type: none"> • CRJ 700 	65	<ul style="list-style-type: none"> • Individual aircraft have scheduled removal dates from 2022 to 2026 • The average remaining term of the aircraft under contract is 3.3 years

Alaska Capacity Purchase Agreement

<u>Agreement</u>	<u>Aircraft type</u>	<u>Number of Aircraft</u>	<u>Term / Termination Dates</u>
Alaska Agreement (capacity purchase 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 average remaining term of the aircraft under contract is 8.2 years

In addition to the contractual arrangements described above, as of December 31, 2020, SkyWest Airlines entered into a capacity purchase agreement with American to place 20 E175 aircraft into service. The delivery dates for the 20 new E175 aircraft are currently scheduled for 2021 and 2022 and the aircraft are expected to be placed into service in 2022. SkyWest Airlines also entered into an agreement with American to place 25 used CRJ700s under a multi-year capacity purchase agreement beginning in 2021. Final delivery dates may be adjusted based on various factors.

SkyWest Airlines also entered into an agreement with Delta to place one CRJ900 aircraft under a capacity purchase agreement in 2021. The Company anticipates Delta will acquire the aircraft and SkyWest operate the aircraft.

When an aircraft is scheduled to be removed from a capacity purchase 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 prorated 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.

The following table represents the Company's lease, airport services and other revenues for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	<u>For the year ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Airport customer service and other revenue	\$ 25,804	\$ 45,538	\$ 48,236
Operating lease income relating to lease payments	34,791	27,552	3,923
Operating lease income relating to variable lease payments	5,710	9,608	—
Lease, airport services and other	\$ 66,305	\$ 82,698	\$ 52,159

The following table summarizes future minimum rental income under operating leases primarily related to leased aircraft that had remaining non-cancelable lease terms as of December 31, 2020 (in thousands):

2021	\$ 43,573
2022	43,390
2023	42,837
2024	42,530
2025	39,082
Thereafter	155,089
	<u>\$ 366,501</u>

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, changes in flight schedules, 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.

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.

As of December 31, 2020, the Company had \$34.5 million in accounts receivable of which \$27.5 million related to flying agreements. As of December 31, 2019, the Company had \$83.0 million in accounts receivable of which \$58.8 million related to flying agreements.

Allowance for Credit Losses

The Company monitors publicly available credit ratings for entities for which the Company has a significant receivable balance. As of December 31, 2020, the Company had gross receivables of \$56.1 million in current assets and gross receivables of \$157.4 million in other long-term assets. The Company has established credit loss reserves based on publicly available historic default rates issued by a third party for companies with similar credit ratings, factoring in the term of the respective accounts receivable or note receivable. During the twelve months ended December 31, 2020, the collectability on a note receivable from Kair Enterprises, Inc. associated with the Company's sale of ExpressJet in 2019 became uncertain due to ExpressJet ceasing operations during the year and the credit ratings were lowered on certain entities for which the Company has outstanding accounts receivable or notes receivable, which were the primary drivers for the increase in the Company's credit loss reserve when benchmarked against historic default rates as of January 1, 2020, when the Company adopted Accounting Standards Update ("ASU") 2016-13, "Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments" ("Topic 326").

The following table summarizes the changes in allowance for credit losses:

	<u>Allowance for Credit Losses</u>
Balance at January 1, 2020	\$ 15,388
Additions to credit loss reserves	30,837
Write-offs charged against allowance	—
Balance at December 31, 2020	<u>\$ 46,225</u>

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 by the weighted average number of common shares outstanding during the period. Diluted net income per common share (“Diluted EPS”) reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net income (loss) per common share. During the year ended December 31, 2020, 1,074,375 shares reserved for the issuance of employee equity awards and warrants to acquire the Company’s common stock were excluded in the computation of Diluted EPS since the Company reported a net loss for the year ended December 31, 2020. During the year ended December 31, 2019, 150,000 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, 2019. 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. 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, 2020, 2019 and 2018 (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Numerator:			
Net income (loss)	\$ (8,515)	\$ 340,099	\$ 280,372
Denominator:			
Basic earnings per share weighted average shares	50,195	50,932	51,914
Dilution due to stock options and restricted stock units	—	443	957
Diluted earnings per share weighted average shares	50,195	51,375	52,871
Basic earnings (loss) per share	\$ (0.17)	\$ 6.68	\$ 5.40
Diluted earnings (loss) per share	\$ (0.17)	\$ 6.62	\$ 5.30

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 debt 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. 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 \$3,244.0 million as of December 31, 2020, as compared to the carrying amount of \$3,236.0 million as of December 31, 2020. The Company’s fair value of long-term debt as of December 31, 2019 was \$3,049.1 million as compared to the carrying amount of \$3,017.5 million as of December 31, 2019.

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 (prior to the sale of ExpressJet in January 2019) consist of the operations conducted by SkyWest Airlines, ExpressJet (for the periods owned by the Company) and SkyWest Leasing. Following the sale of ExpressJet, the Company has two

reportable segments: SkyWest Airlines and SkyWest Leasing. Information pertaining to the Company's reportable segments is presented in Note 3, *Segment Reporting*.

Recent Accounting Pronouncements

Recently Adopted Standards

In June 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments" ("Topic 326"), which requires measurement and recognition of expected credit losses for financial assets held and requires enhanced disclosure regarding significant estimates and judgments used in estimating credit losses. Topic 326 is effective for the Company beginning January 1, 2020. The Company adopted Topic 326 on January 1, 2020. The Company's primary financial assets as of December 31, 2019 included trade receivables from its flying agreements, a note receivable from the sale of ExpressJet, and receivables from aircraft manufacturers and other third parties in the airline industry. The Company recorded a credit loss of \$11.6 million net of income tax in conjunction with the adoption of Topic 326. The Company recorded this credit loss as a January 1, 2020 beginning balance sheet entry to retained earnings (net of income tax). See Note 1, "Flying Agreements Revenue and Lease, Airport Services and Other Revenues," for more information on the application of Topic 326 on the Company's results for 2020.

(2) Impact of the COVID-19 Pandemic

COVID-19, which was declared a global health pandemic by the World Health Organization in March 2020, has continued to spread around the world and driven the implementation and continuation of significant, government-imposed measures to prevent or reduce its spread, including travel restrictions, closing of borders, "shelter in place" orders and business closures. Consequently, the Company and its major airline partners, have experienced an unprecedented decline in the demand for air travel, which has materially and adversely affected the Company's revenues, particularly under its prorate arrangements. The continued spread of the virus and the ongoing global pandemic has affected nearly all of the domestic and international networks of the Company's major airline partners for whom it conducts flight operations and relies on to set its flight schedules. While the length and severity of the reduction in demand due to COVID-19 are uncertain, the Company presently expects a continued significant negative impact on its results of operations at a minimum through 2021.

In response to these developments, the Company has implemented measures to focus on the personal safety of its passengers and employees, while at the same time seeking to mitigate the impact on the Company's financial position and operations. These measures include, but are not limited to, the following:

Focus on the Personal Safety of Passengers and Employees. The safety and well-being of the Company's passengers and employees are the Company's priorities in every decision it makes. As the COVID-19 pandemic has developed, the Company has taken numerous steps to help passengers and employees take appropriate safety measures on the ground and in the air in keeping with current Centers for Disease Control and Prevention recommendations, including:

- Working with the Company's major airline partners to enhance its aircraft cleaning procedures.
- Working with the Company's major airline partners to provide masks for crewmembers and ensuring that all fleet service personnel have the necessary personal protective equipment for disinfecting the aircraft.
- Providing a number of options to employees who are diagnosed with COVID-19, including pay protection and extended leave options.
- Implementing workforce social distancing and protection measures, and enhanced cleaning of the Company's facilities, including training facilities, using methods and products similar to what the Company is using on its aircraft.

Capacity Reductions. Beginning in March 2020, the Company and its major airline partners experienced an unprecedented decrease in demand for air travel and expect this decline from 2019 levels to continue throughout 2021 and possibly thereafter. The Company depends on its major airline partners to contract with the Company to operate

scheduled flights. Therefore, in response to this decreased demand, the Company has significantly reduced its capacity. During the year ended December 31, 2020, the Company's number of departures and block hours each decreased 30.5% and 33.5%, respectively, from the year ended December 31, 2019. The number of daily scheduled flights operated by the Company may not return to pre-COVID-19 levels by the end of 2021 or possibly thereafter. The Company will continue to work with its major airline partners regarding future schedules and make demand-driven adjustments to its capacity as needed. The Company removed 55 CRJ200 aircraft that were operating under the SkyWest Airlines Delta Connection Agreement as a result of contract expirations that were not extended during the 2020 calendar year. The Company additionally terminated its American Prorate Agreement on seven CRJ200 aircraft in the second quarter of 2020 and the Company may have further reductions in the number of CRJ200 aircraft operating under its other prorate agreements. The Company may receive requests by its major airline partners to defer deliveries of new or used aircraft that were previously scheduled for delivery in 2021 and 2022.

Cost Reductions. With the reduction in revenue, the Company has, and may continue to implement, cost saving initiatives, including:

- Reducing employee-related costs including by:
 - Offering voluntary unpaid leave to employees.
 - Suspending all non-scale pay increases.
 - Instituting a company-wide hiring freeze.
- Delaying non-essential projects and reducing or suspending other discretionary spending.

Liquidity. At December 31, 2020, the Company had \$1,530.4 million in total available liquidity, consisting of \$825.9 million in cash and marketable securities, \$39.5 million available under SkyWest Airlines' line of credit and an additional \$665.0 million related to the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") under the Company's secured loan with the U.S. Department of the Treasury ("Treasury").

CARES Act. On March 27, 2020, President Trump signed the CARES Act into law. The CARES Act is a relief package intended to assist many aspects of the U.S. economy, including providing the airline industry with up to \$25 billion in grants to be used for employee wages, salaries and benefits.

In April 2020, SkyWest Airlines entered into an agreement with Treasury to receive \$438.0 million in emergency relief through the CARES Act payroll support program to be paid in installments from April to September 2020, which was amended and increased to \$450.7 million. SkyWest Airlines received the \$450.7 million in the aggregate under the payroll support program during the year ended December 31, 2020. The relief payments are conditioned on the Company's agreement to, among other things, refrain from conducting involuntary employee layoffs or furloughs through September 30, 2020. Other conditions include bans on share repurchases and dividends through September 30, 2021, continuing essential air service as directed by the U.S. Department of Transportation and certain limitations on executive compensation. The relief payments received under the CARES Act payroll support program included \$345.5 million in a grant and \$105.2 million in an unsecured 10-year loan. The loan bears interest at an annual rate of 1.00% for the first five years (through April 2025) and the Secured Overnight Financing Rate plus 2.00% in the final five years. In return, the Company issued to Treasury warrants to purchase 370,720 shares of the Company's common stock. These warrants have an exercise price of \$28.38 per share and a five-year term from the date of issuance.

The relative fair value of the warrants is recorded within stockholder's equity and as a discount reducing the carrying value of the loan, which will be amortized as interest expense in the Company's income statement over the term of the loan. The proceeds of the grant are recorded in cash and cash equivalents when received and will be recognized as a reduction in expense in CARES Act payroll support grant in our income statement over the periods that the funds are intended to compensate.

During the year ended December 31, 2020, the Company recognized \$345.5 million of grant proceeds received under the CARES Act payroll support program, as a reduction in payroll expense. See Note 4, "Long-Term Debt," for further discussion of the unsecured loans and warrants to acquire the Company's shares issued under the CARES Act payroll support program.

The CARES Act also provides for up to \$25 billion in secured loans to the airline industry. In September 2020 the Company entered into a secured loan and guarantee agreement with Treasury (the “Treasury Loan Agreement”), which permits the Company to borrow up to \$573 million. Subsequently, on October 28, 2020, the Company entered into an amendment to the Treasury Loan Agreement that permits the Company to borrow up to \$725 million in the aggregate. As of December 31, 2020, the Company has borrowed \$60 million and may, at its option, borrow additional amounts in up to two subsequent borrowings until May 28, 2021. The proceeds are to be used for certain general corporate purposes and operating expenses in accordance with the terms and conditions of the Treasury Loan Agreement and the applicable provisions of the CARES Act. The loan will bear interest at a variable rate per annum equal to the London interbank offer rate divided by one minus the Eurodollar Reserve Percentage (as defined in the Treasury Loan Agreement) plus 3.00%. The applicable interest rate for the \$60 million loan will be 3.22% per annum through September 15, 2021 at which time the interest rate will reset in accordance with the foregoing formula. In return, the Company agreed to issue to Treasury warrants to purchase shares of the Company’s common stock based on a debt coverage ratio and amounts drawn under the facility. The Company issued warrants to purchase 211,416 shares of the Company’s common stock to Treasury in conjunction with the Company’s \$60 million borrowing under the facility. These warrants have an exercise price of \$28.38 per share and a five-year term from the date of issuance.

(3) 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.

Prior to the Company’s sale of ExpressJet on January 22, 2019, the Company’s three reporting segments consisted of the operations of SkyWest Airlines, ExpressJet and SkyWest Leasing activities. The segment information presented for ExpressJet reflects the period of time prior to the sale, when ExpressJet was operating as a subsidiary of the Company. The Company concluded that the sale of ExpressJet did not meet the criteria for a discontinued operation. Following the sale of ExpressJet, the Company has two reportable segments: SkyWest Airlines and SkyWest Leasing.

The Company’s chief operating decision maker analyzes the profitability of operating new aircraft financed through the issuance of debt, including the Company’s E175 fleet, separately from the profitability of the Company’s capital deployed for ownership and financing of such aircraft. The SkyWest Airlines segment includes revenue earned under the applicable capacity purchase contracts attributed to operating such aircraft and the respective operating costs. The SkyWest Leasing segment includes applicable revenue earned under the applicable capacity purchase contracts attributed to the ownership of new aircraft acquired through the issuance of debt and the respective depreciation and interest expense of such aircraft. The SkyWest Leasing segment also includes the activity of leasing regional jet aircraft and spare engines to third parties. The SkyWest Leasing segment’s total assets and capital expenditures include new aircraft acquired through the issuance of debt and assets leased to third parties.

The following represents the Company’s segment data for the years ended December 31, 2020, 2019 and 2018 (in thousands).

	Year Ended December 31, 2020		
	SkyWest Airlines	SkyWest Leasing	Consolidated
Operating revenues	\$ 1,636,762	\$ 490,344	\$ 2,127,106
Operating expense	1,716,808	301,496	2,018,304
Depreciation and amortization expense	221,216	253,743	474,959
Interest expense	12,381	110,792	123,173
Segment profit (loss) (1)	(92,427)	78,056	(14,371)
Total assets	2,804,259	4,083,363	6,887,622
Capital expenditures (including non-cash)	124,825	335,658	460,483

	Year Ended December 31, 2019			
	SkyWest			
	Airlines	ExpressJet	SkyWest Leasing	Consolidated
Operating revenues	\$ 2,478,681	\$ 24,050	\$ 469,232	\$ 2,971,963
Operating expense	2,214,632	28,690	216,383	2,459,705
Depreciation and amortization expense	168,246	971	198,881	368,098
Special items	18,508	3,361	—	21,869
Interest expense	13,525	—	114,230	127,755
Segment profit (loss) (1)	250,524	(4,640)	138,619	384,503
Total assets	2,728,964	—	3,928,165	6,657,129
Capital expenditures (including non-cash)	270,191	—	576,279	846,470

	Year Ended December 31, 2018			
	SkyWest			
	Airlines	ExpressJet	SkyWest Leasing	Consolidated
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

(1) Segment profit is operating income less interest expense

(4) Long-term Debt

Long-term debt consisted of the following as of December 31, 2020 and 2019 (in thousands):

	December 31, 2020	December 31, 2019
Notes payable to a financing company, due in semi-annual installments, with a fixed interest rate of 3.25% through 2021, secured by aircraft	\$ 6,205	\$ 18,412
Notes payable to banks, due in semi-annual installments plus interest at 6.24% to 6.51% through 2021, secured by aircraft	7,608	22,557
Notes payable to banks, due in monthly or semi-annual installments, plus interest at 2.68% to 6.86% through 2029, secured by aircraft	424,407	438,878
Notes payable to banks, due in quarterly installments, plus interest at 2.33% to 5.08% through 2032, secured by aircraft	2,618,777	2,537,676
Notes payable to bank, due in monthly installments interest based on LIBOR plus interest spread at 2.65% through 2021	13,795	—
Notes payable to US Government, interest due quarterly based on LIBOR plus interest spread currently at 3.22% through 2025, secured by parts and engines	60,000	—
Notes payable to US Government, interest due quarterly at 1.00% through 2025 and based on SOFR plus spread from 2025 through 2030, unsecured	105,210	—
Long-term debt	\$ 3,236,002	\$ 3,017,523
Current portion of long-term debt	(406,005)	(367,954)
Less long-term portion of unamortized debt issue cost, net	(28,459)	(20,580)
Long-term debt, net of current maturities and debt issue costs	<u>\$ 2,801,538</u>	<u>\$ 2,628,989</u>
Current portion of long-term debt	406,005	367,954
Less current portion of unamortized debt issue cost, net	(3,847)	(3,828)
Current portion of long-term debt, net of debt issue costs	<u>\$ 402,158</u>	<u>\$ 364,126</u>

During 2020, the Company took delivery of six new E175 aircraft that the Company financed through \$107.7 million of long-term debt. The debt associated with the six E175 aircraft has a 12-year term, is due in quarterly installments with fixed annual interest rates of 2.3% to 3.45% and is secured by the E175 aircraft.

