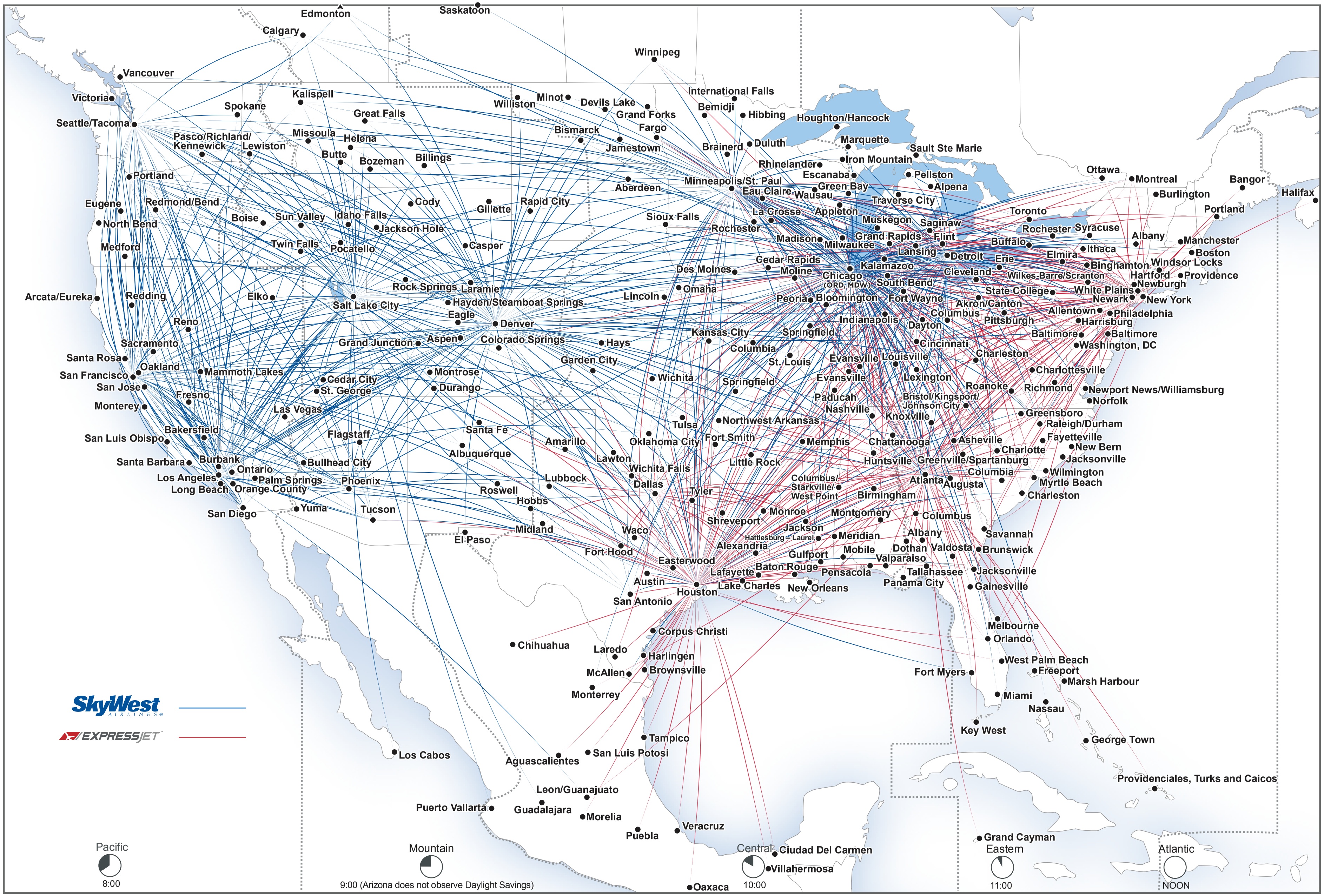
SkyWest
INCORPORATED

2016 ANNUAL REPORT

Notice of 2017 Annual Meeting and Proxy Statement

SkyWest INCORPORATED

CURRENT COMBINED ROUTE SYSTEM



EFFECTIVE MARCH 2017

To our Shareholders,

Throughout 2016 we continued to execute on our plans to evolve and transition our fleet; to reduce our risk profile; and to build value through cash generation for our stakeholders, all with a focus on best-in-class safety and reliable operations. As part of this strategy, we added, removed or redeployed more than 125 aircraft across our base fleet of 652 aircraft in 2016. Our ability to execute these significant transitions while successfully operating more than 1.1 million flights was made possible by the exceptional work of our 19,000 aviation professionals.

Specific to our fleet evolution in 2016, we added 41 new E175s to our SkyWest Airlines operations to support our Alaska, Delta and United flying; we redeployed 35 CRJ700 aircraft from our United operation to our American and Delta operations, essentially neutralizing our tail risk on that fleet; and we began removal of the CRJ200 from our ExpressJet operation as we move to a primarily dual-class CRJ operation with that entity in 2017. In December, we announced a new agreement for ExpressJet to operate CRJ700s for American, growing our dual-class fleet while reducing our 50-seat operation there. Evolving our fleet continues to reduce our risk and improve our capital flexibility, and by reducing or removing unprofitable aircraft from our fleet, we continue minimizing losses at ExpressJet. Notably, that entity produced a $30 million financial improvement in 2016 over 2015.

We believe our ongoing focus on solid operating performance remains central to our ability to compete. Operationally, both SkyWest and ExpressJet continued to deliver exceptional performance throughout the year and remained top-tier in mainline partner portfolios. This operational success continues to drive demand for our product, and our pilot availability and fleet flexibility make us well positioned to deliver on that demand.

Looking forward, we expect to complete delivery of the current round of new E175 aircraft by third quarter of 2017, bringing our total to 104. As we've experienced recently, additional new flying can come unexpectedly in changing conditions and we are focused on remaining the partner of choice for existing and new growth. While our current delivery cycle of E175s is completed in 2017, we are well positioned for future opportunities.

We remain focused on a flexible and disciplined approach to meeting the strong demands for our product. Today, SkyWest's ability to attract and retain top aviation professionals, as well as our capital strength, set us apart in our industry and continue to provide added value for our employees, our partners and our shareholders. I want to thank our 19,000 professionals for their good work in delivering exceptional performance and world-class service to our more than 53 million passengers this year.

Jerry C. Atkin
Chairman
SkyWest, Inc.

Russell A. "Chip" Childs
Chief Executive Officer and President
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, 2016

OR

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

For the transition period from to

Commission File No. 0-14719

SKYWEST, INC.

Incorporated under the Laws of Utah	**87-0292166** (IRS Employer ID No.)

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

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

(Title of Each Class)	(Name of Exchange on which Registered)
Common Stock, No Par Value	**The Nasdaq Global Select Market**

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

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

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

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

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

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

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

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if asmaller reporting company)	Smaller reporting company ☐

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

The aggregate market value of the registrant's common stock held by non-affiliates (based upon the closing sale price of the registrant's common stock on The Nasdaq Global Select Market) on June 30, 2016 was approximately $1,362,182,737.

As of February 17, 2017, there were 51,845,731 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 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report as specified.

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

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

Cautionary Statement Concerning Forward-Looking Statements

Certain of the statements contained in this Report should be considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by words such as "may," "will," "expect," "intend," "anticipate," "believe," "estimate," "plan," "project," "could," "should," "hope," "likely," and "continue" and similar terms used in connection with statements regarding our outlook, anticipated operations, the revenue environment, our contractual relationships, and our anticipated financial performance. These statements include, but are not limited to, statements about our future growth and development plans, including our future financial and operating results, our plans for SkyWest Airlines and ExpressJet, our objectives, expectations and intentions and other statements that are not historical facts. Readers should keep in mind that all forward-looking statements are based on our existing beliefs about present and future events outside of our control and on assumptions that may prove to be incorrect. If one or more risks identified in this Report materializes, or any other underlying assumption proves incorrect, our actual results will vary, and may vary materially, from those anticipated, estimated, projected, or intended for a number of reasons, including but not limited to: the challenges of competing successfully in a highly competitive and rapidly changing industry; developments associated with fluctuations in the economy and the demand for air travel; the financial stability of United Airlines, Inc. ("United"), Delta Air Lines, Inc. ("Delta"), American Airlines, Inc. ("American") and Alaska Airlines, Inc. ("Alaska") (each, a "major airline partner") and any potential impact of their financial condition on the operations of SkyWest, SkyWest Airlines or ExpressJet; fluctuations in flight schedules, which are determined by the major airline partners for whom SkyWest's operating airlines conduct flight operations; variations in market and economic conditions; significant aircraft lease and debt commitments; realization of manufacturer residual value guarantees on applicable SkyWest aircraft; residual aircraft values and related impairment charges; the impact of global instability; labor relations and costs; potential fluctuations in fuel costs, and potential fuel shortages; the impact of weather-related or other natural disasters on air travel and airline costs; new aircraft deliveries; and the ability to attract and retain qualified pilots, as well as the other factors described below in Item 1A. Risk Factors.

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

ITEM 1. BUSINESS

General

Through SkyWest Airlines and ExpressJet, we offer scheduled passenger service with approximately 3,160 daily departures to destinations in the United States, Canada, Mexico and the Caribbean. Substantially all of our flights are operated as Delta Connection, United Express, American Eagle or Alaska Airlines under code-share arrangements with Delta, United, American or Alaska, respectively. SkyWest Airlines and ExpressJet generally provide regional flying to our major airline partners under long-term, fixed-fee, code-share agreements. Among other features of our fixed-fee agreements, our major airline partners generally pay us fixed rates for operating the aircraft primarily based on computed flights, flight time and the number of aircraft under contract, and the major airline partners also reimburse us for specified direct operating expenses (including fuel expense) and pay us a fee for operating the aircraft.

SkyWest Airlines and ExpressJet have developed industry-leading reputations for providing quality regional airline service during their long operating histories. SkyWest Airlines has been flying since 1972 and ExpressJet (and its predecessors) since 1979. As of December 31, 2016, we had 652 aircraft in scheduled service consisting of the following:

	CRJ200	CRJ700	CRJ900	ERJ135	ERJ145	E175	EMB120	Total
United	75	35	—	5	140	58	—	313
Delta	109	62	64	—	—	13	—	248
American	29	33	—	—	14	—	—	76
Alaska	—	—	—	—	—	15	—	15
Aircraft in scheduled service	213	130	64	5	154	86	—	652
Subleased to an un-affiliated entity	2	—	—	—	—	—	—	2
Other*	—	9	—	4	4	—	14	31
Total Fleet	215	139	64	9	158	86	14	685

* Other aircraft consisted of leased aircraft removed from service that were in the process of being returned to the lessor and owned aircraft removed from service that were for sale.

As of December 31, 2016, our fleet scheduled for service consisted of aircraft manufactured by Bombardier Aerospace (“Bombardier”) and Embraer S.A. (“Embraer”) summarized as follows:

Manufacturer	Aircraft Type	Seat Configuration
Bombardier	CRJ900s	76
Bombardier	CRJ700s	65-70
Bombardier	CRJ200s	50
Embraer	E175s	76
Embraer	ERJ145s	50
Embraer	ERJ135s	37

The Bombardier and Embraer Regional Jets are among the quietest commercial jets currently available and offer many of the amenities of larger commercial jet aircraft, including flight attendant service, a stand-up cabin, overhead and under seat storage, lavatories and in-flight snack and beverage service. The speed of Bombardier and Embraer Regional Jets is comparable to larger aircraft operated by major airlines, and they have a range of approximately 1,600 miles and 2,100 miles, respectively.

We were incorporated in Utah in 1972. Our principal executive offices are located at 444 South River Road, St. George, Utah 84790, and our primary telephone number is (435) 634-3000. We maintain an internet website at *inc.skywest.com,* which provides links to our annual, quarterly and current reports filed with the Securities and Exchange Commission (“SEC”). The information on our website does not constitute part of this Report. In addition, we provide electronic or paper copies of our SEC filings free of charge upon request.

Our Operating Platforms

SkyWest Airlines

SkyWest Airlines provides regional jet service to airports primarily located in the Midwestern and Western United States, as well as Mexico and Canada. SkyWest Airlines offered approximately 1,750 daily scheduled departures as of December 31, 2016, of which approximately 870 were United Express flights, 660 were Delta Connection flights, 130 were American Eagle flights and 80 were Alaska Airlines-coded flights. SkyWest Airlines’ operations are conducted principally from airports located in Chicago (O’Hare), Denver, Los Angeles, Houston, Minneapolis, Portland, Seattle, Phoenix, San Francisco and Salt Lake City. As of December 31, 2016, SkyWest Airlines operated a fleet of 368 aircraft consisting of the following:

	CRJ200	CRJ700	CRJ900	E175	Total
United	75	35	—	58	168
Delta	71	27	36	13	147
American	15	23	—	—	38
Alaska	—	—	—	15	15
Total	161	85	36	86	368

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

Major airline partner	Agreement
United	"SkyWest Airlines United Express Agreements" and "SkyWest Airlines United Express Prorate Agreement"
Delta	"SkyWest Airlines Delta Connection Agreement" and "SkyWest Airlines Delta Prorate Agreement"
American	"SkyWest Airlines American Agreement" and "SkyWest Airlines American Prorate Agreement"
Alaska	"SkyWest Airlines Alaska Agreement"

A summary of the terms for each SkyWest Airlines code-share agreement with the respective major airline partner is provided under the heading "Code-Share Agreements" below on page 6.

ExpressJet

ExpressJet provides regional jet service to airports primarily located in the Eastern and Midwestern United States, as well as Mexico, Canada and the Caribbean. ExpressJet's operations are conducted principally from airports located in Atlanta, Cleveland, Chicago (O'Hare), Houston, Detroit, Memphis, Newark and Minneapolis. ExpressJet offered approximately 1,410 daily scheduled departures as of December 31, 2016, of which approximately 540 were Delta Connection flights, 710 were United Express flights and 160 were American Eagle flights. As of December 31, 2016, ExpressJet operated a fleet of 284 aircraft consisting of the following:

	CRJ200	ERJ145	ERJ135	CRJ700	CRJ900	Total
United	—	140	5	—	—	145
Delta	38	—	—	35	28	101
American	14	14	—	10	—	38
Total	52	154	5	45	28	284

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

Major airline partner	Agreement
United (ERJ aircraft types)	"ExpressJet United Express ERJ Agreement"
Delta	"ExpressJet Delta Connection Agreement"
American	"ExpressJet American Agreement" and "ExpressJet American Prorate Agreement"

A summary of the terms for each ExpressJet code-share agreement with the respective major airline partner is provided under the heading "Code-Share Agreements" below on page 6.

SkyWest Leasing

The SkyWest Leasing segment includes revenue attributed to our E175 ownership cost earned under the applicable fixed-fee contracts, and the depreciation and interest expense of our E175 aircraft. The SkyWest Leasing segment's total assets and capital expenditures include the acquired E175 aircraft. The SkyWest Leasing segment additionally includes the income from CRJ200 aircraft leased to a third party.

Competition and Economic Conditions

The airline industry is highly competitive. SkyWest Airlines and ExpressJet compete principally with other regional airlines. The combined operations of SkyWest Airlines and ExpressJet extend throughout most major geographic markets in the United States. Our competition includes, therefore, nearly every other domestic regional airline. The primary competitors of SkyWest Airlines and ExpressJet include Air Wisconsin Airlines Corporation ("Air Wisconsin"); Envoy Air Inc. ("Envoy"), PSA Airlines, Inc. ("PSA") and Piedmont Airlines ("Piedmont") (Envoy, PSA and Piedmont are owned by American); Horizon Air Industries, Inc. ("Horizon") (owned by Alaska Air Group, Inc.); Mesa Air Group, Inc. ("Mesa"); Endeavor Air, Inc. ("Endeavor") (owned by Delta); Republic Airways Holdings Inc. ("Republic"); Trans States Airlines, Inc. ("Trans States") and Compass Airlines, LLC ("Compass"). Major airlines typically award additional code-share flying arrangements to regional airlines based primarily upon the following criteria: ability to fly contracted schedules, availability of labor resources, including pilots, low operating cost, financial resources, geographical infrastructure, overall customer service levels relating to on-time arrival and flight completion percentages and the overall image of the regional airline.

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

The combined operations of SkyWest Airlines and ExpressJet represent the largest regional airline operations in the United States. However, regional carriers owned by major airlines may have access to greater resources through their parent companies than SkyWest Airlines and ExpressJet.

Generally, the airline industry is highly 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 the predominantly contract-based flying arrangements of SkyWest Airlines and ExpressJet. 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 with SkyWest Airlines or ExpressJet, or materially reduce scheduled flights in order to reduce their costs. In addition, adverse weather conditions can impact our ability to complete scheduled flights and can have a negative impact on our operations and financial condition.

Industry Overview

Major 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.

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

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

Code-Share Agreements

Regional airlines generally enter into code-share agreements with major airlines, pursuant to which the regional airline is authorized to use the major airline's two-letter flight designator codes to identify the regional airline's flights and fares in the central reservation systems, to paint its aircraft with the colors and/or logos of its code-share partner and to market and advertise its status as a carrier for the code-share partner. Code-share agreements also generally obligate the major airline to provide services such as reservations, ticketing, ground support and gate access to the regional airline, and the major airline often coordinates marketing, advertising and other promotional efforts. In exchange, the regional airline provides a designated number of low-capacity (usually between 50 and 76 seats) flights between larger airports served by the major airline and surrounding cities, usually in lower-volume markets. The financial arrangements between the regional airlines and their code-share partners usually involve either fixed-fee arrangements or revenue-sharing arrangements as explained below:

- *Fixed-Fee Arrangements.* Under a fixed-fee arrangement (referred to as a "fixed-fee arrangement," "fixed-fee contract," "contract flying" or a "capacity purchase agreement"), the major airline generally pays the regional airline a fixed-fee for each departure, flight hour (measured from takeoff to landing, excluding taxi time) 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 completion of flights, on-time performance and other operating metrics. In addition, the major and regional airlines often enter into an arrangement pursuant to which the major airline bears the risk of changes in the price of fuel and other costs that are passed through to the major airline partner. Regional airlines benefit from a fixed-fee arrangement because they are sheltered from some of the elements that cause volatility in airline financial performance, including variations in ticket prices, number of passengers and fuel prices. However, regional airlines in fixed-fee arrangements generally do not benefit from positive trends in ticket prices (including ancillary revenue programs), the number of passengers enplaned or fuel prices because the major airlines retain passenger fare volatility risk and fuel costs associated with the regional airline flight.
- *Revenue-Sharing Arrangements.* Under a revenue-sharing arrangement (referred to as a "revenue-sharing" arrangement or "prorate" arrangement), the major airline and regional airline negotiate a passenger fare proration formula, pursuant to which the regional airline receives a percentage of the ticket revenues for those passengers traveling for one portion of their trip on the regional airline and the other portion of their trip on the major airline. Substantially all costs associated with the regional airline flight are borne by the regional airline. In a revenue-sharing arrangement, the regional airline may realize increased profits as ticket prices and passenger loads increase or fuel prices decrease and, correspondingly, the regional airline may realize decreased profits as ticket prices and passenger loads decrease or fuel prices increase.

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

During the year ended December 31, 2016, approximately 86.9% of our passenger revenues related to fixed-fee contract flights, where Delta, United, American and Alaska controlled scheduling, ticketing, pricing and seat inventories. The remainder of our passenger revenues during the year ended December 31, 2016 related to prorate flights for Delta, United or American, where we controlled scheduling, pricing and seat inventories, and shared passenger fares with Delta, United or American according to prorate formulas.

Under our fixed-fee arrangements, 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. Under our ExpressJet United Express ERJ Agreement and our ExpressJet American ERJ145 Agreement, the major airline partner provides the aircraft to us for a nominal amount. The number of aircraft under our fixed-fee arrangements and our prorate arrangements as of December 31, 2016 is reflected in the summary below. The following summaries of our code-share agreements do not purport to be complete and are qualified in their entirety by reference to the applicable agreement.

Delta Connection Agreements

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
SkyWest Airlines Delta Connection Agreement (fixed-fee arrangement)	• CRJ 200 • CRJ 700 • CRJ 900 • E175	50 27 36 13	• Individual aircraft have scheduled removal dates under the agreement between 2017 and 2026 • The average remaining term of the aircraft under contract is 3.7 years
ExpressJet Delta Connection Agreement (fixed-fee arrangement)	• CRJ 200 • CRJ 700 • CRJ 900	38 35 28	• Individual aircraft have scheduled removal dates under the agreement between 2017 and 2022 • The average remaining term of the aircraft under contract is 2.8 years
SkyWest Airlines Delta Connection Prorate Agreement (revenue-sharing arrangement)	• CRJ 200	21	• Terminable with 30-day notice

United Express Agreements

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
SkyWest Airlines United Express Agreements (fixed-fee arrangement)	• CRJ 200 • CRJ 700 • E175	53 35 58	• Individual aircraft have scheduled removal dates under the agreement between 2017 and 2027 • The average remaining term of the aircraft under contract is 5.7 years
ExpressJet United ERJ Agreement (fixed-fee arrangement)	• ERJ 145 • ERJ 135	140 5	• Individual aircraft have scheduled removal dates under the agreement during 2017, subject to two one-year extensions • The average remaining term of the aircraft under contract is 0.9 years
SkyWest Airlines United Express Prorate Agreement (revenue-sharing arrangement)	• CRJ 200	22	• Terminable with 120-day notice

American Agreements

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
SkyWest Airlines American Agreement (fixed-fee arrangement)	• CRJ 200 • CRJ 700	9 23	• CRJ200 aircraft are scheduled to expire in 2017 and the CRJ700 aircraft are scheduled to expire in 2020
SkyWest Airlines American Prorate Agreement (revenue-sharing arrangement)	• CRJ 200	6	• Terminable with 120-day notice
ExpressJet American Agreement (fixed-fee arrangement)	• CRJ 200 • CRJ 700 • ERJ 145	11 10 14	• CRJ200 aircraft are scheduled to expire in 2017 and the CRJ700 aircraft are scheduled to expire in 2019
ExpressJet American Prorate Agreement (revenue-sharing arrangement)	• CRJ 200	3	• Terminable with 120-day notice

Alaska Capacity Purchase Agreement

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
SkyWest Airlines Alaska Agreement (fixed-fee arrangement)	• E175	15	• Individual aircraft have scheduled removal dates under the agreement between 2027 and 2028

We anticipate placing an additional seven Embraer E175 dual-class regional jet aircraft ("E175") with United, five E175 aircraft with Alaska and six E175 aircraft with Delta throughout 2017.

We are scheduled to have 49 Canadair CRJ700 regional jet aircraft ("CRJ700") in service with American by mid-2017. The 49 CRJ700 aircraft scheduled for service with American were previously operated in our existing fleet by other major airline partners. As of December 31, 2016, we had 213 Canadair CRJ200 regional jet aircraft ("CRJ200") and 159 Embraer ERJ145 regional jet aircraft ("ERJ145") and Embraer ERJ135 regional jet aircraft ("ERJ135") in scheduled service.

We anticipate reducing our CRJ200 aircraft by approximately 46 aircraft and our ERJ145 and ERJ135 aircraft by approximately 59 aircraft during 2017. We also anticipate that ExpressJet will transition to flying primarily dual-class aircraft in its CRJ aircraft operation by removing its CRJ200 aircraft from service over the next year.

SkyWest Airlines and ExpressJet Delta Connection Agreements

SkyWest Airlines and ExpressJet are each parties to a Delta Connection Agreement (the "SkyWest Airlines Delta Connection Agreement" and the "ExpressJet Delta Connection Agreement," respectively), pursuant to which SkyWest Airlines and ExpressJet provide contract flight services for Delta. The SkyWest Airlines Delta Connection Agreement and ExpressJet Delta Connection Agreements contain multi-year rate reset provisions applicable to the CRJ aircraft that became operative in 2010. The SkyWest Airlines Delta Connection Agreement multi-year rate reset provision does not include the ERJ175 aircraft. SkyWest Airlines and ExpressJet have agreed with Delta on contractual rates that are effective through December 31, 2018 and December 31, 2017, respectively.

The SkyWest Airlines Delta Connection Agreement is subject to early termination in various circumstances, including:

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

The ExpressJet Delta Connection Agreement is subject to early termination in various circumstances including:

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

SkyWest Airlines United Express Agreements

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

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

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

ExpressJet United Express ERJ Agreement

ExpressJet and United are parties to an Amended and Restated Capacity Purchase Agreement (the "ExpressJet United Express ERJ Agreement") to operate ERJ 145 and ERJ 135 aircraft.

The ExpressJet United Express ERJ Agreement is scheduled to terminate in December 2018 and is subject to early termination in various circumstances including:

- if ExpressJet's performance falls below identified standards and such failure is not cured within 60 days following receipt of notice;
- upon the occurrence of a labor strike lasting 15 days or longer;
- upon the occurrence of a material default by ExpressJet under certain lease agreements relating to aircraft operated by ExpressJet under the ExpressJet United Express ERJ Agreement, provided that such material default is not cured within 60 days following receipt of notice; and
- if United fails to make payment of $500,000 or more due to ExpressJet under the ExpressJet United Express ERJ Agreement and such failure is not cured within five business days following receipt of notice.

During the year ended December 31, 2016, United exercised its right to extend the term for an additional 12-month period for a certain number of aircraft until the end of 2018 intended to facilitate an orderly return of ERJ145 aircraft to United. Additionally, United has the right to extend the term for an additional 12-month period for a certain number of aircraft upon 180 days written notice until the end of 2019.

Under the terms of the ExpressJet United Express ERJ Agreement, ExpressJet operates 140 ERJ145s and five ERJ135s in the United flight system. All of such ERJ145s and ERJ 135s are leased to ExpressJet by United pursuant to sublease or lease agreements. Upon the expiration of the ExpressJet United Express ERJ Agreement, ExpressJet is obligated to return the subleased or leased aircraft to United.

SkyWest Airlines American Agreement

SkyWest Airlines and American are parties to an agreement (the "SkyWest Airlines American Agreement") for the operation of CRJ200 and CRJ700 aircraft. The SkyWest Airlines American Agreement for CRJ200 aircraft and CRJ700 aircraft is scheduled to terminate in 2017 and 2020, respectively, and is subject to early termination in various circumstances including:

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

ExpressJet American Agreement

ExpressJet and American are parties to an agreement (the “ExpressJet American Agreement”) for the operation of CRJ200 and CRJ700 aircraft. The ExpressJet American Agreement for CRJ200 and CRJ700 is scheduled to terminate in 2017 and 2019, respectively, and is subject to early termination in various circumstances including:

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

SkyWest Airlines Alaska Agreement

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

- if SkyWest Airlines or Alaska fails to fulfill an obligation under the SkyWest Airlines Alaska Capacity Purchase Agreement for a period of 30 days after written notice to cure;
- if SkyWest Airlines’ 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
- if bankruptcy proceedings are commenced against either party (subject to limitations imposed by the U.S. Bankruptcy Code) and certain specified conditions are not satisfied.

Segment Financial Information

See Management’s Discussion and Analysis of Financial Condition and Results of Operations, set forth in Item 7 of this Report, and Note 2 to our Consolidated Financial Statements included in Item 8 of this Report, for financial information regarding our business segments.

Training and Aircraft Maintenance

SkyWest Airlines and ExpressJet provide substantially all training to their crew members and maintenance personnel at their respective training facilities. SkyWest Airlines and ExpressJet employees perform routine airframe and engine maintenance along with periodic inspections of equipment at their respective maintenance facilities. SkyWest Airlines and ExpressJet also use third-party vendors for certain airframe and engine maintenance work.

Fuel

Our fixed-fee agreements with Delta, United, American and Alaska require the respective major airline partner to reimburse us for the fuel costs we incur under those agreements, thereby reducing our exposure to fuel price fluctuations. Under our prorate agreements with Delta, United and American, we are responsible for the costs we incur and are therefore exposed to fuel price fluctuations to the extent of the fuel costs incurred under those agreements. During the year ended December 31, 2016, United and Delta purchased the majority of the fuel for our aircraft flying under their respective fixed-fee agreements directly from their fuel vendors. Historically, we have not experienced problems with the availability of fuel, and believe we will be able to obtain fuel in quantities sufficient to meet our existing and anticipated future requirements at competitive prices. Standard industry fuel purchase contracts generally do not provide protection against fuel price increases, nor do they ensure availability of supply. We typically purchase fuel from third-party suppliers for our prorate agreements. A substantial increase in the price of jet fuel for flights we operate under our prorate agreements, or the lack of adequate fuel supplies in the future, could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Employee Matters

Railway Labor Act

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

Under the RLA, a collective bargaining agreement between an airline and a labor union does not expire, but instead becomes amendable as of a stated date. Either party may request that the NMB appoint a federal mediator to participate in the negotiations for a new or amended agreement. If no agreement is reached in mediation, the NMB may determine, at any time, that an impasse exists and offer binding arbitration. If either party rejects binding arbitration, a 30-day "cooling off" period begins. At the end of this 30-day period, the parties may engage in "self help," unless the U.S. President appoints a Presidential Emergency Board ("PEB") to investigate and report on the dispute. The appointment of a PEB maintains the "status quo" for an additional 60 days. If the parties do not reach agreement during this period, the parties may then engage in "self help." "Self help" includes, among other things, a strike by the union or the imposition of proposed changes to the collective bargaining agreement by the airline. The U.S. Congress and the President have the authority to prevent "self help" by enacting legislation that, among other things, imposes a settlement on the parties.

Collective Bargaining

As of December 31, 2016, we had approximately 16,900 full-time equivalent employees. Approximately 33.4% of these employees were represented by unions, as set forth in the table below. Effective December 31, 2011, our subsidiary ExpressJet Airlines, Inc. was merged into our subsidiary Atlantic Southeast Airlines, Inc., with the surviving corporation named ExpressJet Airlines, Inc. (the "ExpressJet Combination"). Notwithstanding the completion of the ExpressJet Combination, ExpressJet's employee groups primarily continue to be represented by those unions who provided representation prior to the ExpressJet Combination. Accordingly, the following table refers to ExpressJet's employee groups based upon their union affiliations prior to the ExpressJet Combination.

Employee Group	Approximate Number of Active Employees Represented	Representatives	Status of Agreement
Atlantic Southeast Pilots	1,238	Air Line Pilots Association International	Amendable February 2018
Atlantic Southeast Flight Attendants . .	833	International Association of Machinists and Aerospace Workers	Currently Amendable
Atlantic Southeast Flight Controllers . .	68	Transport Workers Union of America	Currently Amendable
Atlantic Southeast Mechanics.	366	International Brotherhood of Teamsters	Currently Amendable
Atlantic Southeast Stock Clerks	35	International Brotherhood of Teamsters	Currently Amendable
ExpressJet Delaware Pilots	1496	Air Line Pilots Association International	Amendable February 2018
ExpressJet Delaware Flight Attendants	783	International Association of Machinists and Aerospace Workers	Currently Amendable
ExpressJet Delaware Mechanics	730	International Brotherhood of Teamsters	Currently Amendable
ExpressJet Delaware Dispatchers.	47	Transport Workers Union of America	Currently Amendable
ExpressJet Delaware Stock Clerks	47	International Brotherhood of Teamsters	Currently Amendable

In February 2016, the Atlantic Southwest Pilots and the ExpressJet Delaware Pilots ratified a two-year contract extension to their respective labor agreements. Delays or expenses or other challenges associated with executing an acceptable agreement with each labor workgroup with a currently amendable contract could impact our financial performance.

As of December 31, 2016, SkyWest and SkyWest Airlines collectively employed 10,659 full-time equivalent employees, consisting of 4,051 pilots, 2,923 flight attendants, 1,401 customer service personnel, 932 mechanics, 766 other maintenance personnel, 132 dispatchers and 454 operational support and administrative personnel. None of these employees are currently represented by a union. Collective bargaining group organization efforts among SkyWest Airlines' employees do, however, occur from time to time and may continue in the future. If unionization efforts are successful, we may be subjected to risks of work interruption or stoppage and/or incur additional expenses associated with increased union representation of our employees. Neither SkyWest nor SkyWest Airlines has ever experienced a work stoppage due to a strike or other labor dispute, and we consider SkyWest Airlines' relationships with its employees to be good.

Government Regulation

All interstate air carriers, including SkyWest Airlines and ExpressJet, are subject to regulation by the U.S. Department of Transportation (the "DOT"), the 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 Airlines and ExpressJet, and proceedings, which can result in civil or criminal penalties or revocation of operating authority. The FAA can also issue maintenance directives and other mandatory orders relating to, among other things, grounding of aircraft, inspection of aircraft, installation of new safety-related items and the mandatory removal and replacement of aircraft parts.

We believe SkyWest Airlines and ExpressJet are in compliance in all material respects with FAA regulations and hold all operating and airworthiness certificates and licenses which are necessary to conduct their respective operations. We incur substantial costs in maintaining current certifications and otherwise complying with the laws, rules and regulations to which SkyWest Airlines and ExpressJet are subject. SkyWest Airlines' and ExpressJet's flight operations, maintenance programs, record keeping and training programs are conducted under FAA approved procedures. All air carriers operating in the United States are required to comply with federal laws and regulations pertaining to noise abatement and engine emissions. All such air carriers are also subject to certain provisions of the Federal Communications Act of 1934, as amended, because of their extensive use of radio and other communication facilities. SkyWest Airlines and ExpressJet are also subject to certain federal and state laws relating to protection of the environment, labor relations and equal employment opportunity. We believe SkyWest Airlines and ExpressJet are in compliance in all material respects with these laws and regulations.

Environmental Matters

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

Safety and Security

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

Insurance

SkyWest, SkyWest Airlines and ExpressJet maintain insurance policies we believe are of types customary in the industry and in amounts we believe are adequate to protect against material loss. These policies principally provide coverage for public liability, passenger liability, baggage and cargo liability, property damage, including coverage for loss or damage to our flight equipment, and workers' compensation insurance.

Seasonality

Our results of operations for any interim period are not necessarily indicative of those for the entire year, in part because the airline industry is subject to seasonal fluctuations and changes in general economic conditions. Our operations are somewhat favorably affected by pleasure travel on our prorate routes, historically contributing to increased travel in the summer months, and are unfavorably affected by decreased business travel during the months from November through January and by inclement weather which can result in cancelled flights, principally during the winter months. Additionally, a significant portion of our fixed-fee arrangements is based on completing flights and we typically have more scheduled flights during the summer months. We generally experience a significantly higher number of weather cancellations during the winter months, which negatively impacts our revenue during such months.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Operations

We may experience fleet transition costs, which may negatively impact our financial results.