During 2020, the Company took delivery of 21 used CRJ700 aircraft that the Company financed through \$133.5 million of long-term debt. The debt associated with the 10 of the CRJ700 aircraft has a 7.5-year term, is due in quarterly installments with fixed annual interest rates of 3.5% and is secured by the CRJ700 aircraft. The debt associated with 11 of the CRJ700 aircraft has a 5-year term, is due in monthly installments with fixed annual interest rates of 4.0% and is secured by the CRJ700 aircraft.

During 2020, in connection with the CARES Act payroll support program, the Company issued to Treasury a promissory note for an aggregate principal amount of \$105.2 million and issued warrants to purchase 370,720 shares of the Company's common stock. The Company has recorded the value of the promissory note and warrants on a relative fair value basis as \$105.2 million of long-term debt and \$5.0 million in common stock, respectively. These warrants have an exercise price of \$28.38 per share and a five-year term from the date of issuance.

Additionally, during 2020, in connection with the CARES Act, the Company entered into the Treasury Loan Agreement with Treasury which permits the Company to borrow up to \$573 million. Subsequently, on October 28, 2020, the Company entered into an amendment to the Treasury Loan Agreement that permits the Company to borrow up to \$725 million in the aggregate. As of December 31, 2020, the Company has drawn \$60 million under the agreement and issued warrants to purchase 211,416 shares of the Company's common stock. The Treasury Loan Agreement is secured by aircraft engines and aircraft parts. The Company may, at its option, borrow additional amounts in up to two subsequent borrowings until May 28, 2021. The proceeds will be used for certain general corporate purposes and

operating expenses in accordance with the terms and conditions of the Treasury Loan Agreement and the applicable provisions of the CARES Act. The Company has recorded the value of the promissory note and warrants on a relative fair value basis as \$60 million of long-term debt and \$3.2 million in common stock, respectively. These warrants have an exercise price of \$28.38 per share and a five-year term from the date of issuance.

As of December 31, 2020, and 2019, the Company had \$3.07 billion and \$3.02 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, 2020 and 2019, was approximately 4.0% and 4.2%, respectively.

During the year ended December 31, 2019, the Company used \$30.1 million in cash to extinguish \$30.1 million in debt early. These payments did not result in a pre-tax gain or loss in the consolidated statements of comprehensive income (loss).

The aggregate amounts of principal maturities of long-term debt as of December 31, 2020 were as follows (in thousands):

2021	\$	406,005
2022		407,554
2023		418,048
2024		372,322
2025		447,251
Thereafter		<u>1,184,822</u>
	\$	<u>3,236,002</u>

As of December 31, 2020 and 2019, 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, 2020, the Company obtained waivers for the line of credit agreement that permitted the Company to receive funding under the CARES Act and waived compliance with minimum profitability covenants through June 30, 2021. As of December 31, 2020 and 2019, SkyWest Airlines had no amount outstanding under the line of credit facility. However, at December 31, 2020 and 2019 the Company had \$35.5 million and \$8.8 million, respectively, in letters of credit issued under the facility which reduced the amount available under the facility to \$39.5 million and \$66.2 million, respectively. The facility expires on September 1, 2021 and has a variable interest rate of LIBOR plus 2.5% at December 31, 2020.

As of December 31, 2020 and 2019, the Company had \$61.1 million and \$61.7 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.

(5) Income Taxes

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

	Year ended December 31,		
	2020	2019	2018
Current tax provision (benefit):			
Federal.	\$ (4,397)	\$ (4,395)	\$ (21,598)
State.	(875)	891	1,465
Foreign	—	—	1,575
	<u>(5,272)</u>	<u>(3,504)</u>	<u>(18,558)</u>
Deferred tax provision (benefit):			
Federal.	6,659	95,655	92,250
State.	(199)	14,055	12,250
	<u>6,460</u>	<u>109,710</u>	<u>104,500</u>
Provision (benefit) for income taxes	<u>\$ 1,188</u>	<u>\$ 106,206</u>	<u>\$ 85,942</u>

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

	Year ended December 31,		
	2020	2019	2018
Computed provision for income taxes at the statutory rate	\$ (1,539)	\$ 93,724	\$ 76,926
Increase (decrease) in income taxes resulting from:			
State income tax provision, net of federal income tax benefit	173	15,645	12,711
Non-deductible expenses	2,539	3,934	1,956
Valuation allowance changes affecting the provision for income taxes	(892)	(517)	(1,187)
Foreign income taxes, net of federal & state benefit	—	—	1,192
Excess tax benefits from share-based compensation	(1,434)	(3,525)	(4,548)
Other, net.	2,341	(3,055)	(1,108)
Provision for income taxes	<u>\$ 1,188</u>	<u>\$ 106,206</u>	<u>\$ 85,942</u>

For the year ended December 31, 2020, the Company released \$0.9 million of valuation allowance against certain deferred tax assets primarily associated with state net operating losses with a limited carry forward period. For the year ended December 31, 2019, the Company released \$0.5 million of valuation allowance against certain deferred tax assets primarily associated with ExpressJet state net operating losses. For the year ended December 31, 2018, the Company released \$1.2 million valuation allowance, respectively against certain deferred tax assets primarily associated with ExpressJet state net operating losses with a limited carry forward period and Company capital losses with a limited carry forward period. The decrease in the valuation allowance for 2020 was primarily based on changes in the Company's income tax projections 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 \$1.4 million, \$3.5 million and \$4.5 million benefit from share-based compensation in 2020, 2019, and 2018, 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 exercised and when stock awards vest.

The significant components of the Company's net deferred tax assets and liabilities as of December 31, 2020 and 2019 are as follows (in thousands):

	As of December 31,	
	2020	2019
Deferred tax assets:		
Accrued benefits	\$ 19,668	\$ 20,848
Net operating loss carryforward	229,815	358,685
AMT credit carryforward	—	4,397
Aircraft credits	12,765	9,114
Deferred revenue	27,076	—
Accrued reserves and other	34,816	17,225
Total deferred tax assets	324,140	410,269
Valuation allowance	—	(892)
Deferred tax liabilities:		
Accelerated depreciation	(950,071)	(1,032,957)
Total deferred tax liabilities	(950,071)	(1,032,957)
Net deferred tax liability	\$ (625,931)	\$ (623,580)

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).

At December 31, 2020 and 2019, the Company had federal net operating losses of approximately \$987.0 million and \$1,581.1 million and state net operating losses of approximately \$653.1 million and \$766.4 million, respectively. The estimated effective tax rate applicable to the federal and state net operating losses at December 31, 2020 was 21.0% and 3.45%, respectively. The Company anticipated that the federal and state net operating losses will start to expire in 2036 and 2021, respectively. As of December 31, 2019, the Company also had an alternative minimum tax credit of approximately \$4.4 million, which did not expire. Under the CARES Act of 2020, these credits were realized by claiming a refundable credit during 2020. The Company has no ongoing federal or state examinations.

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, 2020, 2019 and 2018 is as follows (in thousands):

	Year ended December 31,		
	2020	2019	2018
Unrecognized tax benefits at the beginning of year	\$ 14,620	\$ 14,553	\$ 2,223
Gross increases - current year tax positions	—	—	13,899
Gross increases - prior year tax positions	360	67	—
Gross decreases - prior year tax positions	—	—	(1,569)
Unrecognized tax benefits at end of year	\$ 14,980	\$ 14,620	\$ 14,553
Interest and penalties in year-end balance	\$ 427	\$ 67	\$ —

For the years ending December 31, 2020 and 2019, the Company recorded \$360,000 and \$67,000, respectively, of interest expense related to uncertain tax positions not offset by the Company's tax attributes.

(6) Commitments and Contingencies

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. The Company uses judgment and estimates in determining the ultimate aggregate liabilities for claims incurred in its workers' compensation liability. The Company also used significant assumptions in determining the workers compensation liability such as an estimation of loss payment and loss reporting development patterns. At December 31, 2020 and 2019, the Company's accrued workers' compensation liability totaled \$20.7 million and \$23.9 million, respectively. 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, 2020, 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 a credit loss reserve based upon expected collectability of all accounts receivable. For the years ended December 31, 2020, 2019 and 2018, the Company's contractual relationships with Delta and United combined accounted for approximately 76.4%, 77.6% and 81.4%, respectively of the Company's total revenues.

Employees Under Collective Bargaining Agreements

As of December 31, 2020, the Company had approximately 12,502 full-time equivalent employees. Although no SkyWest Airlines employees are represented by a national union, certain SkyWest Airline employees are covered under a stable and binding collective bargaining agreement that is administered by employee representatives.

Aircraft Purchase Commitments

As of December 31, 2020, the Company had a purchase commitment to purchase 20 new E175 aircraft in late 2021 and early 2022. Subsequent to December 31, 2020, the Company entered into a purchase commitment to purchase 12 used CRJ700 aircraft in 2021.

(7) Leases

Effective January 1, 2019, the Company adopted Topic 842. The Company leases property and equipment under operating leases. For leases with durations longer than 12 months, the Company recorded the related operating lease right-of-use asset and operating lease liability at the present value of lease payments over the term. The Company used its incremental borrowing rate to discount the lease payments based on information available at lease commencement.

Aircraft

As of December 31, 2020, excluding aircraft financed by our major partners that we operate for them under contract, the Company had 41 aircraft under long-term lease agreements with remaining terms ranging from less than one year to ten years.

With the adoption of Topic 842, the Company evaluated whether leased aircraft asset groups within the Company's fleet were impaired. Under the transition guidance for Topic 842, a company is permitted to recognize a previously unrecognized impairment related to a right-of-use asset in the period prior to the adoption date of Topic 842 if the event giving rise to the impairment occurred before the adoption date. In 2016, the Company recorded an impairment on certain of its long-lived assets, which included the Company's CRJ200 aircraft. In 2016, the market lease rate was less than the contractual lease rate on the Company's CRJ200 leased aircraft. The Company recorded an impairment of \$13.1 million (net of tax) as an adjustment to the Company's January 1, 2019 retained earnings related to the previously unrecognized impairment of these leased CRJ200s.

Airport facilities

The Company has operating leases for facility space including airport terminals, office space, cargo warehouses and maintenance facilities. The Company generally leases this space from government agencies that control the use of the airport. The remaining lease terms for facility space vary from one month to 36 years. The Company's operating leases with lease rates that are variable based on airport operating costs, use of the facilities or other variable factors are excluded from the Company's right-of-use assets and operating lease liabilities in accordance with accounting guidance.

Leases

As of December 31, 2020, the Company's right-of-use assets were \$282.4 million, the Company's current maturities of operating lease liabilities were \$82.6 million, and the Company's noncurrent lease liabilities were \$205.8 million. During 2020, the Company paid \$90.3 million in operating leases reflected as a reduction from operating cash flows.

The table below presents lease related terms and discount rates as of December 31, 2020.

	<u>As of December 31, 2020</u>
Weighted-average remaining lease term	
Operating leases	6.50 years
Weighted-average discount rate	
Operating leases	6.1%

The Company's lease costs for 2020 and 2019 included the following components (in thousands):

	<u>For the year ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Operating lease cost	\$ 94,915	\$ 104,011
Variable and short-term lease cost	4,619	5,232
Sublease income	(6,304)	(1,436)
Total lease cost	<u>\$ 93,230</u>	<u>\$ 107,807</u>

As of December 31, 2020, the Company leased aircraft, airport facilities, office space, and other property and equipment under non-cancelable operating leases, which are generally on a long-term, triple-net lease basis pursuant to which the Company pays taxes, maintenance, insurance and certain other operating expenses applicable to the leased property. The Company expects that, in the normal course of business, such operating leases that expire will be renewed or replaced by other leases, or the property may be purchased rather than leased. The following table summarizes future minimum rental payments primarily related to leased aircraft required under operating leases that had initial or remaining non-cancelable lease terms as of December 31, 2020 (in thousands):

2021	\$ 85,869
2022	77,780
2023	69,530
2024	28,091
2025	15,751
Thereafter	82,719
	<u>\$ 359,740</u>

Total rental expense for non-cancelable aircraft operating leases was approximately \$65.3 million, \$72.0 million and \$154.9 million for the years ended December 31, 2020, 2019 and 2018, respectively. The minimum rental expense for airport station rents was approximately \$20.1 million, \$23.1 million and \$19.6 million for the years ended December 31, 2020, 2019 and 2018, respectively.

(8) 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, 2020, 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, 2020			
	Total	Level 1	Level 2	Level 3
Marketable Securities				
Bonds and bond funds	\$ 117,928	\$ —	\$ 117,928	\$ —
Commercial paper	492,257	—	492,257	—
	<u>\$ 610,185</u>	<u>\$ —</u>	<u>\$ 610,185</u>	<u>\$ —</u>
Cash, Cash Equivalents and Restricted Cash	215,723	215,723	—	—
Total Assets Measured at Fair Value	<u>\$ 825,908</u>	<u>\$ 215,723</u>	<u>\$ 610,185</u>	<u>\$ —</u>

Fair Value Measurements as of December 31, 2019				
	Total	Level 1	Level 2	Level 3
Marketable Securities				
Bonds and bond funds	\$ 267,243	\$ —	\$ 267,243	\$ —
Commercial paper	165,723	—	165,723	—
	<u>\$ 432,966</u>	<u>\$ —</u>	<u>\$ 432,966</u>	<u>\$ —</u>
Cash, Cash Equivalents and Restricted Cash	87,206	87,206	—	—
Total Assets Measured at Fair Value	<u>\$ 520,172</u>	<u>\$ 87,206</u>	<u>\$ 432,966</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, 2020. The Company's policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

(9) Special Items

The following table summarizes the components of the Company's special items, for the year ended December 31, 2020, 2019 and 2018 (in thousands):

	Year ended December 31,		
	2020	2019	2018
Special items:			
Parts Credit ¹	\$ —	\$ 18,508	\$ —
Employee severance ²	—	3,361	—
Total special items	<u>\$ —</u>	<u>\$ 21,869</u>	<u>\$ —</u>

- (1) The Company terminated an agreement with an aircraft manufacturer that obligated the Company to future aircraft lease return conditions on aircraft the Company leased. In conjunction with the terminated agreement, the aircraft manufacturer released the Company from the future aircraft lease return obligations and the Company agreed to terminate aircraft part credits previously issued by the manufacturer to the Company. As a result of the terminated agreement, the Company recorded a non-cash expense of \$18.5 million (pre-tax) during 2019 to write-off the terminated aircraft part credits, which was reflected as a special items operating expense in the consolidated statement of comprehensive income. These special items are reflected in the SkyWest Airlines operating expenses under Note 3 *Segment Reporting*.
- (2) During 2019, the Company incurred \$3.4 million of employee severance related costs associated with the sale of ExpressJet that are also reflected in special items. These special items are reflected in the ExpressJet operating expenses under Note 3 *Segment Reporting*.

(10) 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 7, 2019, the Company's shareholders approved the adoption of the SkyWest, Inc. 2019 Long-Term Incentive Plan, which provides for the issuance of up to 4,500,000 shares of common stock to the Company's directors, employees, consultants and advisors (the "2019 Incentive Plan"). The 2019 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 2019 Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee"). As of December 31, 2020, the 2019 Incentive Plan had 4.1 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, 2020, 2019 and 2018, the Company did not grant any options to purchase shares of common stock to its employees.

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, 2020, 2019 and 2018.

	2020				2019		2018	
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	60,231	14.74	3.1 years	\$ 3,005.1	300,580	\$ 13.70	458,103	\$ 13.73
Granted	—	—			—	—	—	—
Exercised	(2,578)	14.78			(232,514)	13.36	(157,523)	13.80
Cancelled	—	—			(7,835)	15.86	—	—
Outstanding at end of year . .	<u>57,653</u>	14.74	2.1 years	\$ 1,474.5	<u>60,231</u>	14.74	<u>300,580</u>	13.70
Exercisable at December 31, 2020	57,653	14.74	2.1 years	\$ 1,474.5				
Exercisable at December 31, 2019	60,231	14.74	3.1 years	\$ 3,005.1				

The total intrinsic value of options to acquire shares of the Company's common stock that were exercised during the years ended December 31, 2020, 2019 and 2018 was \$0.1 million, \$10.5 million and \$7.1 million, respectively. All of the Company's stock options were vested as of December 31, 2020.