During 2016, we removed 40 50-seat aircraft and nine CRJ700 aircraft from scheduled service. We anticipate removing approximately 105 50-seat aircraft from service during 2017, which will likely result in a net fleet reduction from the end of 2016 to the end of 2017. Although the anticipated reduction in our 50-seat aircraft in 2017 is consistent with our long-term fleet plans to improve long-term profitability and reduce fleet risk, we may experience operating inefficiencies and cash and/or non-cash expenses in 2017 in connection with the aircraft reductions. These inefficiencies and expenses may include, but are not limited to, under-utilized facilities and other assets, infrastructure reductions and employee relocation costs. Additionally, we anticipate transitioning certain CRJ700 aircraft between major airline partners' code-share agreements during 2017. We may experience inefficiencies while aircraft are temporarily removed from service during a transition period. Fleet transition expenses and potential operating inefficiencies may negatively impact our financial results.

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

As of December 31, 2016, we had approximately $3.8 billion of property and equipment and related assets net of accumulated depreciation. Additionally, as of December 31, 2016, we had approximately $8.2 million in intangible assets. In accounting for these long-lived and intangible assets, we make estimates about the expected useful lives of the assets, the expected residual values of certain of these assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the long-lived assets, a significant change in the condition of the long-lived assets and operating cash flow losses associated with the use of the long-lived assets. In the event the estimated residual value of any of our aircraft types is determined to be lower than the residual value assumptions used in our depreciation policies, the applicable aircraft type in our fleet may be impaired and may result in a material reduction in the book value of applicable aircraft types we operate or we may need to prospectively modify our depreciation policies. For example, during 2016 we recorded an impairment of $465.6 million attributable to certain long-lived assets associated with our 50-seat aircraft primarily resulting from changes to our short-term and long-term fleet plans with our 50-seat aircraft. An impairment on any of our aircraft types we operate or an increased level of depreciation expense resulting from a change to our depreciation policies could result in a material negative impact to our financial results.

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

Our business is labor intensive, requiring large numbers of pilots, flight attendants, mechanics and other personnel. Labor costs constitute a significant percentage of our total operating costs. For example, during the year ended December 31, 2016, our salary, wage and benefit costs constituted approximately 36.8% of our total operating costs. Increases in our labor costs could result in a material reduction in our earnings. Any new collective bargaining agreements entered into by other regional carriers with their work forces may also result in higher industry wages and increased pressure on us to increase the wages and benefits of our employees. Future agreements with unionized and non-unionized employees may be on terms that are not as attractive as our current agreements or comparable to agreements entered into by our competitors.

Approximately 33.4% of our workforce is unionized. Strikes or labor disputes with our unionized employees may adversely affect our ability to conduct business. Relations between air carriers and labor unions in the United States are governed by the RLA, which provides that a collective bargaining agreement between an airline and a labor union does not expire, but instead becomes amendable as of a stated date. The RLA generally prohibits strikes or other types of self-help action both before and after a collective bargaining agreement becomes amendable, unless and until the collective bargaining processes required by the RLA have been exhausted.

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

The supply of pilots to the airline industry is limited and may negatively affect our operations and financial condition.

On July 8, 2013, as directed by the U.S. Congress, the FAA issued more stringent pilot qualification and crew member flight training standards, which increase the required training time for new commercial pilots. In recent years, we have also experienced a reduction in pilot applicants with previous military experience. With these changes, the supply of qualified pilot candidates eligible for hiring by the airline industry has been dramatically reduced. Additionally, major airlines may significantly increase the number of pilots hired from regional carriers due to the number of pilots at the major airlines reaching the statutory mandatory retirement age of 65 years. These factors may cause our pilot attrition rates to be higher than our ability to hire and retain replacement pilots. If we are unable to maintain a sufficient number of eligible pilots to operate our scheduled flights, we may need to request a reduced flight schedule with our major airline partners, which may result in operational performance penalties under the code-share agreements with those partners and our operations and financial results could be materially and adversely affected.

Additionally, our projected number of available pilots and attrition rates may impact our fleet planning decisions. If actual pilot availability or our actual pilot attrition rates are materially different than our projections, our operations and financial results could be materially and adversely affected. A shortage of qualified pilots to conduct our operations may cause us to underutilize our aircraft and would negatively impact our operations and financial condition.

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

Under our fixed-fee contracts with Delta, United, American and Alaska, a portion of our compensation is based upon pre-determined rates typically applied to production statistics (such as departures, block hours, flight hours and number of aircraft in service each month). The primary operating costs intended to be compensated by the pre-determined rates include labor costs, including crew training costs, certain aircraft maintenance expenses, and overhead costs. During the year ended December 31, 2016, approximately 88.6% of our code-share operating costs were reimbursable at pre-determined rates and 11.4% of our code-share operating costs were pass-through costs. Additionally, our aircraft maintenance costs may increase annually as our fleet ages at a higher rate than our pre-determined rates allow. If our operating costs for labor, aircraft maintenance and overhead costs exceed the compensation earned from our pre-determined rates under our fixed-fee arrangements, our financial position and operating results will be negatively affected.

We may be limited from expanding our flying within our major airline partners' flight systems.

Additional growth opportunities within our major airline partners' flight systems are limited by various factors, including a limited number of regional aircraft each such major airline partner can operate in its regional network due to its own labor agreements. Except as contemplated by our existing code-share agreements, we cannot be sure that our major airline partners will contract with us to fly any additional aircraft. We may not receive additional growth opportunities, or may agree to modifications to our code-share agreements that reduce certain benefits to us in order to obtain additional aircraft, or for other reasons. Given the competitive nature of the airline industry, we believe limited growth opportunities may result in competitors accepting reduced margins and less favorable contract terms in order to secure new or additional code-share operations. Even if we are offered growth opportunities by our major airline partners, those opportunities may involve economic terms or financing commitments that are unacceptable to us. Additionally, our major airline partners may reduce the number of regional jets in their system by not renewing or extending existing flying arrangements with regional operators. Any one or more of these factors may reduce or eliminate our ability to expand our flight operations with our existing major airline partners. We also cannot provide any assurance that we will be able to obtain the additional ground and maintenance facilities, including gates and support equipment, to expand our operations. The failure to obtain these facilities and equipment would likely impede our efforts to grow our business and could materially and adversely affect our operating results and our financial condition.

The decision by any of our major airline partners to reduce or limit code-share service may negatively affect our business.

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

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

Under our fixed-fee arrangements with multiple major airline partners we have a total of 41 CRJ700s with flying contract expirations in 2019. Our underlying lease or debt financing obligations associated with each of these aircraft are scheduled to terminate in 2023 and 2024 on an aircraft-by-aircraft basis. We may not be successful in extending the flying contract term on these aircraft with our major 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, subleasing the aircraft to another operator, and/or marketing the debt financed aircraft for sale. 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.

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

Our major airline partners have indicated that their committed supply of regional airline capacity is larger than they desire given current market conditions. Specifically, they have identified a general oversupply of 50-seat regional jets under contractual commitments with regional airlines. Delta in particular has reduced both the number of 50-seat regional jets within its network and the number of regional airlines with which it contracts. Including all regional airlines, there are currently more than 100 50-seat aircraft within the Delta Connection system, over 200 50-seat aircraft in the United system and over 200 50-seat aircraft in the American system. In addition to reducing the number of 50-seat jets under contract, major airlines have reduced the utilization of regional aircraft, thereby reducing the revenue paid to regional airlines under capacity purchase agreements (See the risk factor titled *"Reduced utilization levels of our aircraft under our code-share agreements would adversely impact our financial results"* for additional details). This decrease has had, and may continue to have, a negative impact on our regional airline services revenue and financial results.

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

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

The Improvement Act also:

- Requires that all airline pilots obtain an Airline Transport Pilot license, which was previously only required for captains.
- Obligates the FAA to maintain a database of pilot records, including records to be provided by airlines and other sources, so that airlines will have access to more information before they hire pilots.
- Requires the FAA to issue new regulations governing the airlines' obligations to submit pilot records and the requirements for airlines to obtain access for information in the database before the database portion of the Improvement Act becomes effective.
- Directs the FAA to rewrite the rules for how long pilots are allowed to work and how much rest they must have before working.

The Improvement Act (and associated regulations) has increased our compliance and FAA reporting obligations, has had a negative effect on pilot scheduling, work hours and the number of pilots required to be employed for our operations or other aspects of our operations, and may continue to negatively impact our operations and financial condition.

We are highly dependent on Delta and United.

As of December 31, 2016, 561 out of our total 652 aircraft available for scheduled service were operating under a fixed-fee arrangement or a revenue-sharing agreement with either Delta or United. If our code-share agreements 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 agreements would likely have a material adverse effect on our financial condition, operating revenues and net income unless we are able to enter into satisfactory substitute arrangements for the utilization of the affected aircraft by other code-share partners, or, alternatively, obtain the airport facilities and gates and make the other arrangements necessary to fly as an independent airline. We may not be able to enter into substitute code-share arrangements, and any such arrangements we might secure may not be as favorable to us as our current agreements. Operating an airline independent from major airline partners would be a significant departure from our business plan and would likely require significant time and resources, which may not be available to us at that point.

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

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

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

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

In recent years we have experienced disagreements with our major airline partners regarding the interpretation of various provisions of our code-share agreements. Some of those disagreements have resulted in litigation, and we may be subject to additional disputes and litigation in the future. Those disagreements have also required a significant amount of management time, financial resources and settlement negotiations of disputed matters.

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

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

The majority of our code-share agreements set forth minimum levels of flight operations which our major airline partners are required to schedule for our operations and we are required to provide. These minimum flight operating levels are intended to provide a baseline level of expected utilization of aircraft, labor, maintenance facilities and related flight operations support. Historically, our major airline partners have utilized our flight operations at levels which exceed the minimum levels set forth in our code-share agreements, however, higher fuel costs or other factors may cause our major airline partners to reduce our utilization levels. If our major airline partners schedule the utilization of our aircraft below historical levels (including taking into account the stage length and frequency of our scheduled flights), we may not be able to maintain operating efficiencies previously obtained, which would negatively impact our operating results and financial condition. Additionally, our major airline partners may change routes and frequencies of flights, which can negatively impact our operating efficiencies. Changes in schedules may increase our flight costs, which could exceed the reimbursed rates paid by our major airline partners. Continued reduced utilization levels of our aircraft or other changes to our schedules under our code-share agreements would adversely impact our financial results.

We have a significant amount of contractual obligations.

As of December 31, 2016, we had a total of approximately \$2.6 billion in total long-term debt obligations. Substantially all of this long-term debt was incurred in connection with the acquisition of aircraft and engines. We also have significant long-term lease obligations primarily relating to our aircraft fleet. These leases are classified as operating leases and therefore are not reflected as liabilities in our consolidated balance sheets. At December 31, 2016, we had 415 aircraft under lease, with remaining terms ranging up to nine years. Future minimum lease payments due under all long-term operating leases were approximately \$1.0 billion at December 31, 2016. At a 4.77% discount factor, which is the average rate used to approximate the implicit rates within the applicable aircraft leases, the present value of these lease obligations was equal to approximately $0.8 billion at December 31, 2016. Our high level of fixed obligations could impact our ability to obtain additional financing to support additional expansion plans or divert cash flows from operations and expansion plans to service the fixed obligations.

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

We currently have 213 CRJ200s with an average life of 14.4 years and 154 ERJ145s with an average life of 14.3 years. Over the next several years, we may continue to replace the CRJ200s and ERJ145s with larger regional jets. If we continue to add new aircraft to our fleet, we anticipate using significant amounts of capital to acquire these larger regional jets.

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

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

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

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

In recent years, various virus and illness outbreaks, including, but not limited to Zika, Ebola, H1N1 flu virus and SARS, have an adverse impact on travel behavior. Any outbreak of a disease or spread of existing illnesses that affects travel behavior could have a material adverse impact on our operating results and financial condition. In addition, outbreaks of disease could result in quarantines of our personnel or an inability to access facilities or our aircraft, which could adversely affect our operations and financial condition.

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

We currently operate primarily through hubs in Atlanta, Los Angeles, Houston, Minneapolis, Detroit, San Francisco, Salt Lake City, Chicago, Denver, Houston, Washington, D.C., Newark, Cleveland and the Pacific Northwest. Nearly all of our flights either originate from or fly into one of these hubs. Our revenues depend primarily on our completion of flights and secondarily on service factors such as timeliness of departure and arrival. Any interruptions or disruptions could, therefore, severely and adversely affect us. Extreme weather can cause flight disruptions, and, during periods of storms or adverse weather, our flights may be canceled or significantly delayed. Hurricanes Katrina and Rita and Superstorm Sandy, in particular, caused severe disruption to air travel in the affected areas and adversely affected airlines operating in the region. We operate a significant number of flights to and from airports with particular weather difficulties, including Atlanta, Salt Lake City, Chicago, San Francisco, Newark and Denver. A significant interruption or disruption in service at one of our hubs, due to adverse weather, system malfunctions, security closures or otherwise, could result in the cancellation or delay of a significant portion of our flights and, as a result, could have a severe adverse impact on our operations and financial performance.

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

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

- disruptions in the credit markets, which have resulted in greater volatility, less liquidity, widening of credit spreads, and decreased availability of financing;
- actual or potential changes in international, national, regional and local economic, business and financial conditions, including recession, inflation, higher interest rates, wars, terrorist attacks or political instability;
- changes in consumer preferences, perceptions, spending patterns or demographic trends;
- changes in the competitive environment due to industry consolidation and other factors;
- actual or potential disruptions to U.S. air traffic control systems;
- price of jet fuel and oil;
- outbreaks of diseases that affect travel behavior; and
- weather and natural disasters.

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

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

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

Pursuant to our fixed-fee arrangements, our major airline partners have agreed to bear the economic risk of fuel price fluctuations on our contracted flights. However, we bear the economic risk of fuel price fluctuations on our prorate operations. As of December 31, 2016, we operated 22 CRJ200s under a prorate agreement with United, 21 CRJ200s under a prorate agreement with Delta, and nine CRJ200s under a prorate agreement with American. Our operating and financial results with respect to these prorate arrangements can be negatively affected by the price of jet fuel in the event we are unable to increase our passenger fares. Additionally in the event of prolonged low fuel prices, our competitors may lower their passenger ticket prices on routes that compete with our prorate markets, which could negatively impact our passenger load factors.

The issuance of operating restrictions applicable to one of the fleet types we operate could negatively impact our business and financial condition.

We rely on a limited number of aircraft types, and are dependent upon Bombardier and Embraer as the sole manufacturers of our aircraft. The issuance of FAA or manufacturer directives restricting or prohibiting the use of Bombardier or Embraer aircraft types we operate could negatively impact our business and financial results. We are also dependent upon General Electric and Rolls Royce as the sole manufacturers of our aircraft engines. Our operations could be materially and adversely affected by the failure or inability of Bombardier, Embraer, General Electric or Rolls Royce to provide sufficient parts or related maintenance and support services to us on a timely manner, or the interruption of our flight operations as a result of unscheduled or unanticipated maintenance requirements for our aircraft or engines.

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

Certain of our 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.

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

The performance and reliability of our technology are critical to our ability to compete effectively. Any internal technological error or failure or large-scale external interruption in the technological infrastructure we depend on, such as power, telecommunications or the internet, may disrupt our internal network. Any individual, sustained or repeated failure of technology could impact our ability to conduct our business and result in increased costs. Our technological systems and related data may be vulnerable to a variety of sources of interruption due to events beyond our control, including natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers and other security issues.

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

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

Our business depends upon the efforts of our chief executive officer, 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.

Risks Related to the Airline Industry

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

The airline industry has experienced tremendous challenges in recent years and will likely remain volatile for the foreseeable future. Among other factors, the financial challenges faced by major and regional carriers and the high profile target of airlines for terrorist groups have significantly affected, and are likely to continue to affect, the U.S.

airline industry. These events have resulted in declines and shifts in passenger demand, increased insurance costs, increased government regulations and tightened credit markets, all of which have affected, and will likely continue to affect, the operations and financial condition of participants in the industry, including us, major carriers (including our major airline partners), low-cost carriers, competitors and aircraft manufacturers. These industry developments raise substantial risks and uncertainties, which will likely affect us, major carriers (including our major airline partners), competitors and aircraft manufacturers in ways that we are unable to predict.

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

The airline industry is highly competitive. We not only compete with other regional airlines, some of which are owned by or operated as code-share partners of major airlines, but we also face competition from low-cost carriers and major airlines on many of our routes. Low-cost carriers such as Southwest, Allegiant, Spirit and JetBlue among others, operate at many of our hubs, resulting in significant price competition. Additionally, a large number of other carriers operate at our hubs, creating intense competition. Certain of our competitors are larger and have significantly greater financial and other resources than we do. Moreover, federal deregulation of the industry allows competitors to rapidly enter our markets and to quickly discount and restructure fares. The airline industry is particularly susceptible to price discounting because airlines incur only nominal costs to provide service to passengers occupying otherwise unsold seats. Increased fare competition could adversely affect our operations and the price of our common stock. The airline industry has undergone substantial consolidation, including the mergers between Alaska and Virgin America Inc. in 2016, American and US Airways Group Inc. in 2013, Southwest Airlines Co. and AirTran Holdings, Inc. in 2011, United and Continental Airlines, Inc. in 2010 and Delta and Northwest Airlines, Inc. in 2008. Any additional consolidation or significant alliance activity within the airline industry could limit the number of potential partners with whom we could enter into code-share relationships and could have a material adverse effect on our relationships with our major airline partners.

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

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

The terrorist attacks of September 11, 2001 and their aftermath have negatively impacted the airline industry in general, including our operations. The primary effects experienced by the airline industry include a substantial loss of passenger traffic and revenue. If additional terrorist attacks are launched against the airline industry, there will be lasting consequences of the attacks, which may include loss of life, property damage, increased security and insurance costs, increased concerns about future terrorist attacks, increased government regulation and airport delays due to heightened security. Additional terrorist attacks and the fear of such attacks could negatively impact the airline industry, and result in further decreased passenger traffic and yields, increased flight delays or cancellations associated with new government mandates, as well as increased security, fuel and other costs. We cannot provide any assurance that these events will not harm the airline industry generally or our operations or financial condition in particular.

We are subject to significant governmental regulation.

All interstate air carriers, including SkyWest Airlines and ExpressJet, are subject to regulation by the DOT, the FAA and other governmental agencies. Regulations promulgated by the DOT primarily relate to economic aspects of air service. The FAA requires operating, air worthiness and other certificates; approval of personnel who may engage in flight, maintenance or operation activities; record keeping procedures in accordance with FAA requirements; and FAA approval of flight training and retraining programs. We cannot predict whether we will be able to comply with all present and future laws, rules, regulations and certification requirements or that the cost of continued compliance will not have a material adverse effect on our operations. We incur substantial costs in maintaining our current certifications and otherwise complying with the laws, rules and regulations to which we are subject. A decision by the FAA to ground, or require time-consuming inspections of or maintenance on, all or any of our aircraft for any reason may have a material adverse effect on our operations. In addition to state and federal regulation, airports and municipalities enact rules and regulations that affect our operations. From time to time, various airports throughout the country have considered limiting the use of smaller aircraft, such as our aircraft, at such airports. The imposition of any limits on the use of our aircraft at any airport at which we operate could have a material adverse effect on our operations.

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

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

The new Trump Administration may make substantial changes to fiscal, tax, trade and other policies that may adversely affect our business.

The Trump Administration has called for substantial change to fiscal and tax policies, which may include comprehensive tax reform. We cannot predict the impact, if any, of these changes to our business or the airline industry as whole. However, it is possible that these changes could adversely affect our business. It is likely that some policies adopted by the new administration will benefit us and others will negatively affect us. Until we know what changes are enacted, we will not know whether in total we benefit from, or are negatively affected by, the changes.

As a candidate, President Trump expressed antipathy towards existing trade agreements, including the North American Free Trade Agreement (NAFTA), greater restrictions on free trade generally and significant increases on tariffs on goods imported into the United States. Changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we do business or have parts for our aircrafts developed, and any negative sentiments towards the United States as a result of such changes, could adversely affect our business.

Risks Related to Our Common Stock

Future sales of our common stock could dilute existing shareholders, and future issuances of preferred stock could decrease the value of our common stock.

Our Restated Articles of Incorporation, as amended (the “Restated Articles”), authorize the issuance of up to 120,000,000 shares of common stock, all of which may be issued without any action or approval by our shareholders. As of December 31, 2016, we had 51,765,919 shares outstanding. In addition, as of December 31, 2016, we had equity-based incentive plans under which 3,337,285 shares are reserved for issuance and an employee stock purchase plan under which 855,100 shares are reserved for issuance, both of which may dilute the ownership interest of our shareholders. Our Restated Articles also authorize the issuance of up to 5,000,000 shares of preferred stock. Our board of directors has the authority to issue preferred stock with the rights and preferences, and at the price, which it determines. The rights of any shares of preferred stock issued would likely be senior to the rights of shares of our common stock in various regards, including dividends, payments upon liquidation and voting. The value of our common stock could be negatively affected by the issuance of any shares of preferred stock.

The amount of dividends we pay may decrease, or we may no longer pay dividends.

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

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

Historically, we have repurchased shares of our common stock in varying amounts. Our future repurchases of shares of common stock, if any, and the number of shares of common stock we may repurchase will depend upon our financial condition, results of operations and other factors deemed relevant by our Board of Directors. There can be no assurance that we will continue our practice of repurchasing shares of common stock or that we will have the financial resources to repurchase shares of common stock in the future.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Flight Equipment

As of December 31, 2016, our fleet available for scheduled service consisted of the following types of owned and leased aircraft:

Aircraft Type	Number of Owned Aircraft	Number of Leased Aircraft	Passenger Capacity	Scheduled Flight Range (miles)	Average Cruising Speed (mph)	Average Age (years)
CRJ900s	11	53	76	1,500	530	9.1
CRJ700s	69	61	65-70	1,600	530	11.6
CRJ200s	90	123	50	1,500	530	14.4
E175s	86	—	76	2,100	530	1.2
ERJ145s	—	154	50	1,500	530	14.3
ERJ135s	—	5	37	1,500	530	15.6

Several factors may impact our fleet size throughout 2017 and thereafter, including contract expirations, lease expirations, growth opportunities and opportunities to transition to an alternative major airline partner. Below is our 2017 outlook on our fleet by aircraft type. Our actual future fleet size and/or mix of aircraft types will likely vary, and may vary materially, from our current fleet size.

- CRJ900s/CRJ700s – We anticipate transitioning CRJ700s with scheduled expirations in 2017 from United to other major airline partners.
- CRJ200s – We anticipate removing 46 CRJ200 aircraft from service in 2017. We anticipate returning a portion of the aircraft to lessors as a result of expirations and selling or parting out the remaining CRJ200s. We also anticipate ExpressJet will transition out of operating the CRJ200 aircraft type over the next twelve months.
- E175s – We anticipate the fleet count will increase to approximately 104 aircraft by the end of 2017. Growth in this aircraft type in excess of 104 aircraft is expected to be contingent upon additional flying contract awards with one of our major airline partners.

- ERJ145s/135s – Our ERJ145/135 fleet is scheduled to be ratably reduced through lease expirations and related flying contract expirations to approximately 100 aircraft by the end of 2017. These aircraft are leased from the major airline partner with which we have our flying contract. The major airline partner has the right to extend the flying contract to the end of 2019. We anticipate the contract flying agreement will either be renegotiated and extended beyond 2019 or the aircraft count will be ratably reduced to zero by the end of 2019.

Ground Facilities

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

SkyWest Facilities

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

SkyWest Airlines Facilities

- SkyWest Airlines leases a 221,000 square-foot facility at the Salt Lake International Airport. This facility consists of a 98,000 square-foot aircraft maintenance hangar and a 123,000 square-foot training and office facility. SkyWest Airlines is leasing the facility from the Salt Lake City Department of Airports under a lease that is scheduled to expire on January 1, 2028.
- SkyWest Airlines leases a 94,000 square-foot hangar and a 32,000 square-foot office facility in Boise, Idaho. The lease agreement is scheduled to expire on September 1, 2040.
- SkyWest Airlines leases a 90,000 square-foot maintenance hangar and a 15,000 square-foot office facility in Fresno, California. The lease agreement is scheduled to expire on August 31, 2019.
- SkyWest Airlines leases an 88,000 square-foot hangar and office facility in Detroit, Michigan. The lease agreement is scheduled to expire on September 1, 2019.
- SkyWest Airlines leases a 70,000 square-foot maintenance hangar in Tucson, Arizona. The lease agreement is scheduled to expire on January 1, 2025.
- SkyWest Airlines owns a 57,000 square-foot maintenance facility and an 18,000 square-foot office facility in Chicago, Illinois. The City of Chicago possesses the right to acquire ownership rights of the facility in 2017.
- SkyWest Airlines owns a 57,000 square-foot aircraft maintenance facility in Palm Springs, California with a land lease that is scheduled to expire on January 14, 2027.
- SkyWest Airlines owns a 55,000 square-foot hangar and a 46,000 square-foot office facility in Colorado Springs, Colorado with a land lease that is scheduled to expire on July 31, 2056.
- SkyWest Airlines owns a 55,000 square-foot maintenance accessory shop (which includes 5,000 square-foot of office space) and leases a 5,000 square-foot training facility in Salt Lake City, Utah. The lease agreement is scheduled to expire on May 31, 2019.
- SkyWest Airlines leases a 42,000 square-foot maintenance hangar facility in South Bend, Indiana. The lease agreement is scheduled to expire on September 1, 2017.
- SkyWest Airlines leases a 41,000 square-foot hangar and office facility in Milwaukee, Wisconsin. The lease agreement is scheduled to expire on November 1, 2017.
- SkyWest Airlines leases a 32,000 square-foot hangar and office facility in Nashville, Tennessee. The lease agreement is scheduled to expire upon completion of a new facility which is anticipated to be completed during 2017.

ExpressJet Facilities

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

- ExpressJet leases 24 gates and other premises of the Central Passenger Terminal Complex located on Concourse C and Concourse D at Hartsfield-Jackson Atlanta International Airport. The lease agreement is scheduled to expire on September 20, 2017.

- ExpressJet leases a 152,000 square-foot hangar, and a 29,000 square-foot shop facility in Shreveport, Louisiana. The lease agreement for the hangar will terminate on September 1, 2017, and the lease agreement for the shop will terminate on July 1, 2017.

- ExpressJet leases an aircraft hangar complex located at the Middle Georgia Regional Airport. The complex includes a 77,000 square-foot aircraft hangar facility and 41,000 square-feet of training and office space. The lease agreement has a sixteen-year term and is scheduled to expire on April 1, 2018. ExpressJet has subleased the hangar complex to an unrelated aircraft maintenance provider; however ExpressJet remains obligated for payment and other obligations of the lease under the lease agreement.

- ExpressJet leases an 83,000 square-foot hangar, and a 25,000 square-foot shop facility in Knoxville, Tennessee. The lease agreement for the hangar facility is scheduled to expire on November 30, 2020, and the lease for the shop facility is scheduled to expire on October 31, 2019.

- ExpressJet subleases a 91,000 square-foot aircraft maintenance facility in Cleveland, Ohio. The lease agreement is scheduled to expire on January 30, 2020.

- ExpressJet leases a 69,000 square-foot hangar and office support facility in Houston, Texas. The lease agreement is scheduled to expire on December 31, 2020.

- ExpressJet leases a 68,000 square-foot facility in Houston, Texas. ExpressJet has subleased the building to an unrelated aircraft maintenance provider; however ExpressJet remains obligated for payment and other obligations under the lease agreement which is scheduled to expire on March 31, 2017.

- ExpressJet leases a 57,000 square-foot training center and support space in Houston, Texas. The lease agreement is scheduled to expire on December 31, 2027.

- ExpressJet leases an aircraft hangar complex located at the Baton Rouge Metropolitan Airport District. The complex includes a 27,000 square-foot hangar facility and 12,000 square-feet of office support space. ExpressJet has the right to occupy the Baton Rouge facility rent-free until 2018.

- ExpressJet leases a 32,000 square-foot aircraft maintenance facility in Richmond, Virginia. The lease agreement is scheduled to expire on October 31, 2017.

- ExpressJet leases a 29,000 square-foot warehouse for the purpose of parts storage in Atlanta, Georgia. The lease agreement is scheduled to expire on May 31, 2018.

- ExpressJet leases a 20,000 square-foot facility at the Hartsfield-Jackson Atlanta International Airport which serves as ExpressJet's corporate headquarters. The lease agreement for this facility has a seven-year term and is scheduled to expire on July 31, 2018.

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

ITEM 3. LEGAL PROCEEDINGS

We are subject to certain legal actions which we consider routine to our business activities. As of December 31, 2016, 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 Price for Our Common Stock

Our common stock is traded on The Nasdaq Global Select Market under the symbol "SKYW." As of February 17, 2017, there were approximately 795 stockholders of record of our common stock. Securities held of record do not include shares held in securities position listings. The following table sets forth the range of high and low closing sales prices for our common stock, during the periods indicated.

	2016		2015	
Quarter	**High**	**Low**	**High**	**Low**
First	$ 20.08	$ 14.19	$ 15.86	$ 11.96
Second	26.46	18.77	16.91	13.58
Third	29.78	25.36	17.90	13.91
Fourth	39.30	27.70	21.26	16.55

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

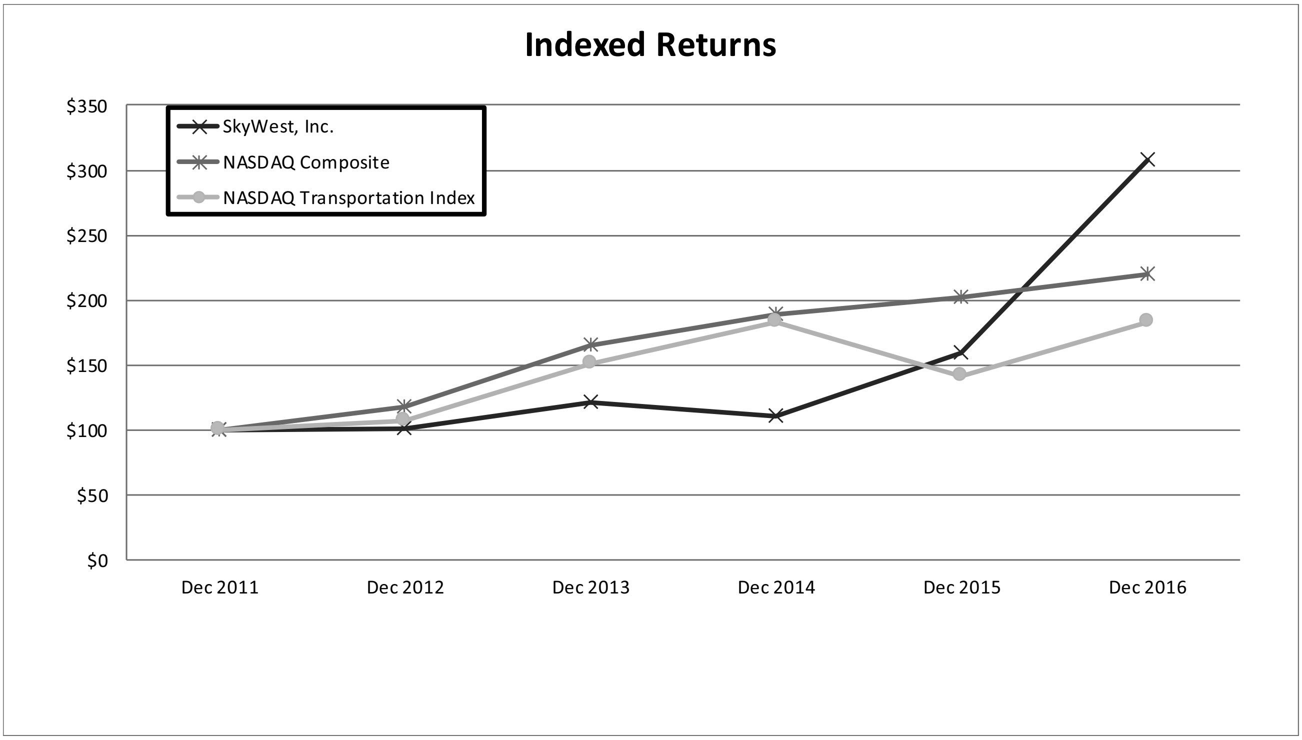
Dividends

During the last three quarters of 2016, our Board of Directors declared regular quarterly dividends of $0.05 per share. During the first quarter of 2016 and all of 2015, our Board of Directors declared regular quarterly dividends of $0.04 per share. On February 9, 2017, we announced that our Board of Directors declared regular quarterly dividends of $0.08 per share, which will be paid on April 6, 2017 to shareholders of record at the close of business on March 31, 2017. We intend to continue to pay quarterly dividends subject to liquidity, capital availability and quarterly determinations that cash dividends are in the best interests of our shareholders.

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, 2016, 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 2011	Years Ending 2012	2013	2014	2015	2016
SkyWest, Inc.	**100**	100.32	120.77	110.06	159.20	307.29
NASDAQ Composite	**100**	117.45	164.57	188.84	201.98	219.89
NASDAQ Transportation Index	**100**	106.71	151.11	183.45	141.36	182.67

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,				
	2016	2015	2014	2013	2012
Operating revenues	$ 3,121,206	$ 3,095,563	$ 3,237,447	$ 3,297,725	$ 3,534,372
Operating income (loss)(1)	(172,684)	234,515	24,848	153,111	165,987
Net income (loss)	(161,586)	117,817	(24,154)	58,956	51,157
Net income (loss) per common share:					
Basic	$ (3.14)	$ 2.31	$ (0.47)	$ 1.14	$ 1.00
Diluted	$ (3.14)	$ 2.27	$ (0.47)	$ 1.12	$ 0.99
Weighted average shares:					
Basic	51,505	51,077	51,237	51,688	51,090
Diluted	51,505	51,825	51,237	52,422	51,746
Total assets(2)	$ 5,137,251	$ 4,781,984	$ 4,388,818	$ 4,214,582	$ 4,232,946
Current assets	1,047,077	1,017,570	1,017,570	1,287,568	1,279,163
Current liabilities(2)	747,265	748,026	691,065	625,910	596,443
Long-term debt, net of current maturities(2)	2,240,051	1,659,234	1,548,390	1,306,370	1,487,240
Stockholders' equity	1,350,943	1,506,435	1,400,346	1,434,939	1,387,175
Return (loss) on average equity(3)	(12.0)%	7.8 %	(1.7)%	4.2 %	3.8 %
Cash dividends declared per common share	$ 0.19	$ 0.16	$ 0.16	$ 0.16	$ 0.16

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

(2) Certain reclassifications were made to prior year balances to conform to the current period presentation. See Note 1 to our Consolidated Financial Statements included in Item 8 of this Report.