The following table summarizes information about the Company's stock options outstanding at December 31, 2020:

Options Outstanding				Options Exercisable	
		Weighted Average			
Range of Exercise Prices	Number	Remaining	Weighted Average	Number	Weighted Average
	Outstanding	Contractual Life	Exercise Price	Exercisable	Exercise Price
\$13.00. to \$13.99	2,034	0.1 years	\$ 13.51	2,034	\$ 13.51
\$14.00. to \$15.00	55,619	1.1 years	14.78	55,619	14.78
\$13.00. to \$15.00	57,653	1.1 years	\$ 14.74	57,653	\$ 14.74

Restricted Stock Units ("RSUs")

During the year ended December 31, 2020, the Company granted 82,505 restricted stock units to certain of the Company's employees under the 2019 Incentive Plan. The restricted stock units granted during the year ended December 31, 2020 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, 2020 was \$61.45 per share.

The following table summarizes the activity of restricted stock units granted to certain Company employees for the years ended December 31, 2020, 2019 and 2018:

	Number of RSUs	Weighted-Average
		Grant-Date Fair Value
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
Granted.	104,120	48.65
Vested	(251,853)	14.79
Cancelled.	(143,362)	30.85
Non-vested RSUs outstanding at December 31, 2019	284,686	\$ 45.21
Granted.	82,505	61.45
Vested	(103,231)	35.81
Cancelled	(25,983)	52.31
Non-vested RSUs outstanding at December 31, 2020	237,977	\$ 54.15

Performance Stock Units ("PSUs")

During the year ended December 31, 2020, the Compensation Committee granted performance share units, which are performance based restricted stock units, to certain Company employees. The PSUs are based on cumulative three-year performance-based metrics ending December 31, 2022 that the Company must meet before those awards may be measured and earned. 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 2020, the Compensation Committee awarded 83,042 additional shares of stock related to the performance share grant in 2017 based on the Company's performance for the three years ended December 31, 2019 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 2018, 2019 and 2020 following the conclusion of the respective performance period. 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 2020, 2019 and 2018.

The following table summarizes the activity of performance share units granted at target as of December 31, 2020:

	<u>Number of PSUs</u>	<u>Weighted-Average Grant-Date Fair Value</u>
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
Granted.	87,864	48.81
Additional PSUs awarded from the 2016 grant	67,853	14.80
Vested	(203,582)	14.80
Cancelled	(89,481)	34.70
Non-vested PSUs outstanding at December 31, 2019	233,571	\$ 45.44
Granted.	69,132	61.45
Additional PSUs awarded from the 2017 grant	83,042	35.81
Vested	(166,084)	35.81
Cancelled	(23,052)	53.66
Non-vested PSUs outstanding at December 31, 2020	196,609	\$ 54.17

During the years ended December 31, 2020, 2019 and 2018 the Company granted fully-vested shares of common stock to the Company's directors in the amounts of 14,643, 18,576 and 15,165 shares, respectively, with a weighted average grant-date fair value of \$61.45, \$48.45, and \$53.40 respectively.

During the year ended December 31, 2020, 2019 and 2018, the Company recorded equity-based compensation expense of \$6.8 million, \$10.3 million and \$13.1 million, respectively. Additionally, the Company incurred \$7.9 million of employee severance related costs associated with the sale of ExpressJet, partially offset by a forfeiture credit of \$4.5 million, primarily resulting from stock-based compensation awards that terminated upon the sale of ExpressJet during 2019.

As of December 31, 2020, the Company had \$9.2 million of total unrecognized compensation cost related to 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.

Warrants

During the year ended December 31, 2020 the Company issued to Treasury warrants to purchase 370,720 shares of the Company's common stock as part of the CARES Act payroll support. The warrants were issued with an exercise price of \$28.38 per share for a five-year term from the date of issuance. The fair value of the warrants issued to Treasury was estimated as of the grant date using the Black-Scholes option pricing model. The Company estimated a weighted average fair value of the warrants issued to Treasury at \$13.57 per share.

Additionally, the Company issued to Treasury warrants to purchase 211,416 shares of the Company's common stock in conjunction with the Company's \$60 million borrowing under the CARES Act Secured Loan facility. The

warrants were issued with an exercise price of \$28.38 per share for a five-year term from the date of issuance. The weighted average fair value of these warrants was estimated at \$15.22 per share using the Black-Scholes option pricing model.

(11) Retirement Plans and Employee Stock Purchase Plans

SkyWest Retirement Plan

The Company sponsors the SkyWest, Inc. Employees' Retirement Plan (the "SkyWest Plan"). Employees who 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 \$31.9 million, \$40.7 million and \$35.6 million for the years ended December 31, 2020, 2019 and 2018, 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, 2020, 2019 and 2018:

	Year ended December 31,		
	2020	2019	2018
Number of shares purchased	65,512	65,148	60,950
Average price of shares purchased	\$ 42.45	\$ 48.58	\$ 49.85

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, 2020, 2019 and 2018.

(12) 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 \$250.0 million of the Company's common stock commencing on February 5, 2019, of which \$139.6 million remained available at December 31, 2020. Under the terms of the Treasury Loan Agreement, the Company is restricted from repurchasing shares of its common stock for a twelve-month period following repayment of the loan in full.

During the years ended December 31, 2020, 2019 and 2018, the Company repurchased 0.4 million, 1.7 million and 1.0 million shares of common stock for approximately \$20.0 million, \$94.6 million and \$54.4 million, respectively at a weighted average price per share of \$51.87, \$56.86 and \$56.25, respectively. Additionally, during the year ended December 31, 2020, 2019 and 2018, the Company paid \$6.2 million, \$9.3 million and \$13.6 million, respectively, for a net settlement of the income tax obligation on employee equity awards that vested during the applicable periods.

(13) Related-Party Transactions

During the year ended December 31, 2020, the Company purchased \$223,050 of spare aircraft parts from an entity affiliated with a director of the Company.

(14) Gain on Sale of ExpressJet

On January 22, 2019, the Company completed the sale of its former wholly owned subsidiary ExpressJet. The Company recorded a gain of \$46.5 million (pre-tax) from the sale of ExpressJet. 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, 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 \$60.8 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 \$18.8 million in cash, subject to certain purchase price adjustments (the “Stock 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 “Borrower”), the majority owner of the Buyer. Such loan accrues interest at the rate of 6.85% per annum, matures on the last business day of the last month immediately preceding the two-year anniversary of the closing of the Stock Sale and is secured by, among other things, the Borrower’s ownership interests in the Buyer. The Company evaluated the collectability of this loan balance as of December 31, 2020 under Topic 326. See Note 1 - *Flying Agreements and Airport Customer Services and Other Revenues and Allowance for Credit Losses* for additional information.

(15) Investment in Other Companies

During 2019, the Company created a joint venture with Regional One, Inc. (“Regional One”) by investing \$22.3 million for a 75% ownership interest in Aero Engines, LLC. (“Aero Engines”). The primary purpose of Aero Engines is to lease engines to third parties. Aero Engines requires unanimous approval from the Company and Regional One for its engine purchases, dispositions, lease agreements with third parties and all other material transactions. The Company determined Aero Engines is a variable interest entity as the Company has a 75% ownership interest in Aero Engines and all material decisions require unanimous approval from the Company and Regional One, resulting in disproportionate ownership rights relative to voting rights. As unanimous approval is required for all Aero Engines’ material activities. Aero Engines has no primary beneficiary. The Company accounts for its investment in Aero Engines under the equity method. The Company’s exposure in its investment in Aero Engines primarily consists of the Company’s portion of income or loss from Aero Engines’ engine lease agreements with third parties and the Company’s ownership percentage in Aero Engines’ engines book value. The Company purchased 15 spare engines and sold the 15 spare engines to Aero Engines at net book value during 2019. Since the initial investment, the Company has invested an additional \$1.0 million into Aero Engines during 2020. Aero Engines had no debt outstanding as of December 31, 2020. As of December 31, 2020, the Company’s investment balance in Aero Engines was \$25.5 million. The Company’s investment in Aero Engines has been recorded in “Other Assets” on the Company’s consolidated balance sheet. The Company’s portion of the income generated by Aero Engines for 2020 was \$1.6 million.

(16) Subsequent Events

On January 15, 2021, SkyWest Airlines entered into a Payroll Support Program Extension Agreement (the “PSP Extension Agreement”) with Treasury with respect to a payroll grant program under the Consolidated Appropriations Act, 2021 (“2021 Appropriations Act”).

Payroll Support Program Extension Agreement

Pursuant to the PSP Extension Agreement, SkyWest Airlines expects to receive from Treasury approximately \$233.1 million in the aggregate during the first quarter of 2021.

In connection with the receipt of financial assistance under the PSP Extension Agreement, SkyWest Airlines is required to comply with the relevant provisions of the 2021 Appropriations Act, many of which are substantially similar to the requirements placed on SkyWest Airlines by the Payroll Support Program under the CARES Act. The relevant provisions include the requirement that the funding be used exclusively for the continuation of payment of employee wages, salaries and benefits. Similar to the Payroll Support Program under the CARES Act, SkyWest Airlines and, in some cases, the Company will also be subject to certain restrictions, including, but not limited to, limitations on involuntary terminations, salary reductions and furloughs through March 31, 2021, restrictions on the payment of dividends and the repurchase of shares through October 1, 2022, and certain limitations on executive compensation. SkyWest Airlines is also required to recall employees involuntarily terminated or furloughed after September 30, 2020 with pay from December 1, 2020 to March 31, 2021.

Promissory Note

As partial compensation to Treasury for the provision of financial assistance under the PSP Extension Agreement, SkyWest Airlines issued, and the Company guaranteed, a promissory note (the “Promissory Note”) to Treasury on the Closing Date. The Promissory Note provides for SkyWest Airlines’ unconditional promise to pay to Treasury the expected principal sum of up to approximately \$39.9 million.

The Promissory Note will bear interest at a rate equal to 1.00% per annum until the fifth anniversary of the Closing Date, and 2.00% plus an interest rate based on the secured overnight financing rate per annum (but not less than 0.00%) thereafter until the tenth anniversary of the Closing Date (the “Maturity Date”). Accrued interest will be payable in arrears on the last business day of each of March and September of each year, beginning with March 31, 2021. The aggregate unpaid principal amount of the Promissory Note, all accrued and unpaid interest and all other amounts payable under the Promissory Note will be due and payable on the Maturity Date.

Warrant Agreement and Warrants

In connection with the PSP Extension Agreement and as partial compensation to Treasury for the provision of financial assistance under the PSP Extension Agreement, the Company will issue warrants (each a “Warrant” and, collectively, the “Warrants”) to Treasury to purchase up to an expected aggregate of 98,815 shares (the “Warrant Shares”) of the Company’s common stock, at an exercise price of \$40.41 per share, which was the closing price of the Common Stock on The Nasdaq Stock Market on December 24, 2020. The Warrants will be issued pursuant to the terms of a Warrant Agreement entered into by the Company and Treasury on January 15, 2021. The number of Warrant Shares to be issued is subject to adjustment as a result of certain anti-dilution provisions contained in the Warrants.

Treasury Loan Agreement Borrowing Extension

On January 15, 2021, SkyWest Airlines and the Company entered into an additional amendment to the Loan Agreement with Treasury to provide that the deadline pursuant to which SkyWest Airlines may, at its discretion, borrow additional amounts under the facility was extended from March 26, 2021 to May 28, 2021. The other terms of the Loan Agreement were not affected.

(17) Quarterly Financial Data (Unaudited)

Unaudited summarized financial data by quarter for 2020 and 2019 is as follows (in thousands, except per share data):

Year ended December 31, 2020					
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues	\$ 729,936	\$ 350,039	\$ 457,493	\$ 589,638	\$ 2,127,106
Operating income	66,321	(4,403)	74,553	(27,669)	108,802
Net income	29,988	(25,715)	33,662	(46,450)	(8,515)
Net income per common share:					
Basic:	0.60	(0.51)	0.67	(0.93)	(0.17)
Diluted	0.59	(0.51)	0.66	(0.93)	(0.17)
Weighted average common shares:					
Basic:	50,277	50,140	50,181	50,181	50,195
Diluted:	50,559	50,140	50,622	50,181	50,195

Year ended December 31, 2019					
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues	\$ 723,694	\$ 744,383	\$ 760,295	\$ 743,591	\$ 2,971,963
Operating income	96,419	144,093	146,441	125,305	512,258
Net income (1)	88,181	88,052	91,339	72,527	340,099
Net income per common share:					
Basic:	1.71	1.72	1.80	1.44	6.68
Diluted	1.69	1.71	1.79	1.43	6.62
Weighted average common shares:					
Basic:	51,440	51,145	50,746	50,395	50,932
Diluted:	52,098	51,477	51,129	50,796	51,375

- (1) Net income for the first quarter of 2019 included a \$46.5 million gain related to the sale of ExpressJet (see Note 14 *Gain on Sale of ExpressJet* for more details) and a \$21.9 million special charge (see Note 9 *Special Items* for more details).

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, 2020, 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, 2020 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, 2020.

The effectiveness of our internal control over financial reporting as of December 31, 2020, 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, 2020, 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, 2020, 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, 2020 and 2019, 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, 2020, and the related notes and financial statement schedule listed in the Index at Item 15(a)2 and our report dated February 22, 2021 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 22, 2021

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 2021 Annual Meeting of Shareholders scheduled for May 4, 2021. We intend to file our definitive proxy statement with the SEC not later than 120 days after December 31, 2020, pursuant to Regulation 14A of the Exchange Act.

	Headings in Proxy Statement
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	“Election of Directors,” “Executive Officers,” “Corporate Governance,” “Meetings and Committees of the Board” and “Delinquent Section 16(a) Reports”
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	“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, 2020 and 2019, Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2020, 2019 and 2018, Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018, Consolidated Statements of Stockholders' Equity for the years ended December 31, 2020, 2019, 2018 and 2017 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
3.1	Restated Articles of Incorporation	(1)
3.2	Amended and Restated Bylaws	(11)
4.1	Specimen of Common Stock Certificate	(2)
4.2	Warrant Agreement, dated as of April 23, 2020, by and between SkyWest, Inc. and the United States Department of the Treasury	(20)
4.3	Form of Warrant (incorporated by reference to Annex B of Exhibit 4.2)	(20)
4.4	Warrant Agreement, dated as of September 29, 2020, by and between SkyWest, Inc. and the United States Department of the Treasury	(21)
4.5	Form of Warrant (incorporated by reference to Annex B of Exhibit 4.4)	(21)
4.6	Warrant Agreement, dated as of January 15, 2021, by and between SkyWest, Inc. and the United States Department of the Treasury	Filed herewith
4.7	Form of Warrant (incorporated by reference to Annex B of Exhibit 4.6)	Filed herewith
4.8	Description of Registered Securities	(22)
10.1	Amended and Restated Delta Connection Agreement, dated as of September 8, 2005, between SkyWest Airlines, Inc. and Delta Air Lines, Inc.	(3)
10.2	United Express Agreement dated July 31, 2003, between United Air Lines, Inc., and SkyWest Airlines, Inc.	(4)
10.3	Lease Agreement dated December 1, 1989 between Salt Lake City Corporation and SkyWest Airlines, Inc.	(5)
10.4	Master Purchase Agreement dated November 7, 2000 between Bombardier, Inc. and SkyWest Airlines, Inc.	(6)
10.5	Supplement to Master Purchase Agreement dated November 7, 2000 between Bombardier, Inc. and SkyWest Airlines, Inc.	(4)
+10.6	SkyWest, Inc. 2002 Deferred Compensation Plan, as amended and restated, effective January 1, 2008	(5)
+10.7	First Amendment to the Amended and Restated SkyWest, Inc. 2002 Deferred Compensation Plan	(5)
+10.8	SkyWest, Inc. 2009 Employee Stock Purchase Plan	(5)
+10.9	SkyWest, Inc. 2010 Long-Term Incentive Plan	(6)
+10.10	Form of Restricted Stock Unit Award Agreement	(15)
+10.11	Form of Performance Share Award Agreement	(15)
10.12	Capacity Purchase Agreement, dated November 12, 2010, by and among ExpressJet Airlines, Inc. and Continental Airlines, Inc.	(9)
10.13	Aircraft Purchase Agreement, dated December 7, 2012, between Mitsubishi Aircraft Corporation and SkyWest, Inc.	(10)
10.14	Letter Agreement dated December 7, 2012, between Mitsubishi Aircraft Corporation and SkyWest, Inc.	(10)
10.15	Purchase Agreement COM0028-13, between Embraer S.A. and SkyWest Inc. dated February 15, 2013	(12)
*10.16	Amended and Restated Capacity Purchase Agreement, dated as of November 7, 2014, by and between ExpressJet Airlines, Inc. and United Airlines	(13)
+10.17	SkyWest, Inc. 2019 Long-Term Incentive Plan	(18)
10.18	Severance and Release Agreement, dated as of February 12, 2019, by and between the Registrant and Terry M. Vais	(19)
10.19	Form of Indemnification Agreement	Filed herewith
10.20	Payroll Support Program Agreement, dated of April 23, 2020, by and between SkyWest Airlines, Inc. and the United States Department of the Treasury	(20)

Number	Exhibit	Incorporated by Reference
10.21	Promissory Note, dated as of April 23, 2020, issued by SkyWest Airlines, Inc. to the United States Department of the Treasury and guaranteed by SkyWest, Inc.	(20)
**10.22	Restatement Agreement to the Loan and Guarantee Agreement, dated of October 28, 2020, by and among SkyWest Airlines, Inc., the United States Department of the Treasury and the Bank of New York Mellon	(21)
10.23	Amendment to Loan and Guarantee Agreement, dated as of January 15, 2021, by and among SkyWest Airlines, Inc., the United States Department of the Treasury and the Bank of New York Mellon.	Filed herewith
10.24	Payroll Support Program Extension Agreement, dated of January 15, 2021, by and between SkyWest Airlines, Inc. and the United States Department of the Treasury	Filed herewith
10.25	Promissory Note, dated as of January 15, 2021, issued by SkyWest Airlines, Inc. to the United States Department of the Treasury and guaranteed by SkyWest, Inc.	Filed herewith
21.1	Subsidiaries of the Registrant	Filed herewith
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	The following financial statements from the SkyWest Inc. Annual Report on Form 10-K for the year ended December 31, 2020, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements, tagged as blocks of text and including detailed tags	Filed herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	Filed herewith

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

** Pursuant to Item 601(a)(5) of Regulation S-K promulgated by the Securities and Exchange Commission, certain exhibits and schedules to this agreement have been omitted. Such exhibits and schedules are described in the referenced agreement. The Company hereby agrees to furnish to the Securities and Exchange Commission, upon its request, any or all of such omitted exhibits or schedules.

+ Management compensatory plan or arrangement.

- (1) Incorporated by reference to the exhibits to a Registration Statement on Form S -3 (File No. 333-129831) filed on November 18, 2005
- (2) Incorporated by reference to a Registration Statement on Form S- 3 (File No. 333-42508) filed on July 28, 2000
- (3) 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
- (4) Incorporated by reference to exhibits to Registrant's Quarterly Report on Form 10-Q filed on November 14, 2003
- (5) Incorporated by reference to the exhibits to Registrant's Quarterly Report on Form 10-Q filed for the quarter ended December 31, 1986

- (6) Incorporated by reference to the exhibits to Registrant's Quarterly Report on Form 10-Q filed on February 13, 2001
- (7) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 23, 2009
- (8) Incorporated by reference to Appendix A to Registrant's Definitive Proxy Statement on Schedule 14A (File No. 000-14719) filed on March 12, 2010
- (9) Incorporated by reference to the exhibits to Registrant's Current Report on Form 8-K filed on November 18, 2010
- (10) 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
- (11) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 24, 2012
- (12) 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
- (13) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 14, 2014
- (14) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 18, 2015
- (15) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 27, 2017
- (16) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 26, 2018
- (17) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10-K filed on February 21, 2019
- (18) Incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement on Schedule 14A filed on March 22, 2019
- (19) Incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed on February 15, 2019
- (20) Incorporated by reference to the exhibits to Registrant's Quarterly Report on Form 10-Q filed on August 7, 2020
- (21) Incorporated by reference to the exhibits to Registrant's Quarterly Report on Form 10-Q filed on November 5, 2020
- (22) Incorporated by reference to the exhibits to Registrant's Annual Report on Form 10 K filed on February 18, 2020

ITEM 16. FORM 10-K SUMMARY

None.

SKYWEST, INC. AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2020, 2019 and 2018
(Dollars in thousands)

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions	Balance at End of Year
Year ended December 31, 2020:				
Allowance for inventory obsolescence	\$ 15,890	3,786	—	\$ 19,676
Allowance for doubtful accounts receivable	18	—	(18)	—
Allowance for credit losses (adoption of Topic 326)	15,388	30,837	—	46,225
	<u>\$ 31,296</u>	<u>34,623</u>	<u>(18)</u>	<u>\$ 65,901</u>
Year ended December 31, 2019:				
Allowance for inventory obsolescence	\$ 22,141	—	(6,251)	\$ 15,890
Allowance for doubtful accounts receivable	158	—	(140)	18
	<u>\$ 22,299</u>	<u>—</u>	<u>(6,391)</u>	<u>\$ 15,908</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>

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Act of 1934, as amended, the Registrant has duly caused this Annual Report on Form 10-K for the year ended December 31, 2020, to be signed on its behalf by the undersigned, thereunto duly authorized, on February 22, 2021.

SKYWEST, INC.

By: /s/ ROBERT J. SIMMONS

Robert J. Simmons
Chief Financial Officer

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.

<u>Name</u>	<u>Capacities</u>	<u>Date</u>
<u>/s/ JERRY C. ATKIN</u> Jerry C. Atkin	Chairman of the Board	February 22, 2021
<u>/s/ RUSSELL A. CHILDS</u> Russell A. Childs	Chief Executive Officer and President (Principal Executive Officer) and Director	February 22, 2021
<u>/s/ ROBERT J. SIMMONS</u> Robert J. Simmons	Chief Financial Officer (Principal Financial Officer)	February 22, 2021
<u>/s/ ERIC J. WOODWARD</u> Eric J. Woodward	Chief Accounting Officer (Principal Accounting Officer)	February 22, 2021
<u>/s/ STEVEN F. UDVAR-HAZY</u> Steven F. Udvar-Hazy	Lead Director	February 22, 2021
<u>/s/ W. STEVE ALBRECHT</u> Steve Albrecht	Director	February 22, 2021
<u>/s/ SMITA CONJEEVARAM</u> Smita Conjeevaram	Director	February 22, 2021
<u>/s/ HENRY J. EYRING</u> Henry J. Eyring	Director	February 22, 2021
<u>/s/ MEREDITH S. MADDEN</u> Meredith S. Madden	Director	February 22, 2021
<u>/s/ RONALD J. MITTELSTAEDT</u> Ronald J. Mittelstaedt	Director	February 22, 2021
<u>/s/ ANDREW C. ROBERTS</u> Andrew C. Roberts	Director	February 22, 2021
<u>/s/ KEITH E. SMITH</u> Keith E. Smith	Director	February 22, 2021
<u>/s/ JAMES L. WELCH</u> James L. Welch	Director	February 22, 2021

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

March 18, 2021

Dear Shareholder:

You are invited to attend the virtual Annual Meeting of Shareholders of SkyWest, Inc. scheduled to be held at 9:00 a.m., Mountain Daylight Time on Tuesday, May 4, 2021. Shareholders can access, participate in, and vote at the virtual Annual Meeting at www.virtualshareholdermeeting.com/SKYW2021 by using the 16-digit control number included on the proxy card and the instructions accompanying the proxy materials.

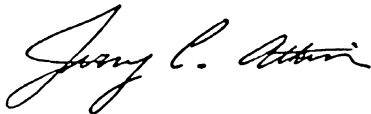
The accompanying Notice of Annual Meeting of Shareholders and Proxy Statement describe the items to be considered and acted upon by shareholders.

Your vote is very important. Whether you plan to attend the virtual 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 virtually 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 2020 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 your attendance at the virtual Annual Meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry C. Atkin". The signature is fluid and cursive, with the first name "Jerry" being the most prominent part.

Jerry C. Atkin
Board Chair

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

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

Date: Tuesday, May 4, 2021
Time: 9:00 a.m., Mountain Daylight Time (MDT)
Place: www.virtualshareholdermeeting.com/SKYW2021

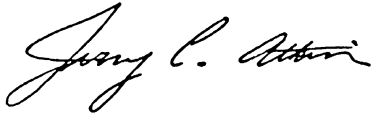
Purposes:

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 ratify the appointment of Ernst & Young LLP as the Company’s independent registered public accounting firm for the year ending December 31, 2021; and
4. To transact such other business that may properly come before the Annual Meeting and any adjournment thereof.

Who Can Vote: Shareholders at the close of business on March 4, 2021.

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

By authorization of the Board of Directors,



Jerry C. Atkin
Board Chair

March 18, 2021

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

To Be Held on Tuesday, May 4, 2021

TABLE OF CONTENTS

	<u>Page</u>
Overview	1
Proposal 1—Election of Directors	5
Executive Officers	11
Corporate Governance	12
Meetings and Committees of the Board	18
Compensation Discussion and Analysis	23
Compensation Committee Report	37
Executive Compensation	38
Director Compensation	48
Director Summary Compensation Table	49
Certain Relationships and Related Transactions	50
Security Ownership of Certain Beneficial Owners	51
Proposal 2—Advisory Vote on Named Executive Compensation	54
Proposal 3—Ratification of Appointment of Independent Registered Public Accounting Firm	55
Fees Paid to Independent Registered Public Accounting Firm	56
Report of the Audit Committee	57
Delinquent Section 16(a) Reports	59
Shareholder Proposals for the 2022 Annual Meeting of Shareholders	59
Delivery of Documents to Shareholders Sharing an Address	60
Other Business	60

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

SKYWEST, INC.

TUESDAY, MAY 4, 2021

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 25, 2021. 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 4, 2021 at 9:00 a.m., Mountain Daylight Time (the “Meeting”). The Meeting will be held virtually at www.virtualshareholdermeeting.com/SKYW2021. 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 Thursday, March 4, 2021.

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

As of March 4, 2021, there were 50,304,540 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 during the Meeting by virtually attending the Meeting via the Internet at www.virtualshareholdermeeting.com/SKYW2021 and following the instructions there. 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 in advance of the Meeting 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.

How do I attend the virtual Meeting?

Shareholders of record as of March 4, 2021 will be able to attend and participate in the virtual Meeting by accessing www.virtualshareholdermeeting.com/SKYW2021 and following the instructions there. To join the Meeting, you will need to have your 16-digit control number which is included on your notice or your proxy card (if you received a printed copy of the proxy materials).

Even if you plan to attend the Meeting, we recommend that you also vote by proxy as described herein so that your vote will be counted if you subsequently decide not to attend the Meeting.

Access to the Audio Webcast of the Meeting. The live audio webcast of the Meeting will begin promptly at 9:00 a.m., Mountain Daylight Time on May 4, 2021. We encourage shareholders to access the meeting website prior to the start time. Online access to the audio webcast will open approximately 15 minutes prior to the start of the virtual Meeting to allow time for you to log in and test the computer audio system.

Log in Procedures. To attend the virtual Meeting, visit www.virtualshareholdermeeting.com/SKYW2021 to log in. Shareholders will need their unique 16-digit control number which appears on your notice (printed in the box and marked by the arrow) and the instructions that accompanied the proxy materials. In the event that you do not have a control number, please contact your broker, bank, or other agent as soon as possible and no later than April 20, 2021, so that you can be provided with a control number and gain access to the Meeting.

Technical Assistance. Beginning 15 minutes prior to the start of and during the virtual Meeting, we will have technicians ready to assist shareholders with any technical difficulties they may have accessing or hearing the Meeting. If you encounter any difficulties accessing the virtual Meeting during the check-in or meeting time, please call the technical support number at TFN: 844-986-0822 / International: 303-562-9302.

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.

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

Proposal 3—**FOR** the ratification of the appointment of Ernst & Young LLP as the Company’s independent registered public accounting firm for the year ending December 31, 2021.

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

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

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

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, 2021. 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 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 and 3 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 abstentions and broker non-votes be treated?

Abstentions and broker non-votes will be deemed as “present” at the Meeting and will be counted for quorum purposes only. 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 and No. 3, 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 attending the Meeting virtually and voting during 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 2020 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 2020 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

The Board currently consists of eleven directors. All directors serve a one-year term and are subject to re-election each year. The terms of all of the Company's current directors expire at the Meeting. In January 2021, the Company appointed Smita Conjeevaram as an independent director. Henry J. Eyring is not standing for re-election at the Meeting. As a result, at the Meeting, the Company proposes to elect ten of the eleven current directors, other than Mr. Eyring, to hold office until the 2022 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.

- Jerry C. Atkin, Chair
- W. Steve Albrecht
- Russell A. Childs
- Smita Conjeevaram
- 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 Director Nominees.

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 virtual 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: 72 **Director Since:** 1974 **Committees:** None

Principal Occupation: Board Chair

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

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

Other Directorships: Mr. Atkin served as a director of Zions Bancorporation, a regional bank holding company based in Salt Lake City, Utah ("Zions") from 1993 to July 2020.

W. Steve Albrecht

Age: 74 **Director Since:** 2012 (Also served as a director of the Company from 2003-2009) **Committees:** Chair 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 (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 39 major financial statement fraud cases, including some of the largest cases in U.S. history.

The Board nominated Mr. Albrecht, in part, because of his exceptional academic and professional record, his 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. 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 Chair of the Audit Committee.

Other Directorships: Mr. Albrecht currently serves as a director of CoreLogic Inc. and served as a director of Cypress Semiconductor Corporation from 2003 until its acquisition by Infineon Technologies AG in April 2020. Mr. Albrecht also served as a director of Red Hat, Inc. from 2011 until its acquisition by International Business Machines Corporation (IBM) in 2019.

Russell A. Childs

Age: 53 **Director Since:** 2016 **Committees:** None

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

Experience: Mr. Childs was named CEO of the Company effective January 1, 2016, and has served as President of the Company since 2014. He is 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, in part, because it recognizes Mr. Childs’ critical role in delivering value to all Company stakeholders, as well as noting the importance of the Company's CEO serving on the Board, as he is the one closest to the Company's day-to-day operations and is able to communicate the Board’s expectations, advice and encouragement to the Company’s approximately 14,000 employees.

Other Directorships: Mr. Childs currently serves as a Chair of the Salt Lake City Branch of the Federal Reserve Bank of San Francisco and is the Chair of the NextGen Advisory Committee of the Federal Aviation Administration (FAA).

Smita Conjeevaram

Age: 60 **Director Since:** 2021 **Committees:** Committee assignments are expected to be assigned in the May 2021 Board of Directors meeting

Principal Occupation: Retired CFO of the Fortress Investment Group's Credit Hedge Funds

Experience: Ms. Conjeevaram holds over 25 years in finance and nearly a decade of experience at two of the Big 4 worldwide accounting firms, including PricewaterhouseCoopers LLP. In her most recent operational role, Ms. Conjeevaram served as Deputy CFO of Fortress Investment Group’s Credit Funds and CFO of the Fortress Investment Group’s Credit Hedge Funds.

The Board nominated Ms. Conjeevaram, in part, because of her refined global business and financial expertise, as well as her experience in growth management.

Other Directorships: Ms. Conjeevaram currently serves as a director and audit committee member of SS&C Technologies (SSNC), Inc. and McGrath Rentcorp (MGRC), and as a director of WisdomTree Investments, Inc (WETF).

Meredith S. Madden

Age: 47 **Director Since:** 2015 **Committees:** Member of the Compensation Committee; Member of the Safety & Compliance Committee

Principal Occupation: Board Chair

Experience: Ms. Madden was appointed CEO of NORDAM in 2011. Headquartered in Tulsa, Oklahoma, NORDAM is one of the world's premier family-owned aerospace providers of composites and engineered solutions, across multiple facilities in North America, Europe and Asia Pacific. Madden joined the company in 1999, and progressed through a series of roles in both operations and sales, including manager of strategic market planning; vice president of Global Sales and Marketing; vice president of the Repair Group; chief operating officer, overseeing all repair and manufacturing operations in the United States, Europe and Asia; and president of NORDAM. Since joining NORDAM in 1999, Ms. Madden has been based in Tulsa, and has spent considerable time at NORDAM's facilities in the United Kingdom and Singapore. Prior to her NORDAM career, she was a senior consultant on mergers and acquisitions, corporate recovery services and financial advisory in global finance.

The Board nominated Ms. Madden, in part, because of her expertise and strategic insights related to aircraft maintenance vendor planning. Additionally, Ms. Madden has extensive expertise working with international maintenance service providers.