(3) 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,				
	2016	2015	2014	2013	2012
Block hours	1,938,492	2,074,804	2,275,562	2,380,118	2,297,014
Departures	1,153,480	1,226,897	1,357,454	1,453,601	1,435,512
Passengers carried	53,539,438	56,228,593	58,962,010	60,581,948	58,803,690
Revenue passenger miles (000)	28,015,298	29,671,911	31,499,397	31,834,735	30,088,278
Available seat miles (000)	34,108,350	35,902,503	38,220,150	39,207,910	37,278,554
Revenue per available seat mile	9.2	8.6 ¢	8.5 ¢	8.4 ¢	9.5 ¢
Cost per available seat mile	9.9	8.2 ¢	8.6 ¢	8.2 ¢	9.2 ¢
Average passenger trip length	523	528	534	525	512
Number of operating aircraft at end of year	652	660	717	755	738

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

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

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

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

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

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

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

The following discussion and analysis presents factors that had a material effect on our results of operations during the years ended December 31, 2016, 2015 and 2014. Also discussed is our financial position as of December 31, 2016 and 2015. You should read this discussion in conjunction with our consolidated financial statements, including the notes thereto, appearing elsewhere in this Report or incorporated herein by reference. This discussion and analysis contains forward-looking statements. Please refer to the sections of this Report entitled "Cautionary Statement Concerning Forward-looking Statements" and "Item 1A. Risk Factors" for discussion of some of the uncertainties, risks and assumptions associated with these statements.

Overview

Through SkyWest Airlines and ExpressJet, we have the largest regional airline operations in the United States. As of December 31, 2016, SkyWest Airlines and ExpressJet offered scheduled passenger and air freight service with approximately 3,160 total daily departures to destinations in the United States, Canada, Mexico and the Caribbean. As of December 31, 2016, we had 652 aircraft in scheduled service consisting of the following:

	CRJ200	CRJ700	CRJ900	ERJ135	ERJ145	E175	EMB120	Total
United	75	35	—	5	140	58	—	313
Delta	109	62	64	—	—	13	—	248
American	29	33	—	—	14	—	—	76
Alaska	—	—	—	—	—	15	—	15
Aircraft in scheduled service	213	130	64	5	154	86	—	652
Subleased to an un-affiliated entity	2	—	—	—	—	—	—	2
Other*	—	9	—	4	4	—	14	31
Total	215	139	64	9	158	86	14	685

* Other aircraft consisted of leased aircraft removed from service that were in the process of being returned to the lessor and owned aircraft removed from service that were in the process of being sold.

For the year ended December 31, 2016, approximately 52.2% of our aggregate capacity was operated for United, approximately 36.5% was operated for Delta, approximately 6.3% was operated for American and approximately 5.0% was operated for Alaska.

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

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

The third item is the compensation we receive for engine maintenance under our fixed-fee arrangements. Under certain of our fixed-fee contracts, a portion of our compensation is based upon fixed hourly rates the aircraft is in operation, which is intended to cover various operating costs, including engine maintenance costs ("Fixed-Rate Engine Contracts"). Under the remainder of our fixed-fee contracts, our major airline partner reimburses us for engine maintenance expense when the expense is incurred as a pass-through cost ("Directly-Reimbursed Engine Contracts").

Because we recognize revenue using the applicable fixed hourly rates under our Fixed-Rate Engine Contracts, the number of engine maintenance events and related expense we incur may vary between reporting periods under such contracts, which may impact the comparability of our operating income for the presented reporting periods.

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

We use the direct-expense method of accounting for our regional jet aircraft engine overhaul costs and, accordingly, we recognize engine maintenance expense on our engines on an as-incurred basis. Under the direct-expense method, the maintenance liability is recorded when the maintenance services are performed ("Engine Overhaul Expense").

We have an agreement with a third-party vendor to provide long-term engine maintenance covering scheduled and unscheduled repairs for engines on certain of our CRJ700s and E175s operating under our Fixed-Rate Engine Contracts (a "Power-by-the-Hour Agreement"). Under the terms of the Power-by-the-Hour Agreement, we are obligated to pay a set dollar amount per engine hour flown on a monthly basis and the vendor assumes the obligation to repair the engines at no additional cost to us, subject to certain specified exclusions. Thus, under the Power-by-the-Hour Agreement, we expense the engine maintenance costs as flight hours are incurred on the engines and using the contractual rate set forth in the agreement. The table below summarizes how we are compensated by our major airline partners under our flying contracts for engine expense and the method we use to recognize the corresponding expense.

Flying Contract	Compensation of Engine Expense	Expense Recognition
SkyWest Delta Connection (CRJs)	Fixed-Rate Engine Contracts and Directly-Reimbursed Engine Contracts	Direct Expense
SkyWest Delta Connection (E175)	Fixed-Rate Engine Contracts	Power-by-the-Hour Agreement
ExpressJet Delta Connection	Directly-Reimbursed Engine Contracts	Direct Expense
SkyWest United Express (CRJ200)	Fixed-Rate Engine Contracts	Direct Expense
SkyWest United Express (CRJ700)	Fixed-Rate Engine Contracts	Power-by-the-Hour Agreement
SkyWest United Express (E175)	Fixed-Rate Engine Contracts	Power-by-the-Hour Agreement
ExpressJet United (ERJ145)	Directly-Reimbursed Engine Contracts	Power-by-the-Hour Agreement
Alaska Agreement (CRJ700)	Fixed-Rate Engine Contracts	Power-by-the-Hour Agreement
Alaska Agreement (E175)	Fixed-Rate Engine Contracts	Power-by-the-Hour Agreement
SkyWest American Agreement (CRJ200)	Fixed-Rate Engine Contracts	Direct Expense
SkyWest American Agreement (CRJ700)	Fixed-Rate Engine Contracts	Power-by-the-Hour Agreement
ExpressJet American Agreement (CRJ200)	Fixed-Rate Engine Contracts	Direct Expense
ExpressJet American Agreement (CRJ700)	Fixed-Rate Engine Contracts	Direct Expense

Historically, multiple contractual relationships with major airlines have enabled us to reduce our reliance on any single major airline code and to enhance and stabilize operating results through a mix of fixed-fee arrangements and our prorate flying arrangements. For the year ended December 31, 2016, contract flying revenue and prorate revenue represented approximately 87% and 13%, respectively, of our total passenger revenues. On contract routes, the major airline partner controls scheduling, ticketing, pricing and seat inventories and we are compensated by the major airline partner at contracted rates based on completed block hours (measured from takeoff to landing, including taxi time), flight departures and other operating measures.

Financial Highlights

We had total operating revenues of $3.1 billion for each of the years ended December 31, 2016 and December 31, 2015. We had a net loss of $161.6 million, or $(3.14) per diluted share, for the year ended December 31, 2016, compared to a net income of $117.8 million, or $2.27 per diluted share, for the year ended December 31, 2015. Our results for 2016 included a non-cash impairment charge of $465.6 million (pre-tax) primarily attributable to assets associated with our 50-seat aircraft.

The significant items affecting our financial performance during the year ended December 31, 2016 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 passenger revenues under our fixed-fee arrangements. During 2016, we had a significant change in the number of aircraft operating under fixed-fee agreements. Our primary objective in the fleet change is to improve our profitability by adding new aircraft to fixed-fee agreements at improved economics, including the E175 aircraft, while removing aircraft that were operating under less profitable and unprofitable arrangements. As summarized under the Fleet Activity section below, from December 31, 2015 to December 31, 2016, we removed 49 aircraft from service that were operating under less profitable flying contracts and added 41 aircraft to new or existing fixed-fee arrangements at improved economics. The number of aircraft available for scheduled service decreased from 660 aircraft at December 31, 2015 to 652 at December 31, 2016, or by 1.2%. Our completed block hours decreased 6.6% primarily due to the reduced fleet size during 2016.

During the year ended December 31, 2016, we transitioned 35 CRJ700s from various partners to American, and we ceased operating eight CRJ700s under early lease return arrangements.

The increase in our total passenger revenues from 2015 to 2016 of 0.7% was primarily attributable to higher compensation we earned on aircraft and 41 additional aircraft added in 2016, partially offset by a decrease in revenue earned associated with the reduction to our fleet size of 1.2%.

Operating Expenses

The increase in our operating expense from 2015 to 2016 of $432.8 million, or 15.1%, was related to a non-cash impairment of $465.6 million primarily attributable to the write-down of certain long-lived assets associated with our 50-seat aircraft partially offset by a decrease in direct operating costs associated with the reduction to our fleet size of 1.2%.

Fleet Activity

The following table summarizes our fleet activity for 2016:

Aircraft in Service	December 31, 2015	Additions	Removals	December 31, 2016
CRJ200s	225	—	(12)	213
CRJ700s	139	—	(9)	130
CRJ900s	64	—	—	64
ERJ145/135s	187	—	(28)	159
E175s	45	41	—	86
Total	660	41	(49)	652

The additional 41 E175 aircraft were new aircraft we acquired and placed into fixed-fee contracts during 2016. The 12 CRJ200s, 28 ERJ145s and nine CRJ700s were aircraft removed from scheduled service during 2016 and were either leased aircraft that were returned or in the process of being returned to lessors, owned aircraft that were sold to third parties or owned aircraft that were in process of being sold to third parties.

Fleet Developments

As of December 31, 2016, we had 86 E175 aircraft in service. We have agreements with multiple major airline partners to place 18 new E175 aircraft into fixed-fee contracts in 2017.

We are scheduled to have 49 CRJ700 aircraft in service with American by mid-2017. These 49 CRJ700 aircraft were previously operated in our existing fleet by other major airline partners. At the end of 2016, we had 213 CRJ200 aircraft and 159 ERJ145 and ERJ135 aircraft in scheduled service. We anticipate reducing our CRJ200 aircraft by approximately 46 aircraft and our ERJ145 and ERJ135 aircraft by approximately 59 aircraft during 2017. We also anticipate that ExpressJet will transition to flying primarily dual-class aircraft in its CRJ aircraft operation by removing its CRJ200 aircraft from service over the next year.

Critical Accounting Policies

Our significant accounting policies are summarized in Note 1 to our Consolidated Financial Statements included in Item 8 of this Report. Critical accounting policies are those policies that are most important to the preparation of our consolidated financial statements and require management's subjective and complex judgments due to the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies relate to revenue recognition, aircraft maintenance, aircraft leases, impairment of long-lived assets and intangibles, stock-based compensation expense and fair value as discussed below. The application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results will likely differ, and could differ materially, from such estimates.

Revenue Recognition

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

Maintenance

We use the direct-expense method of accounting for our regional jet aircraft engine overhaul costs. Under this method, the maintenance liability is not recorded until the maintenance services are performed. With respect to engines on a portion of our fleet, a third-party vendor provides our long-term engine services covering the scheduled and unscheduled repairs for engines under our Fixed-Rate Engine Contracts. Under the terms of the vendor agreement, we pay a set dollar amount per engine hour flown on a monthly basis and the third-party vendor assumes the obligation to repair the engines at no additional cost to us, subject to certain specified exclusions. Thus, under the third-party vendor agreement, we expense the engine maintenance costs as flight hours are incurred on the engines and using the contractual rate set forth in the agreement.

Aircraft Leases

Our fleet of aircraft in scheduled service includes 396 aircraft under lease. All of ExpressJet's ERJ145 aircraft flying for United are leased from United for nominal amounts and all of ExpressJet's ERJ145 aircraft flying for American are leased from American for nominal amounts. In order to determine the proper classification of our leased aircraft as either operating leases or capital leases, we must make certain estimates at the inception of the lease relating to the economic useful life and the fair value of an asset as well as select an appropriate discount rate to be used in discounting future lease payments. These estimates are utilized by management in making computations as required by existing accounting standards that determine whether the lease is classified as an operating lease or a capital lease. All of our aircraft leases have been classified as operating leases, which results in rental payments being charged to expense over the terms of the related leases. Under the majority of our operating leases, we are required to meet half-time lease return conditions with the aircraft, which presumes at least 50 percent of the eligible flight time for certain components since the last overhaul remains when the aircraft is returned to the lessor. A liability for probable lease return costs is recorded after the aircraft has completed its last maintenance cycle prior to being returned. Additionally, operating leases are not reflected in our consolidated balance sheet and accordingly, neither a lease asset nor an obligation for future lease payments is reflected in our consolidated balance sheets. See "Recent Accounting Pronouncements" set forth below for a discussion of a recently-adopted new accounting standard that is likely to have an impact on our aircraft lease accounting beginning in 2019.

Impairment of Long-Lived Assets

As of December 31, 2016, we had approximately $3.8 billion of property and equipment and related assets net of accumulated depreciation. Additionally, as of December 31, 2016, we had approximately $8.2 million in intangible assets. In accounting for these long-lived and intangible assets, we make estimates about the expected useful lives of the assets, the expected residual values of certain of these assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. We recorded an intangible asset for specifically identifiable contracts of approximately $33.7 million relating to the acquisition of Atlantic Southeast in September 2005. That intangible asset is being amortized over fifteen years under the straight-line method. As of December 31, 2016, we had recorded $25.5 million in accumulated amortization expense. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the long-lived assets, a significant change in the condition of the long-lived assets and operating cash flow losses associated with the use of the long-lived assets. When considering whether or not impairment of long-lived assets exists, we group similar assets together at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and compare the undiscounted cash flows for each asset group to the net carrying amount of the assets supporting the asset group. Asset groupings are done at the fleet type or contract level.

In December 2016, we entered into a termination agreement covering Bombardier's residual value guarantee ("RVG") agreements on 76 CRJ200 aircraft owned by SkyWest Airlines and ExpressJet. Both the required sale of each aircraft and our anticipated cash requirement to return the aircraft to a mid-time maintenance condition were eliminated under the termination agreement. Additionally, in December 2016, we announced that ExpressJet was scheduled to remove the CRJ200 aircraft from its operation over the next twelve months. Accordingly, we anticipate removing approximately 46 CRJ200 aircraft from our fleet during 2017. As a result of the scheduled reduction in the CRJ200 fleet in 2017, terminating the RVG agreements with Bombardier and based on current market values of our CRJ200 aircraft without Bombardier's RVGs, we evaluated our CRJ200 fleet and related assets for impairment.

Additionally, our fixed-fee contract with United covering ERJ145 aircraft is scheduled to expire at the end of 2017, subject to United's two one-year extension rights intended to facilitate an orderly return of ERJ145 aircraft to United. The ERJ145 aircraft are leased from United and we are obligated to return the aircraft to United as each aircraft is scheduled to terminate under the contract. Under the terms of the fixed-fee contract, we anticipate removing approximately 45 ERJ145s from our fleet in 2017 and returning the aircraft to United. As we have not reached an agreement with United to extend the ERJ145 fixed-fee arrangement beyond the existing terms and as we are obligated to return these aircraft to United upon the contract expiration, we also evaluated our ERJ145 related assets for impairment.

The special items for the year ended December 31, 2016 included impairment charges and inventory reserves charges comprised of the following: $374.1 million impairment for CRJ200 aircraft, $61.5 million impairment for CRJ and ERJ fixed asset spare aircraft parts and engines, a net $6.2 million impairment for CRJ long-term prepaid assets and

$23.8 million inventory write-down for excess CRJ and ERJ inventory parts. These charges are net of $125 million of considerations from the Bombardier termination agreement. The impairment analysis required us to identify applicable asset groups, perform a recoverability test using undiscounted cash flows and estimate the fair value of each asset group, including using third-party valuations. These steps required the use of our judgment to determine the impairment loss. The amounts we ultimately realize from the disposal of our CRJ200 and ERJ145 long-lived assets may vary from our December 31, 2016 fair value assessments.