Ronald J. Mittelstaedt

Age: 57 **Director Since:** 2013 **Committees:** Member of the Compensation Committee; Member of the Nominating & Corporate Governance Committee; Member of the Safety & Compliance Committee

Principal Occupation: Board Executive Chair of Waste Connections, Inc. ("Waste Connections")

Experience: Mr. Mittelstaedt has served as the Executive Chair of Waste Connections, a company he founded in 1998, since July 2019, and he previously served as its Chair and CEO from 1997 to July 2019. 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 19,000 people nationwide, and is traded on the New York Stock Exchange and Toronto Stock Exchange. Mr. Mittelstaedt also serves as an independent director and Chair of the Audit Committee for Pride Industries, Inc. Pride industries is the largest employer of individuals with developmental disabilities in the U.S. with over 5,000 employees. Mr. Mittelstaedt serves as an independent director for Teichert, Inc. Teichert, Inc. is one of the largest privately held infrastructure general contractors in California. 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 diverse employee and other groups in various geographic regions and a history of developing an organizational culture of strong work ethics. Mr. Mittelstaedt also contributes to the Board his insight as an experienced CEO of a publicly traded company, which the Board has found valuable in its deliberations.

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

Andrew C. Roberts

Age: 60 **Director Since:** 2015

Committees: Chair of the Safety & Compliance Committee; Member of the Audit Committee

Principal Occupation: Chair, STS Aviation Group, LLC

Experience: : Since January 2019, Mr. Roberts has served as the Chair of STS Aviation Group LLC, a diversified aviation product and services provider, and holds a board position at Continental Aerospace Technologies., 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. Mr. Roberts also has held a board position at Dart Aerospace since March 2019, a manufacturer of helicopter accessories and other aviation products.

Mr. Roberts was the Executive Chair of Ryan Herco Flow Solutions, a national distributor of high purity fluid conveyance and control products, from 2015 to 2018. Additionally, he 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, from 2009 to 2014. He has experience in the management and operation of major and regional airlines, including Northwest Airlines from 1997 to 2008, where he served in multiple executive positions. From 2000 until 2008 he served as Chair of Aeroxchange Ltd. 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 nominated Mr. Roberts, in part, due to his extensive background in the aviation maintenance and overhaul industry, as well as his 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: 60 **Director Since:** 2013 **Committees:** Chair of the Compensation Committee; Member of the Audit Committee

Principal Occupation: President and CEO of Boyd Gaming Corporation ("Boyd Gaming")

Experience: Mr. Smith is President, CEO and a director of Boyd Gaming, one of the nation's leading casino entertainment companies, with 29 operations in 10 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 CEO. 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 Chair of the Los Angeles Branch of the Federal Reserve Bank of San Francisco from 2012 to 2014. He served as Chair of the American Gaming Association and the Nevada Resort Association. He served as Vice Chair of the Las Vegas Convention and Visitors Authority from 2005 to 2011.

The Board nominated Mr. Smith, in part, due to his 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 Chair 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 currently serves as a director of Boyd Gaming.

Steven F. Udvar-Hazy

Age: 75 **Director Since:** 1986

Committees: Lead Independent Director; Chair of the Nominating & Corporate Governance Committee; Member of the Compensation Committee

Principal Occupation: Board Executive Chair of Air Lease Corporation

Experience: Mr. Udvar-Hazy has been engaged in aircraft leasing and financing for more than 47 years and has served as the Board Executive Chair of Air Lease Corporation since July 2016, and as Chair and CEO 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 Board Chair and CEO of International Lease Finance Corporation, which leases and finances commercial jet aircraft.

The Board nominated Mr. Udvar-Hazy, in part, for his unmatched breadth and depth of experience across all aspects of aviation. He 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 his 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 35 years.

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

Other Directorships: Mr. Udvar-Hazy currently serves a Board Executive Chair of Air Lease Corporation.

James L. Welch

Age: 66 **Director Since:** 2007

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

Principal Occupation: Retired CEO of YRC Worldwide Inc. ("YRC Worldwide")

Experience: From July 2011 until his retirement in July 2018, Mr. Welch served as the CEO of YRC Worldwide, a provider of global, national and regional ground transportation services. From 2008 to July 2011, Mr. Welch served as the President and CEO 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 CEO of JHT Holdings, a holding company of multiple enterprises engaged in automotive transport and management services. From 2000 to 2007, Mr. Welch served as the President and CEO of Yellow Transportation, an international transportation services provider.

The Board nominated Mr. Welch, in part, due to his over 37 years of senior executive experience in the transportation sector, including extensive experience working with organized labor groups and labor unions. His 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 currently also serves on the Boards of Schneider National and Stericycle.

EXECUTIVE OFFICERS

In addition to Russell A. Childs, the CEO and President 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 2020.

Robert J. Simmons

Age: 58 **Title:** Chief Financial Officer

Mr. Simmons is the Chief Financial Officer of the Company and its operating subsidiary, SkyWest Airlines. He is responsible for the areas of information technology, human resources, finance, accounting, treasury and investor relations for the Company and its subsidiaries.

From 2009 until his appointment as SkyWest's 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, he was responsible for portfolio management. He previously served as Chief Financial Officer as well as Corporate Treasurer for E*TRADE Financial Corporation. He has 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

Age: 45 **Title:** Chief Commercial Officer

Mr. Steel 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 maintenance. 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 and was appointed to serve as Vice President – Controller for SkyWest Airlines in 2011. From May 2014 until his 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 employed by a public accounting firm.

Mr. Steel holds bachelor's and master's degrees in accounting from Brigham Young University and is a member of the American Institute of Certified Public Accountants.

Eric J. Woodward

Age: 49 **Title:** Chief Accounting Officer

Mr. Woodward 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. He is a certified public accountant and was employed by a public accounting firm prior to joining the Company.

Mr. Woodward holds a bachelor's and master's degree in accounting from the University of Utah, and is a member of the American Institute of Certified Public Accountants and Utah Association of Certified Public Accountants.

Greg S. Wooley

Age: 55 **Title:** Executive Vice President Operations

Mr. Wooley is the Executive Vice President Operations of SkyWest Airlines. He is responsible for oversight of all aspects of SkyWest Airlines' operations, including safety, quality, flight operations and customer service. He also oversees SkyWest Airline's operational relationships with American, Delta, United and Alaska.

Mr. Wooley was initially employed with the Company in September 2019 as Vice President – Airport Operations until his appointment to serve as Executive Vice President Operations of SkyWest Airlines in October 2020. Prior to joining SkyWest Airlines, Mr. Wooley held various leadership positions at ExpressJet Airlines, including Vice President – Flight Operations since 2016. He has more than 25 years of aviation experience in leadership positions in airport services, in-flight and maintenance training and standards, as well as, overseeing flight operations and regulatory compliance. His years of experience make him uniquely suited for this role and have provided him with immense knowledge of the day-to-day operations of an airline.

Mr. Wooley holds a degree in aviation management.

CORPORATE GOVERNANCE

Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines and periodically reviews and ratifies those guidelines, including most recently on February 2, 2021. 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, considering industry expertise and a continuation of value the Board anticipates such Director will provide to the Company. 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 or virtual 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 Board Chair 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.

CEO Evaluation and Management Succession

The Nominating and Corporate Governance Committee conducts an annual review to assess the performance of the Company's CEO. 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 CEO. The directors of the Company, excluding the CEO, review the Nominating and Corporate Governance Committee's report to assess the CEO'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 Tenure and Experience

The Board recognizes that its current members have served on the Board for various tenures, with the shortest tenure being less than one year and other directors having served for more than 10 years. Our Board believes that the Board represents a balance of industry, technical and financial experiences, which provide effective guidance and oversight to management. Our governance policies reflect our belief that directors should not be subject to term limits. While term limits could facilitate fresh viewpoints and ideas, we believe they are offset by the disadvantage of causing the loss of directors who over a period of time have developed insight into our strategies, operations, and risks and continue to provide valuable contributions to board deliberations.

In particular, the Board believes that Messrs. Atkins and Udvar-Hazy who have each been directors for more than 35 years, will continue to provide significant value and leadership to the Board and to the Company through their in-depth knowledge and experience in the airline industry. The Board recognizes that Mr. Udvar-Hazy has reached the 75 year age limit set forth in the Corporate Governance Guidelines; however, the Board determined his industry expertise, combined with his knowledge of the Company, continue to be invaluable to the Board. As such, the Board did not accept his resignation following his 75th birthday.

Accordingly, while director tenure is taken into consideration when making nomination decisions, the Board believes that imposing mandatory limits on director tenure would unnecessarily deprive it of the valuable contributions of its most experienced members. Nonetheless, the Board strives to add new directors to infuse new ideas and fresh

perspectives in the boardroom. In the past ten years, six new directors have joined the Board, with the latest, Ms. Conjeevaram, joining the Board in 2021.

Board Diversity

The Board considers board diversity broadly, not merely with regard to race, gender, or national origin, but also with regard to general background, geographical location, differences of viewpoint, experience, education, skills and other qualities or attributes that contribute to Board diversity. The Board believes that ethnic, gender and cultural diversity among its members provides value and is important. In considering a potential new candidate, the Board considers whether the candidate would increase the Board's ethnic, gender or cultural diversity. The consideration of diversity permeates all discussions of the Nominating and Corporate Governance Committee. Additionally, on an annual basis, as part of the Board's self-evaluation process, the Board assesses whether the mix and diversity of board members is appropriate.

Board Leadership Structure and Director Independence

Although the Board does not have a formal policy as to whether the roles of Board Chair and CEO should be combined or separated, from 1991 until January 2016, Jerry C. Atkin served as both Board Chair and CEO of the Company. In January 2016, the Board appointed Russell A. Childs to serve as the CEO of the Company, which resulted in the separation of the roles of Board Chair and CEO. Currently, Mr. Atkin serves as Board Chair and Mr. Childs serves as the CEO. 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 Board Chair, 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.

In evaluating the independence of Ms. Madden, the Board considered the matters that refer to Ms. Madden set forth under "Certain Relationships and Related Person Transactions" below and determined, in accordance with criteria established by The Nasdaq Stock Market, Ms. Madden is an independent director of the Board.

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.

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.

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. The Board oversees the Company's environmental and social sustainability efforts and progress and discusses environmental and social responsibility matters at its regular Board meetings.

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 also joined an industry standard goal to reduce our international carbon emissions by 50% of what we emitted in 2005 by the year 2050. 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 inclusion, 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 2020, such events included those organized by such organizations as Women in Aviation, Girls in Aviation, National Gay Pilots Association, 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 CEO succession and the Company's compensation policies and related risks by regular reviews with management and the Compensation Committee's outside advisors. The Board and the Safety and Compliance Committee monitor management's administration of airline flight operations safety and compliance with safety regulations. The Board also oversees the Company's risk management strategy related to environmental and social issues, including with respect to matters such as climate change.

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 six times during 2020. 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, 2020, as well as the Company's Annual Meeting of Shareholders held on May 5, 2020.

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 under the rules of the Securities and Exchange Commission and The Nasdaq Global Select Market listing standards. Each committee acts under a written charter setting forth its responsibilities and duties. Charters for each committee are available on the Company's website, *inc.skywest.com*, and are also available in print, free of charge, upon request. Requests for a printed copy of any committee charter should be submitted to Eric J. Woodward, Chief Accounting Officer of the Company, at 444 South River Road, St. George, Utah 84790.

The table below shows current membership for each of the standing Board committees, with each member having served on their respective Board committees throughout 2020:

<u>Audit</u>	<u>Compensation</u>	<u>Nominating & Corporate Governance</u>	<u>Safety and Compliance</u>
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 Chair

** Mr. Eyring is not standing for re-election at the Meeting.

Audit Committee

The Audit Committee has five members and met seven times during the year ended December 31, 2020. The Board has determined that Mr. W. Steve Albrecht, Chair of the Audit Committee, is an “audit committee financial expert” as defined in Item 407(d)(5)(ii) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”).

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 and executive sessions 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 “Report of the Audit Committee.”

Compensation Committee

The Compensation Committee has five members and met three times during the year ended December 31, 2020. 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 CEO and review and approve the CEO'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 37 of this Proxy Statement.

Compensation Committee Interlocks and Insider Participation

Keith E. Smith, Henry J. Eyring, Meredith S. Madden, Ronald J. Mittelstaedt and Steven F. Udvar-Hazy served as members of the Compensation Committee during the year ended December 31, 2020. None of the individuals who served on the Compensation Committee during the year ended December 31, 2020 was an officer or employee of the Company in 2020 or any time prior thereto. None of the members of the Compensation Committee during the year ended December 31, 2020 had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K promulgated under the Exchange Act, except the Company's routine purchases of spare aircraft parts from NORDAM, an entity affiliated with Ms. Madden. 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.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee has four members and met three times during the year ended December 31, 2020. 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.

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 on the same basis as recommendations received from any other source. 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, Board Chair of the Company, 444 South River Road, St. George, Utah 84790.

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

The Nominating and Corporate Governance Committee utilizes a variety of methods for identifying and evaluating director nominees. The Nominating and Corporate Governance Committee assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Nominating and Corporate Governance Committee considers various potential candidates for director. Candidates may come to the attention of the Nominating and Corporate Governance Committee through various means, including current directors, professional search firms, shareholder recommendations or other referrals. Candidates are evaluated at meetings of the Nominating and Corporate Governance Committee, and may be considered at any point during the year. All director-nominee recommendations which are properly submitted to the Nominating and Corporate Governance Committee are aggregated and considered by the Nominating and Corporate Governance Committee at a meeting prior to the issuance of the proxy statement for the next annual meeting of shareholders. Any materials provided by a shareholder in connection with the recommendation of a director candidate are forwarded to the Nominating and Corporate Governance Committee, which considers the recommended candidate in light of the director qualifications discussed above. The Nominating and Corporate Governance Committee also reviews materials provided by professional search firms, if applicable, or other parties in connection with a candidate who is not

proposed by a shareholder. In evaluating such recommendations, the Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board. The Nominating and Corporate Governance Committee has, on occasion, engaged professional search firms to assist in identifying qualified candidates for Board service. When such firms have been engaged, the Nominating and Corporate Governance Committee has utilized their services principally for the purpose of identifying and screening potential candidates and conducting background research; however, the members of the Nominating and Corporate Governance Committee, as well as other directors of the Company, have conducted interviews with prospective candidates and have performed other functions in completing the nomination process.

Safety and Compliance Committee

The Safety and Compliance Committee has four members and met twice during the year ended December 31, 2020. 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.

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 2020:

- Russell A. Childs, CEO 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;
- Eric J. Woodward, Chief Accounting Officer of the Company and its operating subsidiary, SkyWest Airlines;
- Greg S. Wooley, Executive Vice President Operations of SkyWest Airlines; and
- Michael B. Thompson, former Chief Operating Officer of SkyWest Airlines.

Mr. Thompson separated from the Company on October 26, 2020. As a result, he is only included in the compensation discussion and analysis sections below to the extent applicable.

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

Current Year Accomplishments

COVID-19, declared a global health pandemic by the World Health Organization in March 2020, significantly impacted the airline industry and the Company for the remainder of the year. SkyWest and its major airline partners experienced an unprecedented decline in demand for air travel in 2020 due to the COVID-19 pandemic. The Company's flight schedules and block hour production were materially reduced in 2020, including a block hour decrease of 34% in 2020 from 2019. The Company's total revenue decreased \$845 million, or 29% over the same comparable periods. The reduction in revenue caused by the COVID-19 pandemic was the primary factor in the Company's loss before income taxes of \$7 million in 2020 compared to income before income taxes of \$446 million in 2019 under generally accepted accounting principles in the United States ("GAAP").

During an unprecedented disruption and reduction in flight schedules, the Company made several decisions that stabilized operations and improved its liquidity position. The Company implemented several safety measures to protect its employees and passengers from contagion. And, the Company did not furlough any crew members or mechanics as part of its long-term strategy to retain employees when reasonably possible, which enhances its ability to respond to increased long-term demand from our major airline partners. The Company implemented cost saving measures during 2020, including offering voluntary leave programs to its employees, temporarily instituting a company-wide hiring freeze, and reducing the salaries of our Named Executives and other Company officers.

During 2020, the Company increased its available liquidity by entering into a Payroll Support Program Agreement with the U.S. Department of the Treasury ("Treasury") that provided \$451 million in payroll relief payments under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The Company also entered into a \$725 million secured loan facility with the Treasury under the CARES Act and had \$665 million available for borrowing under the secured facility at December 31, 2020. As partial consideration for receiving relief under the Payroll Support

Program Agreement and the \$725 million secured loan facility, the Company agreed to limit total compensation on its Named Executives and certain other officers (see “Limitations on Compensation” below).

Despite the demand disruption and resulting flight schedule reductions, the Company made great strides in 2020 to improve its available liquidity and maintain solid operational performance under the leadership of Mr. Childs. The Company’s cash and marketable securities balance increased from \$520 million at the end of 2019 to \$826 million at the end of 2020. The Company’s total debt balance increased from \$3.0 billion at the end of 2019 to \$3.2 billion at the end of 2020. Thus, Company’s total debt, net of cash and marketable securities, decreased from the end of 2019 to the end of 2020. The Company also executed several fleet initiatives in 2020 to position the Company for long-term profitability, including:

- Took delivery of 25 Embraer dual-class regional jet (“E175”) aircraft under a long-term capacity purchase agreement with United Airlines (“United”). United financed these aircraft.
- Took delivery of 12 E175 aircraft under a long-term capacity purchase agreement with Delta Air Lines (“Delta”). SkyWest financed six of these aircraft through long-term debt and Delta financed six aircraft.
- Acquired 21 used Bombardier CRJ700 aircraft financed through debt and placed these aircraft under lease with a United Express operator.
- Scheduled to take delivery of 18 new E175 aircraft in 2021 and two new E175 aircraft in 2022 under a long-term capacity purchase agreement with American Airlines (“American”). The aircraft are scheduled for service in 2022. The Company anticipates financing the aircraft through long-term debt.
- Scheduled to place 25 used Bombardier CRJ700 aircraft as of December 31, 2020 into service with American in 2021.
- Removed 55 Bombardier CRJ200s from service with Delta and seven Bombardier CRJ200s from service with American. The Company owned 43 of these older 50-seat aircraft, which had no outstanding financing and were fully-depreciated upon removal of service. The remaining 19 CRJ200s removed from service were returned to the lessor.

The Board believes these accomplishments will position the Company well for 2021 and contribute to improved financial performance in future years.

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 2020 was set below the median for total annual target compensation in our peer group, as further described below.

The Compensation Setting Process

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 2019 Long-Term Incentive Plan (the "*2019 Plan*"). As permitted by the 2019 Plan, the Compensation Committee has delegated its authority to the Chief Executive to approve interim awards under the 2019 Plan to non-executives on a limited basis between meetings of the Compensation Committee.

Role of Consultants. During 2019 and 2020, the Company and the Compensation Committee received advice from Frederic W. Cook & Co., Inc. ("*F.W. Cook*") with respect to executive compensation practices within the airline and related transportation and logistics industries using data from 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 2019 and 2020. 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 2020. The Compensation Committee has sole authority to hire and fire external compensation consultants.

Industry Compensation Data. The Compensation Committee 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 2019, which included a review of the executive compensation levels and practices at peer companies where SkyWest approximates the median in enterprise value and market capitalization. The peer companies used in the November 2019 review for purposes of setting 2020 executive compensation 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, Mesa Air Group, Inc., Old Dominion Freight Line, Inc., Spirit Airlines, Inc., Werner Enterprises, Inc., WestJet Airlines Ltd. and YRC Worldwide Inc. The peer group was modified in November 2020 to include Allegiant Travel Company, ArcBest Corporation, Atlas Air Worldwide Holdings, Inc., Echo Global Logistics, Inc., Hawaiian Holdings, Inc., Hub Group, Inc., Kansas City Southern, Kirby Corporation, Knight-Swift Transportation Holdings, Inc., Matson, Inc., Old Dominion Freight Line, Inc., Spirit Airlines, Inc. and Werner Enterprises, Inc.

The Compensation Committee had the 2019 peer group data available when 2020 Named Executive compensation decisions were made at the start of the year and it had the 2020 compensation peer group data available when it approved cash incentive payouts for 2020. The decisions for the 2020 long-term incentive awards were made in early February of 2020 and did not account for the COVID-19 pandemic as it was not yet understood what its effects would be.

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, 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.

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. Competitive compensation paid by other companies is one of the many factors that the Company considers in assessing the reasonableness of compensation and the Company does not attempt to maintain a certain target percentile within a peer group. Nevertheless, the Committee set target total direct compensation below the median of similar positions in the peer group.

The Company strives to achieve an appropriate mix between long-term equity incentive awards and cash payments in order to meet its objectives. 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 2020, 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 2020 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 during 2020 in an effort to better align the compensation of the Named Executives with the executive compensation programs at other regional carriers and major airlines and also to recognize the effects of the COVID-19 pandemic. 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.

Limitations on Compensation

During 2020 and 2021, the Company entered into a Payroll Support Program Agreement and a Payroll Support Program Extension Agreement with the U.S. Treasury (collectively, “*Payroll Support Agreements*”) that provide certain payroll support relief payments under the CARES Act and Consolidated Appropriations Act, 2021, respectively. Under the terms of the Payroll Support Agreements, the total compensation of SkyWest’s corporate officers whose total compensation exceeded \$425,000 in calendar year 2019 is limited during any 12 consecutive month period beginning March 24, 2020 through October 1, 2022 to the total compensation such officer received in 2019, as defined under the Payroll Support Agreements. Additionally, for any corporate officer whose total compensation exceeded \$3.0 million in calendar 2019, the total compensation in excess of \$3.0 million in 2019 is further limited by 50% of such excess for such applicable officer.

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 2020 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. The COVID-19 pandemic significantly impacted the airline industry and the Company temporarily reduced the salaries of the Named Executives. The Named Executives total compensation was also impacted by compensation restrictions agreed to by the Company under the Payroll Support Program under the CARES Act. Mr. Childs incurred a \$80,333 decrease to his base salary for 2020 over his 2019 base salary. Mr. Simmons incurred a \$33,177 decrease to his base salary for 2020 over his respective 2019 base salary. Mr. Steel incurred a \$25,677 decrease to his base salary for 2020 over his respective 2019 base salary. Mr. Woodward incurred a \$4,969 decrease to his base salary for 2020 over his respective 2019 base salary. Mr. Wooley incurred a \$1,987 decrease to his base salary for 2020 over his respective 2019 base salary. Mr. Thompson incurred a \$25,042 decrease to his base salary for 2020 over his respective 2019 base salary. 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 2020 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 2020 showed that the 2020 total cash opportunity of the Named Executives, consisting of salary plus target cash incentive, was below the median 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 2020 annual target incentive opportunity was 110% of salary for Mr. Childs, 80% of salary for Messrs. Simmons and Steel, 65% of salary for Mr. Wooley and 60% of salary for Mr. Woodward, and their potential annual incentive was allocated by the Compensation Committee for the Named Executives between the applicable financial and operational objectives. Mr. Wooley was promoted to Executive Vice President Operations at SkyWest Airlines during the 2020 year, and his annual target incentive opportunity was established in connection with his promotion. Mr. Thompson's annual target incentive was 80% of his base salary, but he was paid his target incentive in October 2020 in connection with his separation from the Company and not under the annual cash incentive program. The differing percentages for the Named Executives are due to differing entity level responsibilities.

2020 Corporate Performance Objectives. The 2020 annual incentive goals were set prior to the COVID-19 pandemic and were not adjusted in 2020 after the scope of the pandemic became apparent. For 2020 annual incentive purposes, the Compensation Committee determined that pre-tax earnings would be the financial objective and that controllable completion and controllable on time departures would be the operational objectives. These are viewed as value drivers for shareholders that are also in the control of the executive team through their financial and operating decisions and leadership. In the case of Messrs. Childs, Simmons, Steel and Woodward, 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. Like Mr. Thompson, Mr. Wooley'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.

- *2020 Financial Objective.* In setting the 2020 pre-tax earnings objective, the Compensation Committee considered both the planned 2020 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.
- *2020 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 2020, the Compensation Committee determined that the operational objectives would be tied to both controllable completion and controllable on time departures. Controllable completion is the percentage of completed scheduled flights over which SkyWest Airlines 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 SkyWest Airlines' achievement of the foregoing objectives and the actual cash incentives paid for 2020 were based on the pre-established 2020 cash incentive formula, without application of discretion or any adjustment for the COVID-19 pandemic that rendered the financial goals obsolete not long after they were set.

The table below includes the "threshold," "target" and "maximum" objectives assigned by the Compensation Committee for the corporate performance measures for 2020 and the 2020 performance relative to those objectives for the Named Executives (dollars in millions).

	2020 Annual Cash Incentive Objectives					Interpolated		Weighted
	Threshold	Target	Maximum	Achieved	Payout	Weight	Payout	
SkyWest, Inc.								
Pre-tax Earnings (Loss) (\$ millions)	\$ 383	\$ 423	\$ 463	\$ (7.3)	0.0 %	70.0 %	0.0 %	
Operating Objective – Controllable completion	99.6 %	99.8 %	99.9 %	99.92 %	200.0 %	20.0 %	40.0 %	
Operating Objective – Controllable on-time departures . .	75.0 %	80.0 %	85.0 %	86.90 %	200.0 %	10.0 %	20.0 %	
Total Annual Cash Incentive Results (% of Target) . . .							60.0 %	
SkyWest Airlines								
Pre-tax Earnings (Loss) (\$ millions)	\$ 226	\$ 256	\$ 286	\$ (91.6)	0.0 %	70.0 %	0.0 %	
Operating Objective – Controllable completion	99.6 %	99.8 %	99.9 %	99.92 %	200.0 %	20.0 %	40.0 %	
Operating Objective – Controllable on-time departures . .	75.0 %	80.0 %	85.0 %	86.90 %	200.0 %	10.0 %	20.0 %	
Total Annual Cash Incentive Results (% of Target) . . .							60.0 %	

The Company achieved a GAAP pre-tax loss of \$7.3 million in 2020. For purposes of the 2020 annual incentive plan payouts, the Company's GAAP results for 2020 included \$110.7 million of deferred revenue on fixed cash payments received under capacity purchase agreements that was not included in the target setting process. Although an adjustment to the GAAP pre-tax loss for the deferred revenue would have resulted in pre-tax income for SkyWest, Inc. and for SkyWest Airlines in 2020, such adjustment would not have changed the annual cash incentives results and was not reflected as an adjustment to the results in the table above for annual incentive plan purposes.

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.

The corresponding annual cash incentive payments earned for each Named Executive based on performance during the year ended December 31, 2020, are set forth below. Mr. Thompson is not included in the table, as his employment terminated in October 2020, and his annual cash incentive payment was paid pursuant to separation arrangements, as discussed below.

	Target Annual Cash Incentive (% of Salary)	Target Annual Cash Incentive (\$)	Total Annual Cash Incentive Results (% of Target)	Total Annual Cash Incentive Results (\$)
Russell A. Childs.	110.0 %	\$ 572,000	60.0 %	\$ 343,200
Robert J. Simmons	80.0 %	\$ 284,000	60.0 %	\$ 170,400
Wade J. Steel	80.0 %	\$ 284,000	60.0 %	\$ 170,400
Eric J. Woodward	60.0 %	\$ 135,000	60.0 %	\$ 81,000
Greg S. Wooley	65.0 %	\$ 124,042	60.0 %	\$ 74,425

Amount of 2020 Performance-Based Annual Cash Incentive. The total annual performance-based cash incentive amounts earned by the Named Executives for 2020 are included in the amounts shown in the Summary Compensation Table below under the caption heading “Non-Equity Incentive Plan Compensation.”

For 2020, the Compensation Committee also approved an additional cash incentive payout that was awarded to the Named Executives for efforts that improved the Company’s liquidity position during 2020 and operational improvements made in response to the COVID-19 pandemic that were not contemplated in the Company’s goal setting process in 2020 as follows: Mr. Childs, \$70,000; Mr. Simmons, \$102,000; Mr. Steel, \$102,000; Mr. Woodward, \$34,000; and Mr. Wooley \$42,000 .

Long-Term Incentive Awards. The Company grants long-term incentive awards, in the form of restricted stock units and performance shares, to the Named Executives annually. The long-term incentive goals were set prior to the COVID-19 pandemic and were not adjusted in 2020 once the scope of the pandemic became apparent. The Company granted the 2020 long-term incentive awards prior to March 24, 2020, the effective date for limitations on executive compensation under the Payroll Support Agreements.

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 three-year cliff-vesting schedule for time-based restricted stock unit awards is to assist with retaining Named Executives and to encourage the Named Executives to focus on the Company’s long-term performance. Equity incentive awards granted during 2020 accelerate vesting under certain circumstances, as described in the section Potential Payments upon Termination or Change in Control.

Amount and allocation of grant—For 2020, the total annual targeted long-term incentive grant value was \$2,300,000 for Mr. Childs, \$800,000 for Mr. Simmons, \$800,000 for Mr. Steel, \$290,000 for Mr. Woodward, \$220,000 for Mr. Wooley, and \$675,000 for Mr. Thompson. The Compensation Committee established these annual targeted amounts to provide a competitive target total compensation when combined with the salary and target bonus that was above the 25th percentile but below the median. The equity award is to ensure that a material portion of each Named Executive’s compensation was based on continuing long-term service and correlated to the creation of shareholder value. Each Named Executive’s 2020 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 2020 equity compensation was generally below the median of the 2020 peer data reviewed by the Compensation Committee for all Named Executive Officer positions.

Restricted stock unit and performance share grants in 2020 were made pursuant to the Company's 2019 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 2020.

	Time Vesting Awards	Performance Vesting Awards
	Number of Restricted Stock Units	"Target" Performance Shares (1)
Russell A. Childs.	14,972	22,457
Robert J. Simmons	5,207	7,811
Wade J. Steel	5,207	7,811
Michael B. Thompson.	4,394	6,591
Eric J. Woodward	1,888	2,832
Greg S. Wooley	1,432	2,148

(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 2020 under the 2019 Plan. Restricted stock units comprised 40% of each Named Executive's 2020 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.

Performance Shares

2020-2022 Performance Share Awards. The remaining component of each Named Executive's 2020 annual long-term incentive compensation was performance shares payable in Common Stock under the 2019 Plan. Performance share value comprised 60% of each Named Executive's 2020 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 last day of the performance period), based on the achievement of certain corporate performance objectives.

For purposes of the performance share awards granted in 2020, which will be eligible to vest based on corporate performance during the three-year performance period ending December 31, 2022 (the "2020-2022 PSU Awards"), the Compensation Committee set three-year performance share objectives, based on cumulative three-year adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") per share, three-year average return on capital objectives and three-year average controllable completion. 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 EBITDA per share, adjusted return on invested capital and controllable completion actually attained in aggregate over the 2020 to 2022 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 2020-2022 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 target awards that reflect the three-year budget (the budget expectation is for a growth rate that is above the median), and maximum targets that will be difficult for the Named Executives to achieve on a consistent basis. For the 2020-2022 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 40% to the cumulative three-year EBITDA per share objective, 40% to the three-year average return on invested capital objective and 20% to the three-year average controllable completion 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 2020-2022 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 adjusted for unusual or non-recurring items.

Actual results for 2020-2022 PSU Awards are measured over the three-year performance period. Therefore, the degree to which performance shares granted in 2020 ultimately earned will not be determined until the conclusion of the 2022 calendar year.

2018-2020 Performance Shares Awards. For purposes of the performance share awards granted in 2018, which were 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 a 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.

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 were 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 were earned with respect to such objective(s).

In February 2021, the Compensation Committee determined the Company's achievement relative to the objectives previously established for the 2018-2020 PSU Awards as follows (see Appendix A to this proxy statement on page 61 for a reconciliation of certain 2020, 2019 and 2018 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).	\$ 1,018	\$ 1,141	\$ 1,264	\$ 892
Average Return on Invested Capital (2) . .	13.6 %	14.1 %	14.6 %	14.9 %

- (1) Adjusted pre-tax income for the three-year period ending December 31, 2020 was adjusted in 2019 for special items primarily associated with the gain on sale of ExpressJet and the write-off of non-cash aircraft manufacturer part credits to settle future aircraft lease return obligations and adjusted in 2020 for the deferred revenue on fixed cash payments received under capacity purchase agreements.
- (2) Represents the average return on invested capital for 2018, 2019 and 2020 using adjusted net income in 2019 for special items related to the gain on sale of ExpressJet and the write-off of aircraft manufacturer part credits and adjusted net income in 2020 for the deferred revenue on fixed cash payments received under capacity purchase agreements. For purposes of the 2018-2020 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 2021, the Named Executives vested in 80% of the target number of performance shares relative to the 2018-2020 PSU Awards as follows: Mr. Childs, 15,281 shares; Mr. Simmons, 6,517 shares; Mr. Steel, 6,068 shares; and Mr. Woodward, 2,176 shares. Mr. Wooley was not granted 2018-2020 PSU Awards. Mr. Thompson's 2018-2020 PSU Awards were settled pursuant to his separation arrangements, as discussed below.

Long-Term Incentive Awards for 2021. For 2021, the Compensation Committee determined to grant all of the long-term incentive awards to the Named Executives in the form of performance shares. The long-term incentive performance metrics applicable to the performance shares granted in 2021 did not significantly change from the performance metrics used for purposes of the 2020 long-term incentive awards, however the measurement period was changed from a three-year cumulative period to two one-year measurement periods. Under the 2021 awards, the Company's performance against these performance metrics will be measured against objectives established for each of 2021 and 2022, with the resulting number of "earned" shares eligible to vest on December 31, 2023, subject to continued employment through that date. The 2021 long-term incentive awards will be eligible for accelerated vesting on terms substantially similar to the 2020-222 PSU Awards. The Compensation Committee implemented these changes to better align the long-term incentive awards granted to the Named Executives with the creation of long-term shareholder value.