Stock-Based Compensation Expense

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

Fair value

We hold certain assets that are required to be measured at fair value in accordance with U.S. Generally Accepted Accounting Principles. We determined fair value of these assets based on the following three levels of inputs:

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

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

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

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

Recent Accounting Pronouncements

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

Results of Operations

2016 Compared to 2015

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

	For the year ended December 31,		
	2016	2015	% Change
Revenue passenger miles (000)	28,015,298	29,671,911	(5.6)%
Available seat miles (000)	34,108,350	35,902,503	(5.0)%
Block hours	1,938,492	2,074,804	(6.6)%
Departures	1,153,480	1,226,897	(6.0)%
Passengers carried	53,539,438	56,228,593	(4.8)%
Passenger load factor	82.1 %	82.6 %	(0.5) pts
Revenue per available seat mile	9.2 ¢	8.6 ¢	7.0 %
Cost per available seat mile	9.9 ¢	8.2 ¢	20.7 %
Average passenger trip length (miles)	523	528	(0.9)%

Revenues. Total operating revenues increased $25.6 million, or 0.8%, during the year ended December 31, 2016, compared to the year ended December 31, 2015, primarily due to higher compensation earned on aircraft and the addition of 41 aircraft to our fleet, as further explained in the "Passenger revenues" section below. Under certain of our fixed-fee contracts, certain expenses are subject to direct reimbursement from our major airline partners and we record such reimbursements as passenger revenue. These reimbursed expenses include fuel, landing fees, station rents and certain engine maintenance expenses. The following table summarizes our passenger revenues and the amount of fuel, landing fees, station rents, and engine maintenance incurred under our fixed-fee agreements. The direct reimbursement was included in our passenger revenues for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2016	2015	$ Change	% Change
Passenger revenues	$ 3,051,414	$ 3,030,023	$ 21,391	0.7 %
Less: directly-reimbursed fuel from airline partners	51,583	41,567	10,016	24.1 %
Less: directly-reimbursed landing fee and station rent from airline partners	18,739	22,171	(3,432)	(15.5)%
Less: directly-reimbursed engine maintenance from airline partners	62,782	94,142	(31,360)	(33.3)%
Passenger revenue excluding directly-reimbursed fuel, landing fee, station rent and engine maintenance	$ 2,918,310	$ 2,872,143	$ 46,167	1.6 %

Passenger revenues. Passenger revenues increased $21.4 million, or 0.7%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. Our passenger revenues, excluding fuel, landing fees, station rents and engine overhaul reimbursements from major airline partners, increased $46.2 million, or 1.6%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. The increase in passenger revenues, excluding fuel, landing fees, station rents and engine overhaul reimbursements, was primarily due to higher compensation we earned on aircraft placed into service during 2016, improvements in the terms of certain of our flying contracts since 2015 and an $11.5 million favorable resolution of a flying agreement matter with one of our major airline partners in contrast to a reduction to revenue of $7.9 million in 2015 from a resolution of a contract matter with a major airline partner. This increase was partially offset by the 1.2% net reduction to our aircraft in scheduled service from 660 aircraft at December 31, 2015 to 652 aircraft at December 31, 2016. Our fuel expense, landing fees, station rents and directly-reimbursed engine expense decreased by $24.7 million during the year ended December 31, 2016, as compared to the year ended December 31, 2015, due primarily to our major airline partners paying for landing fees and station rents directly to vendors on flights we operated under our fixed-fee arrangements and a reduction in the number of engine maintenance events.

Ground handling and other. Total ground handling and other revenues increased $4.3 million, or 6.5%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. Ground handling and other revenue primarily consists of ground handling services we provide to third-party airlines and government subsidies we receive for operating certain routes under our prorate agreements. Revenues associated with ground handling services we provide for our aircraft are recorded as passenger revenues. The increase in ground handling and other revenue was primarily due to an increased volume of departures during 2016 on routes subject to government subsidies, which was partially offset by a reduction in the number of locations for which SkyWest Airlines provided ground handling services to third party airlines during 2016.

Individual expense components attributable to our operations are set forth in the following table on the basis of cents per Available Seat Mile ("ASM") (dollar amounts in thousands).

	For the year ended December 31,					
	2016 Amount	2015 Amount	$ Change Amount	% Change Percent	2016 Cents Per ASM	2015 Cents Per ASM
Salaries, wages and benefits	$ 1,211,380	$ 1,203,312	$ 8,068	0.7 %	3.6	3.4
Aircraft maintenance, materials and repairs	569,306	604,863	(35,557)	(5.9)%	1.7	1.7
Aircraft rentals	262,602	273,696	(11,094)	(4.1)%	0.8	0.8
Depreciation and amortization	284,969	264,507	20,462	7.7 %	0.8	0.7
Aircraft fuel	122,284	118,124	4,160	3.5 %	0.4	0.3
Ground handling services	72,659	82,694	(10,035)	(12.1)%	0.2	0.2
Station rentals and landing fees	49,482	54,167	(4,685)	(8.6)%	0.1	0.2
Special items	465,649	—	465,649	NM	1.4	—
Other operating expenses	255,559	259,685	(4,126)	(1.6)%	0.7	0.7
Total operating expenses	$ 3,293,890	$ 2,861,048	$ 432,842	15.1 %	9.7	8.0
Interest expense	78,177	75,850	2,327	3.1 %	0.2	0.2
Total airline expenses	$ 3,372,067	$ 2,936,898	$ 435,169	14.8 %	9.9	8.2

Salaries, Wages and Employee Benefits. Salaries, wages and employee benefits increased $8.1 million, or 0.7%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. The increase in salaries, wages and employee benefits was primarily due to new pilot training costs associated with the 41 new E175 aircraft delivered in 2016 and an increase in employee health care costs, partially offset by the decrease in our fleet size and related decrease in the number of departures and block hours compared to the year ended December 31, 2015.

Aircraft maintenance, materials and repairs. Aircraft maintenance expense decreased $35.6 million, or 5.9%, during the year ended December 31, 2016, compared to the year ended December 31 2015. The following table summarizes the effect of directly-reimbursed engine maintenance costs under our fixed-fee arrangements included in our aircraft maintenance expense for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2016	2015	$ Change	% Change
Aircraft maintenance, materials and repairs	$ 569,306	$ 604,863	$ (35,557)	(5.9)%
Less: directly-reimbursed engine maintenance from airline partners	62,782	94,142	(31,360)	(33.3)%
Other aircraft maintenance, materials and repairs	$ 506,524	$ 510,721	$ (4,197)	(0.8)%

Other aircraft maintenance, materials and repairs, excluding our directly-reimbursed engine overhaul costs, decreased $4.2 million, or 0.8%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. The decrease in aircraft maintenance expense (excluding directly-reimbursed engine overhaul costs) was primarily due to a reduction in direct maintenance costs resulting from a reduced fleet size, partially offset by an increase in power-by-the-hour maintenance costs associated with the additional E175 aircraft added to our fleet since 2015 along with maintenance costs of $19.0 million associated with EMB120, CRJ200 and CRJ700 aircraft lease returns.

The decrease in our engine overhaul costs incurred under our Directly-Reimbursed Engine Contracts was primarily due to a reduced number of engine overhaul events in 2016 compared to 2015.

Aircraft rentals. Aircraft rentals decreased $11.1 million, or 4.1%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. The decrease was primarily related to eight CRJ700 aircraft removed from service and 15 CRJ200s leases that expired in 2016.

Depreciation and amortization. Depreciation and amortization expense increased $20.5 million, or 7.7%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. The increase in depreciation and amortization expense was primarily due to the purchase of 41 additional E175 aircraft and related long-lived aircraft parts in 2016.

Fuel. Fuel costs increased $4.2 million, or 3.5%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. The increase in fuel cost was primarily due to an increase in the volume in gallons that we purchased under our fixed-fee contracts, partially offset by the decrease in the average fuel cost per gallon in 2016 compared to 2015. The following table summarizes our aircraft fuel expenses and directly-reimbursed fuel expense under our fixed-fee arrangements, for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2016	**2015**	**$ Change**	**% Change**
Aircraft fuel expenses	$ 122,284	$ 118,124	$ 4,160	3.5 %
Less: directly-reimbursed fuel from airline partners	51,583	41,567	10,016	24.1 %
Aircraft fuel less directly-reimbursed fuel from airline partners	$ 70,701	$ 76,557	$ (5,856)	(7.6)%

The average fuel cost per gallon was $1.70 and $2.09 for the years ended December 31, 2016 and 2015, respectively. The following table summarizes the gallons of fuel we purchased directly and our fuel expense, for the periods indicated:

	For the year ended December 31,		
(in thousands)	**2016**	**2015**	**% Change**
Fuel gallons purchased	72,011	56,389	27.7 %
Fuel expense	$ 122,284	$ 118,124	3.5 %

Ground handling service. Ground handling service expense decreased $10.0 million, or 12.1%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. The decrease in ground handling service expense was primarily due to a reduction in passenger liability insurance costs along with a decrease in the number of locations for which SkyWest Airlines provides ground handling services subsequent to December 31, 2015.

Station rents and landing fees. Station rents and landing fees expense decreased $4.7 million, or 8.6%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. The following table summarizes our station rents and landing fees expense and directly-reimbursed landing fees and station rents under our fixed-fee arrangements for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2016	**2015**	**$ Change**	**% Change**
Station rents and landing fees	$ 49,482	$ 54,167	$ (4,685)	(8.6)%
Less: directly-reimbursed landing fee and station rent from airline partners	18,739	22,171	(3,432)	(15.5)%
Station rents and landing fees less landing fee and station rent reimbursements from airline partners	$ 30,743	$ 31,996	$ (1,253)	(3.9)%

Excluding our directly-reimbursed expenses incurred under our fixed-fee contracts, station rents and landing fees decreased $1.3 million, or 3.9%, during the year ended December 31, 2016. The decrease in station rents and landing fees, excluding our directly-reimbursed expenses, was primarily due to a change in locations served in 2016 with lower landing fee and airport rent charges in our prorate agreements.

Special items. Special items for the year ended December 31, 2016 included impairment charges and inventory valuation charges comprised of the following: $374.1 million impairment for CRJ200 aircraft, $61.5 million impairment for CRJ and ERJ fixed asset spare aircraft parts and engines, a net $6.2 million impairment for CRJ long-term prepaid aircraft rents and other considerations and $23.8 million inventory write-down for excess CRJ and ERJ inventory parts. These charges are net of $90 million in cash proceeds and other considerations from the Bombardier termination agreement.

Other operating expenses. Other operating expenses, primarily consisting of property taxes, hull and liability insurance, crew simulator training, and crew hotel costs, decreased $4.1 million, or 1.6%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. The decrease in other operating expenses was primarily related to a reduction in fleet size, partially offset by additional training costs associated with E175 deliveries, including the use of simulators and hotels.

Total airline expenses. Total airline expenses (consisting of total operating and interest expenses) increased $435.2 million, or 14.8%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. Under our contract flying arrangements, we are reimbursed by our major airline partners for our actual fuel costs, contract related station rents, landing fees and engine overhaul costs under our Directly-Reimbursed Engine Contracts. We record such reimbursements as revenue. The following table summarizes the amount of fuel and engine overhaul expenses which are included in our total airline expenses for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2016	**2015**	**$ Change**	**% Change**
Total airline expense	$ 3,372,067	$ 2,936,898	435,169	14.8 %
Less: directly-reimbursed fuel from airline partners	51,583	41,567	10,016	24.1 %
Less: directly-reimbursed landing fee and station rent from airline partners	18,739	22,171	(3,432)	(15.5)%
Less: directly-reimbursed engine maintenance from airline partners	62,782	94,142	(31,360)	(33.3)%
Total airline expense excluding directly-reimbursed fuel, landing fee, station rent and engine maintenance	$ 3,238,963	$ 2,779,018	459,945	16.6 %

Excluding directly-reimbursed costs by our major airline partners for fuel, station rents, landing fees and engine overhaul costs, our total airline expenses increased $459.9 million, or 16.6%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. The increase in total airline expenses, excluding directly-reimbursed fuel, station rents, landing fees and engine overhauls, was primarily due to the special items of $465.6 million relating to the 50-seat aircraft for the year ended December 31, 2016, partially offset by the reduction in fleet size and related block hour production of 6.6% during the year ended December 31, 2016, compared to the year ended December 31, 2015.

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

Other Income (expense), net. Other income (expense) for 2016 of $(0.1) million was primarily due to a write off of a non-refundable maintenance deposit and other assets associated with the four CRJ900 aircraft that were subleased to Air Mekong, partially offset by a gain resulting from the early payoff of debt. Other income (expense) for 2015 of $33.7 million was primarily due to a gain resulting from the early payoff of debt.

Provision for income taxes. The income tax provision for 2016 included an increase of valuation allowance of $0.8 million for previously generated state net operating loss benefits specific to ExpressJet that we expect to expire. The increase of the valuation allowance was based on changes in state tax laws and our income tax projections, which increased the amount of deferred tax assets that are expected to expire before the deferred tax assets may be utilized.

The income tax provision for 2015 included a release of valuation allowance of $0.9 million for previously generated state net operating loss benefits primarily for ExpressJet that we previously anticipated would expire. The release of the valuation allowance was based on the gain related to early retirement of certain long term debt which reduced the amount of deferred tax assets that we anticipate will expire before the deferred tax assets may be utilized.

Net Income (loss). Primarily due to the $465.6 million in special items described above, we generated a net loss of $(161.6) million, or $(3.14) per diluted share, for the year ended December 31, 2016, compared to net income of $117.8 million, or $2.27 per diluted share, for the year ended December 31, 2015.

2015 Compared to 2014

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

	Year ended December 31,		
	2015	2014	% Change
Revenue passenger miles (000)	29,671,911	31,499,397	(5.8)%
Available seat miles (000)	35,902,503	38,220,150	(6.1)%
Block hours	2,074,804	2,275,562	(8.8)%
Departures	1,226,897	1,357,454	(9.6)%
Passengers carried	56,228,593	58,962,010	(4.6)%
Passenger load factor	82.6 %	82.4 %	0.2 pts
Revenue per available seat mile	8.6 ¢	8.5 ¢	1.2 %
Cost per available seat mile	8.2 ¢	8.6 ¢	(4.7)%
Average passenger trip length (miles)	528	534	(1.1)%

Revenues. Total operating revenues decreased $141.9 million, or 4.4%, during the year ended December 31, 2015, compared to the year ended December 31, 2014 primarily due to a decrease in our fleet size, as further explained in the passenger revenues section below. Under certain of our fixed-fee contracts, certain expenses are subject to direct reimbursement from our major airline partners and we record such reimbursements as passenger revenue. These reimbursed expenses include fuel, landing fees, station rents and certain engine maintenance expenses. Our fuel expense, landing fees, station rents and directly-reimbursed engine expense decreased by $73.1 million during the year ended December 31, 2015, as compared to the year ended December 31, 2014, due primarily to (i) our major airline partners purchasing an increased volume of fuel, landing fees and station rents directly from vendors on flights we operated under our fixed-fee arrangements and (ii) a reduction in the number of engine maintenance events. The following table summarizes the amount of fuel, landing fees, station rents, and engine maintenance incurred under our fixed-fee agreements and the direct reimbursement was included in our passenger revenues for the periods indicated (dollar amounts in thousands).

	Year Ended December 31,			
	2015	2014	$ Change	% Change
Passenger revenues	$ 3,030,023	$ 3,168,000	$ (137,977)	(4.4)%
Less: directly-reimbursed fuel from airline partners	41,567	76,675	(35,108)	(45.8)%
Less: directly-reimbursed landing fee and station rent from airline partners	22,171	23,800	(1,629)	(6.8)%
Less: directly-reimbursed engine maintenance from airline partners	94,142	130,505	(36,363)	(27.9)%
Passenger revenue excluding directly-reimbursed fuel, landing fee, station rent and engine maintenance	$ 2,872,143	$ 2,937,020	$ (64,877)	(2.2)%

Passenger revenues. Passenger revenues decreased $138.0 million, or 4.4%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. Our passenger revenues, excluding fuel, landing fees, station rents and engine overhaul reimbursements from major airline partners, decreased $64.9 million, or 2.2%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. The decrease in passenger revenues, excluding fuel, landing fees, station rents and engine overhaul reimbursements, was primarily due to the net reduction to our aircraft in scheduled service from 717 aircraft at December 31, 2014 to 660 aircraft at December 31, 2015 and a reduction to passenger revenue of $7.9 million from a resolution of a contract matter with a major airline partner. This decrease was partially offset by higher compensation we earned on aircraft placed into service during 2015, improvements in the terms of certain of our flying contracts since 2014 and additional operational performance incentives earned under our fixed-fee contracts in 2015.

Ground handling and other. Total ground handling and other revenues decreased $3.9 million, or 5.6%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. Ground handling and other revenue primarily consists of ground handling services we provide to third-party airlines and government subsidies we receive for operating certain routes under our prorate agreements. Revenues associated with ground handling services we provide for our aircraft are recorded as passenger revenues. The decrease in ground handling and other revenue was primarily due to a reduction in the number of locations for which SkyWest Airlines provided ground handling services to third party airlines during 2015, which was partially offset by an increased volume of departures during 2015 on routes subject to government subsidies.

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

	For the year ended December 31,					
	2015 Amount	2014 Amount	$ Change Amount	% Change Percent	2015 Cents Per ASM	2014 Cents Per ASM
Salaries, wages and benefits	$ 1,203,312	$ 1,258,155	$ (54,843)	(4.4)%	3.4	3.3
Aircraft maintenance, materials and repairs	604,863	682,773	(77,910)	(11.4)%	1.7	1.8
Aircraft rentals	273,696	305,334	(31,638)	(10.4)%	0.8	0.8
Depreciation and amortization	264,507	259,642	4,865	1.9 %	0.7	0.7
Aircraft fuel	118,124	193,247	(75,123)	(38.9)%	0.3	0.5
Ground handling services	82,694	123,917	(41,223)	(33.3)%	0.2	0.3
Special items	—	74,777	(74,777)	NM	—	0.2
Station rentals and landing fees	54,167	51,024	3,143	6.2 %	0.2	0.1
Other	259,685	263,730	(4,045)	(1.5)%	0.7	0.7
Total operating expenses	$ 2,861,048	$ 3,212,599	$ (351,551)	(10.9)%	8.0	8.4
Interest expense	75,850	65,995	9,855	14.9 %	0.2	0.2
Total airline expenses	$ 2,936,898	$ 3,278,594	$ (341,696)	(10.4)%	8.2	8.6

Salaries, Wages and Employee Benefits. Salaries, wages and employee benefits decreased $54.8 million, or 4.4%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. The decrease in salaries, wages and employee benefits was primarily due to the decrease in our fleet size and related decrease in the number of departures and block hours compared to the year ended December 31, 2014, which was partially offset by additional training costs for the E175 deliveries and an increase in employee benefit costs.

Aircraft maintenance, materials and repairs. Aircraft maintenance expense decreased $77.9 million, or 11.4%, during the year ended December 31, 2015, compared to the year ended December 31 2014. The following table summarizes the effect of directly-reimbursed engine maintenance costs under our fixed-fee arrangements included in our aircraft maintenance expense for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2015	2014	$ Change	% Change
Aircraft maintenance, materials and repairs	$ 604,863	$ 682,773	$ (77,910)	(11.4)%
Less: directly-reimbursed engine maintenance from airline partners	94,142	130,505	(36,363)	(27.9)%
Other aircraft maintenance, materials and repairs	$ 510,721	$ 552,268	$ (41,547)	(7.5)%

Other aircraft maintenance, materials and repairs, excluding our directly-reimbursed engine overhaul costs, decreased $41.5 million, or 7.5%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. The decrease in aircraft maintenance expense (excluding directly-reimbursed engine overhaul costs) was primarily due to a reduction in direct maintenance costs resulting from a reduced fleet size, partially offset by an increase in power-by-the-hour maintenance costs associated with the additional E175 aircraft added to our fleet since 2014.

The decrease in our engine overhaul costs incurred under our Directly-Reimbursed Engine Contracts was primarily due to a reduced number of engine overhaul events in 2015 compared to 2014.

Aircraft rentals. Aircraft rentals decreased $31.6 million, or 10.4%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. The decrease was primarily due to a reduction in the number of leased aircraft in our fleet and lower aircraft lease renewal rates since 2014.

Depreciation and amortization. Depreciation and amortization expense increased $4.8 million, or 1.9%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. The increase in depreciation and amortization expense was primarily due to the purchase of additional E175 aircraft and spare engines in 2015 that was significantly offset by the reduction in fixed asset depreciation expense that resulted from our removal of all EMB 120 aircraft from service in early 2015.

Fuel. Fuel costs decreased $75.1 million, or 38.9%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. The decrease in fuel cost was primarily due to the decrease in the average fuel cost per gallon in 2015 compared to 2014, along with a decrease in the volume in gallons that we purchased under our fixed-fee contracts. The following table summarizes our aircraft fuel expenses (less directly-reimbursed fuel expense under our fixed-fee arrangements) for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2015	2014	$ Change	% Change
Aircraft fuel expenses	$ 118,124	$ 193,247	$ (75,123)	(38.9)%
Less: directly-reimbursed fuel from airline partners	41,567	76,675	(35,108)	(45.8)%
Aircraft fuel less fuel reimbursement from airline partners	$ 76,557	$ 116,572	$ (40,015)	(34.3)%

The average fuel cost per gallon was $2.09 and $3.33 for the years ended December 31, 2015 and 2014, respectively. The following table summarizes the gallons of fuel we purchased directly and our fuel expense, for the periods indicated:

	For the year ended December 31,		
(in thousands)	2015	2014	% Change
Fuel gallons purchased	56,389	57,959	(2.7)%
Fuel expense	$ 118,124	$ 193,247	(38.9)%

Ground handling service. Ground handling service expense decreased $41.2 million, or 33.3%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. The decrease in ground handling service expense was primarily due to a reduction in the number of locations for which SkyWest Airlines provided ground handling services subsequent to December 31, 2014.

Special items. Special items for the year ended December 31, 2014 included impairment charges to write-down owned EMB120 aircraft, including capitalized engine overhaul costs, and related long-lived assets to their estimated fair value and accrued obligations on leased aircraft and related costs of $57.1 million. The special item associated with the EMB120 aircraft was triggered by our decision in November 2014 to remove the EMB120 aircraft from service by the end of the second quarter of 2015. The special item additionally consisted of impairment charges to write-down certain ERJ145 long-lived assets, including spare engines and capitalized aircraft improvements, to their estimated fair value and accrued obligations on leased aircraft and related costs of $12.9 million. The special item associated with the ERJ145 aircraft was triggered by our execution of an amended and restated contract with United in November 2014. The amended and restated contract provides for accelerated lease termination dates of certain ERJ145 aircraft and advances the termination date of the ExpressJet United Express ERJ Agreement to operate the ERJ145s from the year 2020 to 2017. The special item also includes the write-down of assets associated with the disposition of our paint facility located in Saltillo, Mexico of $4.8 million. We sold the Saltillo paint facility during the year ended December 31, 2014.

Station rents and landing fees. Station rents and landing fees expense increased $3.1 million, or 6.2%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. Excluding our directly-reimbursed expenses incurred under our fixed-fee contracts, station rents and landing fees increased $4.8 million, or 17.5%, during the year ended December 31, 2015. The increase in station rents and landing fees, excluding our directly-reimbursed expenses, was primarily due to an increase in the number of flights operated in our prorate agreements. The following table summarizes our station rents and landing fees (less directly-reimbursed landing fees and station rents under our fixed-fee arrangements) for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2015	2014	$ Change	% Change
Station rents and landing fees	$ 54,167	$ 51,024	$ 3,143	6.2%
Less: directly-reimbursed landing fee and station rent from airline partners	22,171	23,800	(1,629)	(6.8)%
Station rents and landing fees less directly-reimbursed landing fee and station rent from airline partners	$ 31,996	$ 27,224	$ 4,772	17.5%

Other operating expenses. Other operating expenses, primarily consisting of property taxes, hull and liability insurance, crew simulator training, and crew hotel costs, decreased $4.0 million, or 1.5%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. The decrease in other operating expenses was primarily related to a reduction in fleet size, partially offset by additional training costs associated with E175 deliveries, including the use of simulators, hotels and crew per diem costs.

Total airline expenses. Total airline expenses (consisting of total operating and interest expenses) decreased $341.7 million, or 10.4%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. Under our contract flying arrangements, we are reimbursed by our major airline partners for our actual fuel costs, contract related station rents, landing fees and engine overhaul costs under our Directly-Reimbursed Engine Contracts. We record such reimbursements as revenue. The following table summarizes the amount of fuel and engine overhaul expenses which are included in our total airline expenses for the periods indicated (dollar amounts in thousands).

	For the year ended December 31,			
	2015	2014	$ Change	% Change
Total airline expense	$ 2,936,898	$ 3,278,594	(341,696)	(10.4)%
Less: directly-reimbursed fuel from airline partners	41,567	76,675	(35,108)	(45.8)%
Less: directly-reimbursed landing fee and station rent from airline partners	22,171	23,800	(1,629)	(6.8)%
Less: directly-reimbursed engine maintenance from airline partners	94,142	130,505	(36,363)	(27.9)%
Total airline expense excluding directly-reimbursed fuel, landing fee, station rent and engine maintenance	$ 2,779,018	$ 3,047,614	(268,596)	(8.8)%

Excluding directly-reimbursed costs by our major airline partners for fuel, station rents, landing fees and engine overhaul costs, our total airline expenses decreased $268.6 million, or 8.8%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. The decrease in total airline expenses, excluding directly-reimbursed fuel, station rents, landing fees and engine overhauls, was primarily due to the reduction in fleet size and related block hour production of 8.8% during the year ended December 31, 2015, compared to the year ended December 31, 2014.

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

Other Income (expense), net. Other income (expense) for 2015 of $33.7 million was primarily due to a gain resulting from the early payoff of $145.4 million in debt with $110.8 million in cash, net of deferred loan costs written off associated with the debt. Other income for 2014 of $24.9 million primarily resulted from the sale of our equity investment in TRIP Linhas Aéreas, a regional airline operation in Brazil (“TRIP”).

Provision for income taxes. The income tax provision for 2015 included a release of valuation allowance of $0.9 million for previously generated state net operating loss benefits primarily for ExpressJet that we previously anticipated would expire. The release of the valuation allowance was based on the gain related to early retirement of certain long term debt which reduced the amount of deferred tax assets that we anticipate will expire before the deferred tax assets may be utilized.

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

Net Income (loss). Primarily due to factors described above, we generated net income of $117.8 million, or $2.27 per diluted share, for the year ended December 31, 2015, compared to a net loss of $24.2 million, or $(0.47) per diluted share, for the year ended December 31, 2014.

Our Business Segments 2016 compared to 2015:

For the year ended December 31, 2016, we had three reportable segments which are the basis of our internal financial reporting. Our segment disclosure relates to components of our business for which separate financial information is available to, and regularly evaluated by our chief operating decision maker. Our operating segments are SkyWest Airlines, ExpressJet and SkyWest Leasing. Corporate overhead expense is allocated to the operating expenses of SkyWest Airlines and ExpressJet.

The following table sets forth our segment data for the years ended December 31, 2016 and 2015 (in thousands):

	For the year ended December 31, (dollar amounts in thousands)			
	2016 Amount	2015 Amount	$ Change Amount	% Change Percent
Operating Revenues:				
SkyWest Airlines operating revenue	$ 1,935,378	$ 1,848,363	$ 87,015	4.7 %
ExpressJet operating revenues	1,044,828	1,169,923	(125,095)	(10.7)%
SkyWest Leasing operating revenues	141,000	77,277	63,723	82.5 %
Total Operating Revenues	$ 3,121,206	$ 3,095,563	$ 25,643	0.8 %
Airline Expenses:				
SkyWest Airlines airline expense	$ 1,912,384	$ 1,666,341	$ 246,043	14.8 %
ExpressJet airline expense	1,346,342	1,204,161	142,181	11.8 %
SkyWest Leasing segment expense	113,341	66,396	46,945	70.7 %
Total Airline Expense(1)	$ 3,372,067	$ 2,936,898	$ 435,169	14.8 %
Segment profit (loss):				
SkyWest Airlines segment profit	$ 22,994	$ 182,022	$ (159,028)	(87.4)%
ExpressJet segment loss	(301,514)	(34,238)	(267,276)	780.6 %
SkyWest Leasing segment profit	27,659	10,881	16,778	154.2 %
Total Segment Profit (loss)	$ (250,861)	$ 158,665	$ (409,526)	(258.1)%
Interest Income	2,143	1,997	146	7.3 %
Other Income (Expense), net	(94)	33,660	(33,754)	(100.3)%
Consolidated Income (loss) Before Taxes	$ (248,812)	$ 194,322	$ (443,134)	(228.0)%

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

SkyWest Airlines Segment Profit. SkyWest Airlines segment profit decreased $159.0 million, or 87.4%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. The SkyWest Airlines 2016 segment included $184.3 million of special item expenses associated with the impairment charge of CRJ200 aircraft and related assets and $9.3 million in early lease return costs associated with certain CRJ700 aircraft. Excluding the impact of these items, SkyWest Airlines segment profitability improved by $34.6 million. SkyWest Airlines segment profit was also partially impacted by additional profitability from adding 41 E175 aircraft.

SkyWest Airlines block hour production increased to 1,105,031, or 2.8%, for 2016 from 1,074,809 for 2015 primarily due to the additional block hour production from the new E175 aircraft added subsequent to December 31, 2015. Significant items contributing to the SkyWest Airlines segment profit are set forth below.

SkyWest Airlines operating revenue increased by $87.0 million, or 4.7%, for 2016 compared to 2015. The increase was primarily due to additional E175 operations along with improved contract rates with certain major airline partners.

SkyWest Airlines airline expense increased by $246.0 million, or 14.8% during the year ended December 31, 2016, compared to the year ended December 31, 2015. The increase in the SkyWest Airlines airline expense was primarily due to the following factors:

- SkyWest Airlines airline expense included an increase in salaries, wages and employee benefits of $47.1 million, or 7.4%, for 2016 compared to 2015. The increase was primarily due to additional wages incurred in connection with the additional block hour production and incremental pilot costs, including crew training associated with the new E175 aircraft deliveries.

- SkyWest Airlines aircraft maintenance, materials and repairs expense increased by $27.5 million, or 9.7%, during 2016, compared to 2015. The increase was primarily attributable to an increase in direct maintenance costs associated with the increased volume of departures and the replacement and repair of aircraft parts and components and $15.9 million of lease return maintenance costs primarily associated with EMB120, CRJ200 and CRJ700 aircraft lease returns.

- SkyWest Airlines aircraft rentals expense decreased $3.8 million, or 1.9%, during 2016, compared to 2015, primarily due to an expiration of 12 aircraft leases subsequent to 2015.

- SkyWest Airlines ground handling service expense decreased $4.6 million, or 7.1%, during 2016, compared to 2015. The decrease in ground handling service expense was primarily due to a reduction in passenger liability insurance costs and a reduction in the locations at which SkyWest Airlines provided ground handling services subsequent to December 31, 2015.

- SkyWest Airlines fuel expense increased $4.9 million, or 4.2%, during 2016, compared to 2015. The increase in fuel cost was primarily due to an increase in the volume of gallons purchased, which was partially offset by the decrease in the average fuel cost per gallon in 2016 compared to 2015. The average fuel cost per gallon was $1.70 and $2.09 for the years 2016 and 2015, respectively.

- SkyWest Airlines airline expense in 2016 included special items of $184.3 million for impairment charges on its CRJ200 aircraft and related long-lived assets, including aircraft, capitalized aircraft improvements and additional inventory reserves for excess spare part inventory.

- SkyWest Airlines interest expense decreased $9.2 million, or 26.0%, during 2016, compared to 2015, primarily due to a decrease in outstanding long-term debt over 2016, compared to 2015.

ExpressJet Segment Loss. ExpressJet segment loss increased $267.3 million, or 780.6%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. The ExpressJet 2016 segment included $281.4 million of special item expenses associated with the CRJ200 and ERJ145 aircraft and write-down of certain assets and $6.8 million associated with certain leased CRJ700 aircraft that were removed from service. Excluding the impact of the special item expenses, ExpressJet's segment profitability improved by $20.9 million. This special charge was partially offset by the removal of aircraft operating under unprofitable fixed-fee contracts and rate improvements in certain fixed-fee contracts compared to 2015.

ExpressJet's block hour production decreased to 833,461, or 16.7%, for the year ended December 31, 2016 from 999,995 for the year ended December 31, 2015, primarily due to the removal of ERJ145 aircraft previously operated under its United fixed-fee agreement. Significant items contributing to the ExpressJet segment loss are set forth below:

ExpressJet's operating revenue decreased by $125.1 million, or 10.7%, for 2016 compared to 2015. The decrease was primarily due to a 16.7% reduction in block hours resulting from fewer ERJ145 fleet operating under its United fixed-fee arrangement, which was partially offset by rate improvements in certain fixed-fee contracts compared to 2015.

ExpressJet's airline expense increased $142.2 million, or 11.8%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. The increase in the ExpressJet airline expense was primarily due to the following factors:

- ExpressJet's salaries, wages and benefits decreased $39.0 million, or 6.9%, during 2016, compared to 2015. The decrease was primarily due to a decrease in scheduled production subsequent to 2015 that resulted from the decreased number of ERJ145 and CRJ200 aircraft in operation.

- ExpressJet's aircraft maintenance, materials and repairs expense decreased $67.6 million, or 21.1%, during 2016, compared to 2015. The decrease was primarily due to the reduced fleet size and related production subsequent to 2015 and maintenance costs savings initiatives in 2016.

- ExpressJet's aircraft rental expenses decreased $7.3 million, or 10.6%, during 2016, compared to 2015, primarily due to the termination of aircraft leases on CRJ200 aircraft since 2015.

- ExpressJet's ground handling services expenses decreased $5.5 million, or 29.3%, during 2016, compared to 2015, primarily due to a decrease in scheduled production and reduced fleet size.

- ExpressJet's other airline expenses decreased $7.1 million, or 6.2%, during 2016, compared to 2015, primarily due to a decrease in scheduled production subsequent to 2015, partially offset by increases in lodging and simulator expenses used for crew training.

- ExpressJet's airline expense in 2016 included special items of $281.4 million for impairment charges on certain CRJ200 and ERJ145 long-lived assets, including aircraft, spare engines and capitalized aircraft improvements and additional inventory reserves for excess spare part inventory.

- ExpressJet's interest expense decreased $6.0 million, or 47.2%, during 2016, compared to 2015, primarily due to a decrease in outstanding long-term debt since 2015.

SkyWest Leasing Segment Profit. SkyWest Leasing profit increased $16.8 million during the year ended December 31, 2016, compared to the year ended December 31, 2015, primarily due to the additional E175 aircraft revenue attributed to the ownership costs of the E175 aircraft earned under the applicable fixed-fee contract and profitability offset by the E175 aircraft depreciation and interest expense.

Our Business Segments 2015 compared to 2014:

For the year ended December 31, 2015, we had three reportable segments which are the basis of our internal financial reporting: Our segment disclosure relates to components of our business for which separate financial information is available to, and regularly evaluated by our chief operating decision maker. Our operating segments consists of SkyWest Airlines, ExpressJet and SkyWest Leasing. Corporate overhead expense is allocated to the operating expenses of SkyWest Airlines and ExpressJet.

During the fourth quarter of 2015, due to the increase in acquired E175 aircraft and the related aircraft debt financing, our chief operating decision maker started to analyze the flight operations of our E175 aircraft separately from the acquisition, ownership and financing costs and related revenue. Because of this change, the SkyWest Leasing segment includes revenue attributed to our E175 ownership cost earned under the applicable fixed-fee contracts, and the depreciation and interest expense of our E175 aircraft. The SkyWest Leasing segment's total assets and capital expenditures include the acquired E175 aircraft. The SkyWest Leasing segment additionally includes the income from two CRJ200 aircraft leased to a third party.