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, 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 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 performance period (or, if earlier, a change in control of the Company), which vesting will be prorated for the portion of the three-year period covered by such awards 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 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.

Retirement and Other Benefits.

The Company and SkyWest Airlines sponsor a 401(k) retirement plan for their eligible employees, including the Named Executives. The 401(k) retirement plan is a broad based, tax-qualified retirement plan 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 employer makes matching contributions under the plan 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 plan 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 (the "*Deferred Compensation Plan*"). All of the Named Executives participate in the Deferred Compensation Plan. Under the Deferred Compensation Plan, 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 Plan is found in the section "Non-Qualified Deferred Compensation for 2020" below. The purpose of the Deferred Compensation Plan is to attract and retain executive talent by assisting with building retirement assets over the course of their career with the Company.

The 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 2020.

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 subsidiary.

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 after vesting or option exercise if the applicable guideline ownership level has not yet been 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. Each Named Executive met the ownership guidelines at December 31, 2020, except for Mr. Wooley who joined SkyWest Airlines in 2019 and is making progress toward meeting the ownership guidelines. The holdings of the Named Executives are summarized in the table entitled “Security Ownership of Certain Beneficial Owners” below.

Deductibility of Executive Compensation

Section 162(m) of the Code imposes a \$1 million annual limit on the amount that a publicly traded company may deduct for compensation paid to the company’s principal executive officer during a tax year or to any of the company’s three other most highly compensated executive officers who are still employed at the end of the tax year (other than the Company’s principal financial officer). 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.
- There is a policy against hedging stock and against pledging stock or using it as collateral.

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			Non-Equity Incentive Plan Compensation \$(3)	All Other Compensation (\$)	Total (\$)
				Restricted Stock Units \$(2)	Performance Shares \$(2)	Option Awards \$(2)			
Russell A. Childs	2020	\$419,667	\$ —	\$920,000	\$ 1,380,000	\$ —	\$ 413,200	\$ 220,492 (4)	\$3,353,359
CEO & President	2019	\$500,000	\$ —	\$880,000	\$ 1,320,000	\$ —	\$ 660,000	\$ 251,011	\$3,611,011
	2018	\$460,000	\$ —	\$680,000	\$ 1,020,000	\$ —	\$ 940,728	\$ 243,052	\$3,343,780
Robert J. Simmons	2020	\$311,823	\$ —	\$320,000	\$ 480,000	\$ —	\$ 272,400	\$ 138,182 (5)	\$1,522,405
Chief Financial Officer . . .	2019	\$345,000	\$ —	\$310,000	\$ 465,000	\$ —	\$ 331,200	\$ 158,784	\$1,609,984
	2018	\$335,000	\$ —	\$290,000	\$ 435,000	\$ —	\$ 498,251	\$ 160,115	\$1,718,366
Wade J. Steel	2020	\$309,323	\$ —	\$320,000	\$ 480,000	\$ —	\$ 272,400	\$ 141,708 (6)	\$1,523,431
Chief Commercial Officer .	2019	\$335,000	\$ —	\$310,000	\$ 465,000	\$ —	\$ 321,600	\$ 151,108	\$1,582,708
	2018	\$315,000	\$ —	\$270,000	\$ 405,000	\$ —	\$ 468,505	\$ 151,679	\$1,610,184
Michael B. Thompson	2020	\$183,292	\$ —	\$270,000	\$ 405,000	\$ —	\$ —	\$ 238,914 (7)	\$1,097,206
Former, Chief Operating Officer—SkyWest Airlines	2019	\$250,000	\$ —	\$260,000	\$ 390,000	\$ —	\$ 160,000	\$ 127,229	\$1,187,229
	2018	\$245,000	\$ —	\$240,000	\$ 360,000	\$ —	\$ 368,480	\$ 125,274	\$1,338,754
Eric J. Woodward	2020	\$206,031	\$ —	\$116,000	\$ 174,000	\$ —	\$ 115,000	\$ 71,631 (8)	\$ 682,662
Chief Accounting Officer . .	2019	\$211,000	\$ —	\$ 99,200	\$ 148,800	\$ —	\$ 151,920	\$ 84,317	\$ 695,237
Greg S. Wooley	2020	\$180,929	\$ —	\$ 88,000	\$ 132,000	\$ —	\$ 116,425	\$ 50,552 (9)	\$ 567,906
Executive Vice President Operations									

(1) No discretionary annual performance bonuses were awarded to the Named Executives in 2018, 2019 or 2020.

(2) These columns show the grant date fair value of 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 performance share awards, assuming the highest level of performance achievement, is as follows: Mr. Childs, \$2,040,000 (2018), \$2,640,000 (2019), \$2,760,000 (2020); Mr. Simmons, \$870,000 (2018), \$930,000 (2019), \$960,000 (2020); Mr. Steel, \$810,000 (2018), \$930,000 (2019), \$960,000 (2020); Mr. Thompson, \$720,000 (2018), \$780,000 (2019), \$810,000 (2020); Mr. Woodward, \$297,600 (2019), \$348,000 (2020); and Mr. Wooley, \$264,000 (2020). 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, 2020, 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 2020 is reported in the

“Grants of Plan-Based Awards for 2020” table below. This column also includes an additional cash incentive payout that was awarded to the Named Executives for efforts that improved the Company’s liquidity position during 2020 and operational improvements made in response to the COVID-19 pandemic that were not contemplated in the Company’s goal setting process in 2020 as follows: Mr. Childs, \$70,000; Mr. Simmons, \$102,000; Mr. Steel, \$102,000; Mr. Woodward, \$34,000; and Mr. Wooley, \$42,000. Mr. Thompson did not receive an additional cash incentive payout as a result of his separation from the Company in October 2020.

- (4) All other compensation for Mr. Childs for 2020 included \$166,451 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2020. The remaining other compensation relates to employer-paid health insurance premiums, a personal vehicle lease, personal use of the Company’s recreational equipment, and payout of excess accrued time off.
- (5) All other compensation for Mr. Simmons for 2020 included \$99,272 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2020. The remaining other compensation relates to employer-paid health insurance premiums, a personal vehicle lease personal use of the Company’s recreational equipment, and payout of excess accrued time off.
- (6) All other compensation for Mr. Steel for 2020 included \$98,123 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2020. The remaining other compensation relates to employer-paid health insurance premiums, a personal vehicle lease, personal use of the Company’s recreational equipment, and payout of excess accrued time off.
- (7) All other compensation for Mr. Thompson for 2020 included \$54,799 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2020. The remaining other compensation relates to \$156,106 in severance paid to Mr. Thompson during 2020 in connection with his separation from the Company pursuant to his severance and release agreement, employer-paid health insurance premiums, a personal vehicle lease, and personal use of the Company’s recreational equipment.
- (8) All other compensation for Mr. Woodward for 2020 included \$47,237 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2020. The remaining other compensation relates to employer-paid health insurance premiums, personal use of the Company’s recreational equipment, and payout of excess accrued time off.
- (9) All other compensation for Mr. Wooley for 2020 included \$32,383 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2020. The remaining other compensation relates to employer-paid health insurance premiums, and personal use of the Company’s recreational equipment.

Grants of Plan-Based Awards For 2020

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, 2020:

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	4-Feb-2020(2)	\$ 286,000	\$572,000	\$1,144,000							\$ 572,000
	4-Feb-2020(3)				11,229	22,457	44,914				\$1,380,000
Robert J. Simmons	4-Feb-2020(2)	\$ 142,000	\$284,000	\$ 568,000				14,972			\$ 920,000
	4-Feb-2020(3)				3,906	7,811	15,622				\$ 284,000
Wade J. Steel	4-Feb-2020(2)	\$ 142,000	\$284,000	\$ 568,000				5,207			\$ 480,000
	4-Feb-2020(3)										\$ 320,000
Michael B. Thompson	4-Feb-2020(2)	\$ 104,000	\$208,000	\$ 416,000							\$ 284,000
	4-Feb-2020(3)				3,906	7,811	15,622	5,207			\$ 480,000
Eric J. Woodward	4-Feb-2020(2)	\$ 67,500	\$135,000	\$ 270,000							\$ 320,000
	4-Feb-2020(3)				3,296	6,591	13,182	4,394			\$ 208,000
Greg S. Wooley	4-Feb-2020(2)	\$ 62,021	\$124,042	\$ 248,084							\$ 405,000
	4-Feb-2020(3)				1,416	2,832	5,664	1,888			\$ 270,000
											\$ 135,000
											\$ 174,000
											\$ 116,000
											\$ 124,042
											\$ 132,000
											\$ 88,000

- (1) The amounts in these columns reflect the threshold, target and maximum amount of each Named Executive's annual cash incentive opportunity for 2020. 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 2020-2022 PSU Awards granted in 2020 which will be eligible to vest based on corporate performance during the three-year performance period ending December 31, 2022. The Compensation Committee determined that the corporate objectives for purposes of such awards would be EBITDA per share, return on invested capital and controllable completion 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 2020-2022 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 40% to the cumulative three-year EBITDA per share, 40% to the three-year adjusted average return on invested capital and 20% the three-year average controllable completion 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, 2020 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, 2020. Mr. Thompson did not hold any outstanding equity awards as of December 31, 2020.

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 Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (9)(\$)	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 (9)(\$)
Russell A. Childs . . .	41,020		\$ 14.78	10-Feb-23				
					12,734 (2)	\$ 513,308		
					15,281 (3)	\$ 615,977		
					18,163 (4)	\$ 732,151	27,245 (5)	\$ 1,098,246
					14,972 (6)	\$ 603,521	22,457 (7)	\$ 905,242
Robert J. Simmons . .	7,783		\$ 14.78	10-Feb-23				
					5,431 (2)	\$ 218,924		
					6,517 (3)	\$ 262,700		
					6,398 (4)	\$ 257,903	9,598 (5)	\$ 386,895
					5,207 (6)	\$ 209,894	7,811 (7)	\$ 314,861
Wade J. Steel					5,056 (2)	\$ 203,807		
					6,067 (3)	\$ 244,561		
					6,398 (4)	\$ 257,903	9,598 (5)	\$ 386,895
					5,207 (6)	\$ 209,894	7,811 (7)	\$ 314,861
Eric J. Woodward . . .	2,968		\$ 14.78	10-Feb-23				
					1,813 (2)	\$ 73,082		
					2,175 (3)	\$ 87,674		
					2,047 (4)	\$ 82,515	3,071 (5)	\$ 123,792
					1,888 (6)	\$ 76,105	2,832 (7)	\$ 114,158
Greg S. Wooley					2,720 (8)	\$ 109,643	4,080 (5)	\$ 164,465
					1,432 (6)	\$ 57,724	2,148 (7)	\$ 86,586

- (1) All stock option awards have a term of seven years from the date of grant.
- (2) Restricted stock unit awards vested on February 7, 2021.
- (3) Represents the 2018-2020 PSU Awards granted in 2018 which were 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. In February 2021, the Compensation Committee determined that the Company had achieved an 80% performance level for these awards, and such awards vested at 80% of target levels on February 2, 2021. In addition, these awards are reported in the “Number of Shares or Units of Stock” column because, as of December 31, 2020, the applicable performance objectives had been met and the vesting of the awards was subject only to the Compensation Committee’s certification of such results.

- (4) Restricted stock unit awards scheduled to vest on February 5, 2022.
- (5) Represents the 2019-2021 PSU Awards granted in 2019 which will be eligible to vest based on corporate performance during the three-year performance period ending December 31, 2021. The Compensation Committee determined that the corporate objectives for purposes of such awards would be EBITDA per share, return on invested capital and controllable completion 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 2019-2021 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 40% to the cumulative three-year EBITDA per share, 40% to the three-year adjusted average return on invested capital and 20% the three-year average controllable completion 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 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 4, 2023.
- (7) Represents the 2020-2022 PSU Awards granted in 2020 which will be eligible to vest based on corporate performance during the three-year performance period ending December 31, 2022. The Compensation Committee determined that the corporate objectives for purposes of such awards would be EBITDA per share, return on invested capital and controllable completion 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 2020-2022 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 40% to the cumulative three-year EBITDA per share, 40% to the three-year adjusted average return on invested capital and 20% the three-year average controllable completion 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 Company has reported the number and market value of the performance shares subject to the awards based on “target” performance.

(8) Restricted stock unit awards scheduled to vest on September 1, 2022.

(9) Based on market closing price per share of our common stock of \$40.31 on December 31, 2020, the last trading day of 2020.

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, 2020 are outlined below.

Name	Options 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.	—	\$ —	58,085	\$ 3,316,654
Robert J. Simmons	—	\$ —	29,043	\$ 1,658,355
Wade J. Steel	—	\$ —	26,808	\$ 1,530,737
Michael B. Thompson. .	—	\$ —	20,107	\$ 1,148,110
Eric J. Woodward	—	\$ —	10,277	\$ 586,817
Greg S. Wooley	—	\$ —	—	\$ —

(1) Includes both restricted stock units and performance shares that vested during the year ended December 31, 2020.

Non-Qualified Deferred Compensation for 2020

Pursuant to the SkyWest 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 is also credited with a discretionary employer contribution monthly, whether or not the Named Executive contributes. For 2020 that discretionary employer contribution was 15% of the Named Executive’s salary and annual cash incentive. Participant account balances under the SkyWest Deferred Compensation Plan 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 the year ended December 31, 2020:

Name	Executive Contributions in Last Year \$(1)	Registrant Contributions in Last Year \$(2)	Aggregate Earnings in Last Year \$(3)	Aggregate Withdrawals/ Distributions in Last Year \$(4)	Aggregate Balance at Last Year End \$(5)
Russell A. Childs.	\$ —	\$ 166,451	\$ 296,256	\$ —	\$ 2,637,452
Robert J. Simmons	\$ 16,567	\$ 99,272	\$ (24,346)	\$ —	\$ 792,863
Wade J. Steel	\$ —	\$ 98,123	\$ 310,115	\$ —	\$ 1,228,579
Michael B. Thompson.	\$ —	\$ 54,799	\$ 124,262	\$ —	\$ 1,118,912
Eric J. Woodward	\$ —	\$ 47,237	\$ 46,473	\$ —	\$ 937,780
Greg S. Wooley	\$ —	\$ 32,383	\$ 32	\$ —	\$ 40,834

- (1) The amount in this column represents deferral of base salary for 2020 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 2020 at the rate of 15% of each Executive's 2020 base salary and annual cash incentive which was paid in 2020. 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 during 2020 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, \$166,451 (2020), \$218,047 (2019) and \$211,109 (2018); Mr. Simmons, \$115,839 (2020), \$152,036 (2019) and \$146,521 (2018); Mr. Steel, \$98,123 (2020), \$122,455 (2019) and \$122,190 (2018); Mr. Thompson, \$54,799 (2020), \$95,575 (2019) and \$95,785 (2018); Mr. Woodward, \$47,237 (2020) and \$67,664 (2019); and Mr. Wooley, \$32,383 (2020).

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, 2020, or the Company had undergone a change in control on December 31, 2020. 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. With respect to long-term incentive awards granted to the Named Executives, 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 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 performance period (or, if earlier, a change in control of the Company), which vesting will be prorated for the portion of the three-year period covering such awards 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 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 restricted stock units and performance shares, as of December 31, 2020, the vesting or settlement of which 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, calculated in the case of restricted stock units and performance shares, by multiplying the number of underlying shares by the closing price of the Common Stock on December 31, 2020, the last trading day of 2020 (\$40.31 per share). Mr. Thompson is not included in the table, as his employment terminated in October 2020, but his actual separation arrangements are discussed below.

Name	Change in Control	Involuntary Termination Following a Change in Control or Death		Involuntary Termination Prior to a Change in Control		
Russell A. Childs						
RSU Acceleration	\$	—	\$	1,848,979	\$	1,848,979
PSU Acceleration (1) . .	\$	615,977	\$	2,619,465	\$	1,649,888
Robert J. Simmons						
RSU Acceleration	\$	—	\$	686,721	\$	686,721
PSU Acceleration (1) . .	\$	262,700	\$	964,457	\$	625,584
Wade J. Steel						
RSU Acceleration	\$	—	\$	671,605	\$	671,605
PSU Acceleration (1) . .	\$	244,561	\$	946,318	\$	607,445
Eric J. Woodward						
RSU Acceleration	\$	—	\$	231,702	\$	231,702
PSU Acceleration (1) . .	\$	87,674	\$	325,624	\$	208,255
Greg S. Wooley						
RSU Acceleration	\$	—	\$	167,367	\$	167,367
PSU Acceleration (1) . .	\$	—	\$	251,051	\$	138,505

- 1) Reflects the value of the performance shares granted in 2019 and 2020 at "target" performance levels. The value under the "Change in Control" column includes only the 2018 performance shares, which are reflected at 80% of target performance levels based on the performance relative to the performance objectives for the performance period that ended on December 31, 2020 under such awards, since, as of December 31, 2020, the applicable

performance objectives had been met and the vesting of the awards was subject only to the Compensation Committee's certification of such results (but the settlement of such awards would have been accelerated to the date of the change in control occurring on December 31, 2020). While these 2018 performance shares were no longer subject to performance or service conditions at December 31, 2020, they are included in this table as the settlement of such performance shares would have accelerated (as compared to the regular settlement date in February 2021 upon Compensation Committee certification of final performance results) upon the occurrence of a change in control. The value of the 2018 performance shares are reflected in the other two columns, but no acceleration of the settlement of such awards would occur under a termination under those circumstances (and such awards would vest in February 2021 upon Compensation Committee certification of final performance results), other than in the case of death, in which case the "target" awards would have been subject to immediate settlement.

Deferred Compensation. If the employment of a Named Executive were terminated on December 31, 2020, 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 2020 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.

Separation Arrangement with Mr. Thompson. As of October 26, 2020, Michael B. Thompson ceased serving as the Chief Operating Officer of SkyWest Airlines and separated from the Company. In connection with his separation from the Company, Mr. Thompson is eligible to receive the following benefits pursuant to a severance and release agreement with SkyWest Airlines, in exchange for his execution of a general release of claims in favor of SkyWest Airlines and his compliance with certain restrictive covenants following his separation from the Company, including a non-competition covenant: (1) approximately \$1.95 million, payable in equal installments over a 24 month period following his date of separation, consisting of two years' base salary, cash payout of his 2020 annual bonus pursuant to previously established performance targets and cash payout of his 2018 and 2019 restricted stock units and performance shares; and (2) paid health insurance coverage for 24 months or until his subsequent approved re-employment.

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 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 2020, our last completed fiscal year:

- the median of the annual total compensation of all employees of the Company (other than the CEO) was \$41,724; and
- the annual total compensation of the CEO, as reported in the Summary Compensation Table included elsewhere in this Proxy Statement, was \$3,353,359.

Based on this information, for 2020, 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 80.

Determining the Median Employee. The Company determined that, as of December 31, 2020, the employee population consisted of approximately 14,000 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 2020 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 2020 in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K, resulting in the annual total compensation reflected above.

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, 2020, all directors who were not employees of the Company received an annual cash retainer of \$100,000. The Chair of the Audit Committee was paid an annual fee of \$20,000, the Chair of the Compensation Committee was paid an annual fee of \$15,000, the Chair of Nominating and Corporate Governance Committee was paid an annual fee of \$10,000, the Chair of the Safety and Compliance Committee was paid an annual fee of \$10,000 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 Board Chair was paid an annual fee of \$100,000. 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 4, 2020, each of the non-employee directors received an award of 1,627 vested shares of Common Stock, representing approximately \$100,000 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 2020.

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. Each director met the ownership guidelines at December 31, 2020, with the exception of Ms. Conjeevaram who was appointed as a director on January 11, 2021. The holdings of the directors are summarized in the table entitled "Security Ownership of Certain Beneficial Owners" below.

DIRECTOR COMPENSATION TABLE

The table below summarizes the compensation paid by the Company to its non-employee directors for the year ended December 31, 2020.

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Name(1)	Fees Earned or Paid in Cash (\$)	Stock Awards \$(2)	Option Awards (\$)	Change in Pension Value and Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Jerry C. Atkin	\$ 200,000	\$ 100,000	—	—	—	\$ 300,000
Steven F. Udvar-Hazy. . .	\$ 130,000	\$ 100,000	—	—	—	\$ 230,000
W. Steve Albrecht	\$ 120,000	\$ 100,000	—	—	—	\$ 220,000
Henry J. Eyring	\$ 104,000	\$ 100,000	—	—	—	\$ 204,000
Meredith S. Madden . .	\$ 100,000	\$ 100,000	—	—	—	\$ 200,000
Ronald J. Mittelstaedt .	\$ 100,000	\$ 100,000	—	—	—	\$ 200,000
Andrew C. Roberts . . .	\$ 114,000	\$ 100,000	—	—	—	\$ 214,000
Keith E. Smith	\$ 119,000	\$ 100,000	—	—	—	\$ 219,000
James L. Welch	\$ 104,000	\$ 100,000	—	—	—	\$ 204,000

- (1) Russell A. Childs, the CEO, President and a director of the Company, is not included in the foregoing table as he was an employee of the Company during 2020 and received no financial remuneration for his service as a director.

Ms. Conjeevaram, who was appointed as a director on January 11, 2021, is excluded from the foregoing table as she did not serve as a director of the Company during 2020.

- (2) 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, 2020, 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 holds, or as of December 31, 2020 held any unvested shares or other equity awards.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Transaction with Related Party

During the year ended December 31, 2020, the Company purchased \$223,050 of spare aircraft parts from NORDAM, an entity affiliated with Meredith S. Madden, a director of the Company. The Company's purchases from NORDAM are through arms-length transactions on terms generally available to other NORDAM customers.

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.

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, 2021, 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.

Name	Common Stock	Options Exercisable (1)	Total	Beneficial Ownership (2)
Russell A. Childs	140,084	41,020	181,104	(3)
Robert J. Simmons	49,998	7,783	57,781	(3)
Wade J. Steel	43,193	—	43,193	(3)
Michael B. Thompson	26,045	—	26,045	(3)
Eric J. Woodward	21,578	2,968	24,546	(3)
Greg S. Wooley	3,087	—	3,087	(3)
W. Steve Albrecht	62,379	—	62,379	(3)
Jerry C. Atkin	479,034	—	479,034	(3)
Smita Conjeevaram	2,229	—	2,229	(3)
Henry J. Eyring	2,600	—	2,600	(3)
Meredith S. Madden	17,785	—	17,785	(3)
Ronald J. Mittelstaedt	25,236	—	25,236	(3)
Andrew C. Roberts	17,785	—	17,785	(3)
Keith E. Smith	25,236	—	25,236	(3)
Steven F. Udvar-Hazy	54,637	—	54,637	(3)
James L. Welch	45,020	—	45,020	(3)
All officers and directors as a group (16 persons)	1,015,926	51,771	1,067,697	2.1 %

(1) Represents shares that the beneficial owner has the right to acquire within 60 days of March 4, 2021 pursuant to the exercise of such stock options.

(2) Based on 50,304,540 shares outstanding as of March 4, 2021.

(3) Less than one percent of the total shares outstanding as of March 4, 2021.

Security Ownership of Other Beneficial Owners

As of March 4, 2021, 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.

Name	Amount of Beneficial Ownership Common Stock	
	Shares	Percent of Class
BlackRock, Inc. 55 East 52 nd Street New York, NY 10055	7,468,209 (1)	14.85 %
The Vanguard Group 100 Vanguard Blvd Malvern, PA 19355	5,031,620 (2)	10.00 %
Dimensional Fund Advisors LP 6300 Bee Cave Road, Building One Austin, TX 78746	3,536,537 (3)	7.03 %
AllianceBernstein L.P. 1345 Avenue of the Americas New York, NY 10105	3,003,963 (4)	5.97 %

- (1) Based on a Schedule 13G/A filed on January 26, 2021 by BlackRock, Inc., which stated therein that it has sole voting power over 7,409,181 shares and sole dispositive power over 7,468,209 shares.
- (2) Based on a Schedule 13G/A filed on February 10, 2021 by The Vanguard Group, Inc., which stated therein that it has shared voting power over 39,201 shares, sole dispositive power over 4,965,339 shares and shared dispositive power over 66,281 shares.
- (3) Based on a Schedule 13G/A filed on February 16, 2021 by Dimensional Fund Advisors LP, which stated therein that it has sole voting power over 3,466,226 shares and sole dispositive power over 3,536,537 shares.
- (4) Based on a Schedule 13G/A filed on February 8, 2021 by AllianceBernstein L.P., which stated therein that it has sole voting power over 2,537,134 shares and sole dispositive power over 3,003,963 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, 2020.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
<i>Equity compensation plans approved by security holders (1).</i>	492,239	\$ 14.74 (2)	4,677,299 (3)

- (1) Consists of the Company's SkyWest Inc. 2010 Long-Term Incentive Plan, 2019 Long-Term Incentive Plan and the Employee Stock Purchase Plan. Performance awards are included at "target" levels. No additional awards may be granted under the SkyWest, Inc. 2010 Long-Term Incentive Plan.
- (2) Represents the weighted average exercise price of the outstanding stock options. As of December 31, 2020, there were 57,653 outstanding stock options.
- (3) Includes 575,128 shares remaining available for future issuance under the Employee Stock Purchase Plan, of which 29,731 were eligible to be purchased during the purchase period in effect on December 31, 2020.

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 2021 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2020 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 23 of this Proxy Statement and the executive compensation tables beginning on page 38 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, 2020 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
RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Following an evaluation by the Audit Committee and by the Company's management of the performance of Ernst & Young LLP during the prior fiscal year, 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, 2021. The Company is seeking shareholder ratification of such action.

Shareholder ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm is not required by our Amended and Restated Bylaws or otherwise. However, the Board is submitting the selection of Ernst & Young LLP to shareholders for ratification as a matter of good corporate practice. If the shareholders do not ratify the selection, the Audit Committee and the Board will reconsider whether or not to retain Ernst & Young LLP. Even if the selection is ratified, the Audit Committee and the Board in their discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if they determine that such a change would be in the best interests of the Company.

It is expected that representatives of Ernst & Young LLP will attend the Meeting, will have an opportunity to make a statement if they desire and will be available to 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, 2021.

FEES PAID TO INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The following table represents aggregate fees billed to us for services related to the years ended December 31, 2020 and 2019, by Ernst & Young LLP (“EY”):

	Year Ended December 31,	
	2020	2019
Audit Fees (1)	\$ 1,038,347	\$ 1,049,500
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	—	—
Total	\$ 1,038,347	\$ 1,049,500

- (1) Audit Fees consist of fees and related expenses 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.

Pre-Approval Policies and Procedures

The Audit Committee charter provides that the Audit Committee shall pre-approve all external audit services, internal control-related services and permissible non-audit services (including the fees and terms thereof), subject to certain specified exceptions. The Audit Committee has also adopted a policy regarding the retention of the independent registered public accounting firm that requires pre-approval of all of its services by the Audit Committee or the Chair of the Audit Committee. When services are pre-approved by the Chair 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 for ratification at its next scheduled meeting. The Audit Committee considers whether the provision of each non-audit service is compatible with maintaining the independence of the auditors. All of the services listed above were pre-approved by the Audit Committee in accordance with this policy.

REPORT OF THE AUDIT COMMITTEE

Management of the Company has primary responsibility for the Company's financial statements and internal control over the Company's financial reporting. EY, 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, Inc. ("*Protiviti*"), the Company's principal internal auditor, 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.

At its meetings during the year ended December 31, 2020, the Audit Committee reviewed and discussed the following topics, among other matters: financial performance; financial reporting practices; quarterly and annual reports, including Management's Discussion and Analysis of Financial Condition and Results of Operations; cybersecurity matters and risks and information technology controls; enterprise risk management and risk assessment; legal and regulatory issues; accounting and financial management issues; critical accounting policies and critical audit matters; accounting standards; airline industry matters; and a summary of calls received on the Company's anonymous whistleblower hotline. The Audit Committee held separate executive sessions regularly with representatives of EY, Protiviti and the Company's legal counsel, during which the following topics, among other matters, were discussed: financial management, accounting, internal controls, finance and accounting staffing, legal matters and compliance issues. The Audit Committee also regularly reviewed with its outside advisors material developments in the law and accounting literature that could be pertinent to the Company's financial reporting practices.

In addition, 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, 2020, 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.

In connection with the financial statements for the year ended December 31, 2020, 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 Public Company Accounting Oversight Board ("*PCAOB*") and the Securities and Exchange Commission; and
- (3) received the written disclosures and letter from EY regarding the auditors' independence required by applicable requirements of the PCAOB regarding EY's communications with the Audit Committee concerning independence, and has discussed with EY its independence.

Based upon these reviews and discussions, the Audit Committee recommended to the Board at the February 2, 2021 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, 2020, 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.

DELINQUENT SECTION 16(a) REPORTS

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 2020 its executive officers, directors and 10% holders complied with all filing requirements of Section 16 of the Exchange Act, except that one amended Form 5 and one original Form 5 were filed late for Mr. Childs with respect to three transactions of charitable gifts, one of which occurred in 2018 and two of which occurred in 2019.

SHAREHOLDER PROPOSALS FOR THE 2022 ANNUAL MEETING OF SHAREHOLDERS

If any shareholder intends to present a proposal to be considered for inclusion in the Company's proxy materials in connection with the Company's 2022 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 25, 2021. Shareholder proposals to be presented at the 2022 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 3, 2022, and no later than February 23, 2022, 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 2020 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 2020 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 2020 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 18, 2021

**APPENDIX A
TO
PROXY STATEMENT**

Reconciliation of non-GAAP financial measures

The non-GAAP information presented in this proxy statement should not be considered in isolation or as a substitute for any measure derived in accordance with GAAP. The non-GAAP information may also be inconsistent with the manner in which similar measures are derived or used by other companies. Management uses such non-GAAP information for financial and operational decision-making purposes and as a means to evaluate period-over-period comparisons and in forecasting the Company's business going forward. Management believes that the presentation of such non-GAAP information, when considered in conjunction with the most directly comparable GAAP information, provides additional useful comparative information for investors in their assessment of the underlying performance of the Company's business without regard to these items.

Reconciliation to Adjusted Net Income and Diluted Earnings per Share (unaudited)

(Dollars in thousands, except per diluted share)

	For the year ended December 31, 2020			
	Pre-tax income (loss)	Income tax benefit (expense)	Net income (loss)	Net income (loss) per diluted share
GAAP income (loss)	\$ (7,327)	\$ (1,188)	\$ (8,515)	\$ (0.17)
2020 adjustments (1)	110,728	(27,073)	83,655	
Adjusted income	\$ 103,401	\$ (28,261)	\$ 75,140	\$ 1.50

	For the year ended December 31, 2019			
	Pre-tax income (loss)	Income tax benefit (expense)	Net income	Net income per diluted share
GAAP income	\$ 446,305	\$ (106,206)	\$ 340,099	\$ 6.62
2019 adjustments (2)	(24,656)	5,646	(19,010)	
Adjusted income	\$ 421,649	\$ (100,560)	\$ 321,089	\$ 6.25

These adjustments allow investors to better understand and analyze our recurring core performance in the periods presented.

- (1) Adjusted for the deferred revenue on fixed cash payments received in 2020 under capacity purchase agreements that was not contemplated during the goal setting process for incentive purposes.
- (2) Excludes the gain on the sale of ExpressJet of \$46.5 million (pre-tax); also excludes special item operating expenses of \$21.9 million (pre-tax), primarily consisting of a non-cash write-off of aircraft manufacturer part credits that SkyWest forfeited to settle future lease return obligations. These adjustments were recorded in the first quarter of 2019.

The Company had no non-GAAP reconciliation items relating to 2018.

OFFICERS AND DIRECTORS SKYWEST, INC.

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.

Greg S. Wooley

Executive Vice President, Operations

Bill C. Dykes

Senior Vice President, Maintenance

Tracy T. Gallo

Senior Vice President, Flight Operations

Sonya P. Wolford

Senior Vice President, InFlight Services

Bradley W. Blake

Vice President, Operation Control Center

Lori A. Hunt

Vice President, Airport Operations

BOARD OF DIRECTORS

Jerry C. Atkin

Chairman of the Board
Elected Chairman 1991
Member of the Board since 1974

Steven F. Udvar-Hazy

Board Lead Director
Chairman, Nominating & Corporate
Governance Committee
Member, Compensation Committee
Member of the Board since 1986

W. Steve Albrecht

Chairman, Audit Committee
Member, Nominating & Corporate
Governance Committee
Member of the Board since 2012
(also served from 2003-2009)

Smita Conjeevaram

Member of the Board since 2021

Henry J. Eyring

Member, Audit Committee
Member, Compensation Committee
Member of the Board since 2006
(also served from 1995-2003)

Meredith S. Madden

Member, Compensation Committee
Member, Safety & Compliance Committee
Member of the Board since 2015

Ronald J. Mittelstaedt

Member, Compensation Committee
Member, Nominating & Corporate
Governance Committee
Member, Safety & Compliance Committee
Member of the Board since 2013

Andrew C. Roberts

Chairman, Safety & Compliance Committee
Member, Audit Committee
Member of the Board since 2015

Keith E. Smith

Chairman, Compensation Committee
Member, Audit Committee
Member of the Board since 2013

James L. Welch

Member, Audit Committee
Member, Nominating & Corporate
Governance Committee
Member, Safety & Compliance Committee
Member of the Board since 2007

CORPORATE INFORMATION

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Salt Lake City, Utah 84101

Registrar and Transfer Agent
Zions First National Bank
Stock Transfer Department
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Salt Lake City, Utah 84130



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