As a result of the change in segmentation, prior periods have been recast to conform to the current presentation. We reclassified \$15.0 million of operating revenue, \$8.5 million of depreciation expense, \$4.9 million of interest expense, \$1.6 million of segment profit, \$527.0 million of total assets and \$535.5 million of capital expenditures (including non-cash) from the SkyWest Airlines segment to the SkyWest Leasing segment for the year ended December 31, 2014 to reflect the respective E175 activity in the SkyWest Leasing segment for 2014.

The following table sets forth our segment data for the years ended December 31, 2015 and 2014 (in thousands):

	2015	2014	$ Change	% Change
	Amount	Amount	Amount	Percent
Operating Revenues:				
SkyWest Airlines operating revenue	$ 1,848,363	$ 1,873,675	$ (25,312)	(1.4)%
ExpressJet operating revenues	1,169,923	1,346,859	(176,936)	(13.1)%
SkyWest Leasing operating revenues	77,277	16,913	60,364	356.9 %
Total Operating Revenues	$ 3,095,563	$ 3,237,447	$ (141,884)	(4.4)%
Airline Expenses:				
SkyWest Airlines airline expense	$ 1,666,341	$ 1,797,596	$ (131,255)	(7.3)%
ExpressJet airlines expense	1,204,161	1,464,804	(260,643)	(17.8)%
SkyWest Leasing segment expense	66,396	16,194	50,202	310.0 %
Total Airline Expense(1)	$ 2,936,898	$ 3,278,594	$ (341,696)	(10.4)%
Segment profit (loss):				
SkyWest Airlines segment profit	$ 182,022	$ 76,079	$ 105,943	139.3 %
ExpressJet segment loss	(34,238)	(117,945)	83,707	(71.0)%
SkyWest Leasing profit (Loss)	10,881	719	10,162	*
Total Segment Profit (Loss)	$ 158,665	$ (41,147)	$ 199,812	(485.6)%
Interest Income	1,997	4,096	(2,099)	(51.2)%
Other Income (Expense), net	33,660	20,708	12,952	62.5 %
Consolidated Income (Loss) Before Taxes	$ 194,322	$ (16,343)	$ 210,665	*

(1) Total Airline Expense includes operating expense and interest expense
* Change more than 1,000%

SkyWest Airlines Segment Profit. SkyWest Airlines segment profit increased $105.9 million, or 139.3%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. The SkyWest Airlines 2014 segment included $57.0 million of special item expenses associated with the removal of the EMB120 aircraft type. The remaining improvement in the SkyWest segment profit was primarily due to additional contract incentives earned under its fixed-fee contracts, additional profitability from operating the E175 aircraft and a reduction in fuel costs incurred under the prorate agreements.

SkyWest Airlines block hour production increased to 1,074,809, or 1.4%, for 2015 from 1,060,147 for 2014 primarily due to the additional block hour production from the new E175 aircraft added subsequent to December 31, 2014 which was partially offset by a reduction in block hour production from removing the EMB120 aircraft type from service. Significant items contributing to the SkyWest Airlines segment profit are set forth below.

SkyWest Airlines operating revenue decreased by $25.3 million, or 1.4%, for 2015 compared to 2014. The decrease was primarily due to a decrease in fuel, landing fees, station rents and engine overhaul reimbursements from major airline partners. This decrease was partially offset by additional E175 operations along with improved contract performance incentives.

SkyWest Airlines airline expense decreased by $131.3 million, or 7.3%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. The decrease in the SkyWest Airlines airline expense was primarily due to the following factors:

- SkyWest Airlines airline expense included an increase in salaries, wages and employee benefits of $29.1 million, or 4.8%, for 2015 compared to 2014, primarily due to the additional block hour production and related crew training associated with the new E175 aircraft deliveries.
- SkyWest Airlines ground handling service expense decreased $22.0 million, or 25.6%, during 2015, compared to 2014. The decrease in ground handling service expense was primarily due to a reduction in the locations at which SkyWest Airlines provided ground handling services subsequent to December 31, 2014.
- SkyWest Airlines fuel expense decreased $60.2 million, or 34.4%, during 2015, compared to 2014. The decrease in fuel cost was primarily due to a decrease in the average fuel cost per gallon in 2015 compared to 2014. The average fuel cost per gallon was $2.09 and $3.33 for the years 2015 and 2014, respectively.
- SkyWest Airlines aircraft maintenance, materials and repairs expense decreased by $9.0 million, or 3.0%, during 2015, compared to 2014. The decrease was primarily attributable to a decrease in scheduled maintenance events and the replacement and repair of aircraft parts and components.
- SkyWest Airlines airline expense in 2014 included special items of $57.1 million for impairment charges to write-down owned EMB120 aircraft, including capitalized engine overhaul costs, and related long-lived assets to their estimated fair value and accrued obligations on leased aircraft and related costs.
- The remaining decrease in the SkyWest Airlines airline expense was primarily attributable to a reduction in the EMB120 aircraft related depreciation, partially offset by crew-related training costs including simulators, hotels and crew per diem.

ExpressJet Segment Loss. ExpressJet segment loss decreased $83.7 million, or 71.0%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. The ExpressJet 2014 segment included $17.7 million of special item expenses associated with the ERJ145 aircraft and write-down of certain assets. The remaining improvement in the ExpressJet segment loss was primarily due to the removal of aircraft operating under unprofitable fixed-fee contracts, higher flight completion rates, higher contract incentives earned under its fixed-fee contracts and rate improvements in certain fixed-fee contracts compared to 2014.

ExpressJet's block hour production decreased to 999,995, or 17.7%, for the year ended December 31, 2015 from 1,215,413 for the year ended December 31, 2014 primarily due to the removal of ERJ145 aircraft previously operated under its United fixed-fee agreement, which was partially offset by additional block hour production from its ERJ145 agreement with American subsequent to December 31, 2014. Significant items contributing to the ExpressJet segment loss are set forth below:

ExpressJet's operating revenue decreased by $176.9 million, or 13.1%, for 2015 compared to 2014. The decrease was primarily due to a reduction in scheduled departures in ExpressJet's ERJ145 fleet operating under its United fixed-fee arrangement, which was partially offset by an increase in contract performance incentives earned and higher completion rates.

ExpressJet's airline expense decreased $260.6 million, or 17.8%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. The decrease in the ExpressJet airline expense was primarily due to the following factors:

- ExpressJet's salaries, wages and benefits decreased $83.7 million, or 12.9%, during 2015, compared to 2014. The decrease was primarily due to a decrease in scheduled production subsequent to 2014 that resulted from the decreased number of ERJ145 and CRJ200 aircraft in operation under ExpressJet's United fixed-fee arrangements.

- ExpressJet's aircraft maintenance, materials and repairs expense decreased $70.5 million, or 18.1%, during 2015, compared to 2014. The decrease was primarily due to the reduced fleet size and related production subsequent to 2014.

- ExpressJet's aircraft rental expenses decreased $21.0 million, or 23.3%, during 2015, compared to 2014, primarily due to the termination of aircraft leases on CRJ200 aircraft since 2014.

- ExpressJet's ground handling services expenses decreased $19.2 million, or 50.7%, during 2015, compared to 2014, primarily due to a decrease in scheduled production and reduced fleet size.

- ExpressJet's other airline expenses decreased $25.4 million, or 18.1%, during 2015, compared to 2014, primarily due to a decrease in scheduled production subsequent to 2014.

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

SkyWest Leasing segment Profit. SkyWest Leasing profit increased $10.2 million during the year ended December 31, 2015, compared to the year ended December 31, 2014, primarily due to the additional E175 aircraft revenue attributed to the ownership costs of the E175 aircraft earned under the applicable fixed-fee contract and profitability offset by the E175 aircraft depreciation and interest expense. During the fourth quarter of 2015, we resolved a contract matter with one of our major airline partners that resulted in a $7.9 million reduction to revenue. This reduction is reflected in the SkyWest Leasing segment as this amount related to an aircraft financing matter for the year ended December 31, 2015.

Liquidity and Capital Resources

Sources and Uses of Cash—2016 Compared to 2015

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, 2016 and 2015, and our total cash and marketable securities position as of December 31, 2016 and December 31, 2015 (in thousands).

	For the year ended December 31,			
	2016	2015	$ Change	% Change
Net cash provided by operating activities	$ 506,665	$ 417,325	$ 89,340	21.4 %
Net cash used in investing activities	(1,177,078)	(569,716)	(607,362)	106.6 %
Net cash provided by financing activities	614,144	223,151	390,993	175.2 %

	December 31, 2016	December 31, 2015	$ Change	% Change
Cash and cash equivalents	$ 146,766	$ 203,035	$ (56,269)	(27.7)%
Restricted cash	8,243	8,216	27	0.3 %
Marketable securities	409,898	286,668	123,230	43.0 %
Total	$ 564,907	$ 497,919	$ 66,988	13.5 %

Cash Flows from Operating Activities. Net cash provided from operating activities increased $89.3 million, or 21.4%, during 2016, compared to 2015. Our pre-tax income was $194.3 million in 2015. Our pre-tax loss in 2016 was $148.8 million, which included a non-cash special charge of $465.6 million. Excluding the impact of the 2016 non-cash special charge, our pre-tax income increased by $22.5 million. The remaining increase in our cash from operations included positive cash changes in our working capital accounts and 2015 cash flows included a $33.7 million non-cash gain from an early extinguishment of debt.

Cash Flows from Investing Activities. Net cash used in investing activities increased $607.4 million, or 106.6%, during 2016, compared to 2015. The increase in cash used in investing activities was primarily due to the net purchases of marketable securities which increased $251.9 million from 2015 to 2016, and the acquisition of 41 E175 aircraft and the related spare aircraft assets in 2016, compared to 25 E175 aircraft and the related spare aircraft assets purchased in 2015, which in total represented an increase of $428.1 million. These uses of cash were partially offset by proceeds received from the Bombardier termination agreement of $90.0 million.

Cash Flows from Financing Activities. Net cash provided by financing activities increased $391.0 million, or 175.2%, during 2016, compared to 2015. The increase was primarily due to the proceeds from the issuance of long-term debt of $926.1 million associated with 41 E175 aircraft acquired during 2016, compared to the issuance of long-term debt of $591.9 million associated with 25 E175 aircraft acquired during 2015. Additionally, the principal payments of long-term debt decreased $52.1 million during 2016, compared to 2015, as a result of the early pay off of $145.4 million in debt during 2015.

Sources and Uses of Cash—2015 Compared to 2014

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, 2015 and 2014, and our total cash and marketable securities position as of December 31, 2015 and December 31, 2014 (in thousands).

	For the year ended December 31,			
	2015	2014	$ Change	% Change
Net cash provided by operating activities	$ 417,325	$ 290,130	$ 127,195	43.8 %
Net cash used in investing activities	(569,716)	(585,226)	15,510	(2.7)%
Net cash provided by financing activities	223,151	256,735	(33,584)	(13.1)%

	December 31, 2015	December 31, 2014	$ Change	% Change
Cash and cash equivalents	$ 203,035	$ 132,275	$ 70,760	53.5 %
Restricted cash	8,216	11,582	(3,366)	(29.1)%
Marketable securities	286,668	415,273	(128,605)	(31.0)%
Total	$ 497,919	$ 559,130	$ (61,211)	(10.9)%

Cash Flows from Operating Activities. Net cash provided from operating activities increased $127.2 million, or 43.8%, during 2015, compared to 2014. The primary factors impacting our cash provided from operating activities include: our net income increased $142.0 million from 2014 to 2015 and our deferred income taxes increased $73.8 million from 2014 to 2015. Additionally, the combination of the 2014 special items, the 2014 gain on sale of our TRIP shares and the 2015 gain on early debt payoff resulted in a net decrease to cash from operations of $83.6 million.

Cash Flows from Investing Activities. Net cash used in investing activities decreased $15.5 million, or 2.7% during 2015, compared to 2014. The decrease in cash used in investing activities was primarily due to the net sales of marketable securities which increased $57.4 million during 2015, compared to 2014, along with the decrease of other assets of $16.0 million during 2015, compared to 2014. These changes were partially offset by the acquisition of 25 E175 aircraft and the related spare assets in 2015, compared to 20 E175 aircraft, one used CRJ700 aircraft and 20 used CRJ200 engines and the related spare assets purchased in 2014, which in total represented an increase of $57.4 million. No additional aircraft deposits were made, but $1.9 million in aircraft deposits were returned during 2015.

Cash Flows from Financing Activities. Net cash provided by financing activities decreased $33.6 million, or 13.1%, during 2015, compared to 2014. The decrease was primarily due to the early payoff and principal payments of long-term debt which increased $168.9 million during 2015, compared to 2014. This decrease was partially offset by the proceeds from the issuance of long-term debt of $591.9 million associated with 25 E175 aircraft acquired during 2015, compared to the issuance of long-term debt of $460.6 million associated with 20 E175 aircraft acquired during 2014.

Liquidity and Capital Resources as of December 31, 2016 and 2015

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

At December 31, 2016, our total capital mix was 37.6% equity and 62.4% long-term debt, compared to 47.6% equity and 52.4% long-term debt at December 31, 2015.

During the year ended December 31, 2016, we increased our line of credit with a bank from $25 million to $75 million. At December 31, 2016, we had $6.5 million in letters of credit issued under the facility, which reduced the amount available under the facility to $68.5 million. The facility expires on June 1, 2018 and has a variable interest rate of LIBOR plus 2.5% (3.3% at December 31, 2016).

As of December 31, 2016 and 2015, we had $87.7 million and $88.9 million, respectively, in letters of credit and surety bonds outstanding with various banks and surety institutions.

As of December 31, 2016 and 2015, we classified $8.2 million as restricted cash related to our workers' compensation policies.

Significant Commitments and Obligations

General

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

	Total	2017	2018	2019	2020	2021	Thereafter
Operating lease payments for aircraft and facility obligations	$ 954,823	$ 191,292	$ 155,799	$ 123,308	$ 135,386	$ 112,535	$ 236,503
Firm aircraft and spare engine commitments	548,362	513,859	14,787	14,787	4,929	—	—
Interest commitments(A)	502,054	94,931	83,278	72,128	61,266	51,497	138,954
Principal maturities on long-term debt	2,570,904	308,945	286,164	286,266	251,265	236,896	1,201,368
Total commitments and obligations	$ 4,576,143	$1,109,027	$ 540,028	$ 496,489	$ 452,846	$ 400,928	$ 1,576,825

(A) At December 31, 2016, we had variable rate notes representing 5.1% of our total long-term debt. Actual interest commitments will change based on the actual variable interest.

Purchase Commitments and Options

On May 21, 2014, we announced our execution of an agreement with Embraer, S.A. for the purchase of new E175 aircraft. We have entered into contracts for firm deliveries of 104 aircraft under the agreement. As of December 31, 2016, we had taken delivery of 86 E175s. We anticipate taking delivery of the remaining 18 E175s covered by the firm orders by the end of 2017.

We have not historically funded a substantial portion of our aircraft acquisitions with working capital. Rather, we have generally funded our aircraft acquisitions through a combination of operating leases and long-term debt financing. At the time of each aircraft acquisition, we evaluate the financing alternatives available to us, and select one or more of these methods to fund the acquisition. At present, we intend to fund our acquisition of any additional aircraft through 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 our E175 aircraft purchases with approximately 85% debt and the remaining purchase price balance with cash.

Aircraft Lease and Facility Obligations

We also have significant long-term lease obligations, primarily relating to our aircraft fleet. At December 31, 2016, we had 415 aircraft under lease with remaining terms ranging from less than one to nine years. Future minimum lease payments due under all long-term operating leases were approximately $954.8 million at December 31, 2016. Assuming a 4.77% discount rate, which is the average rate used to approximate the implicit rates within the applicable aircraft leases, the present value of these lease obligations would have been equal to approximately $795.1 million at December 31, 2016.

Long-term Debt Obligations

As of December 31, 2016, we had $2.6 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 3.8% at December 31, 2016.

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

Guarantees

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Aircraft Fuel

In the past, we have not experienced difficulties with fuel availability and we currently expect to be able to obtain fuel at prevailing prices in quantities sufficient to meet our future needs. Pursuant to our contract flying arrangements, United, Delta, 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, 2016, 2015 and 2014, approximately 4%, 4% and 3% of our ASMs were flown under prorate arrangements. For the years ended December 31, 2016, 2015 and 2014, the average price per gallon of aircraft fuel was $1.70, $2.09 and $3.33, 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 $17.6 million, $19.1 million and $29.1 million in fuel expense for the years ended December 31, 2016, 2015 and 2014, respectively.

Interest Rates

Our earnings are affected by changes in interest rates due to the amounts of variable rate long-term debt and the amount of cash and securities held. The interest rates applicable to variable rate notes may rise and increase the amount of interest expense. We would also anticipate receiving higher amounts of interest income on cash and securities held at the time; however, the market value of our available-for-sale securities would likely decline. At December 31, 2016, 2015 and 2014, we had variable rate notes representing 5.1%, 12.1% and 41.3% of our total long-term debt, respectively. For illustrative purposes only, we have estimated the impact of market risk using a hypothetical increase in interest rates of one percentage point for both variable rate long-term debt and cash and securities. Based on this hypothetical assumption, we would have incurred an additional $2.0 million in interest expense and received $5.1 million in additional interest income for the year ended December 31, 2016; we would have incurred an additional $3.5 million in interest expense and received $5.2 million in additional interest income for the year ended December 31, 2015; and we would have incurred an additional $5.8 million in interest expense and received $5.5 million in additional interest income for the year ended December 31, 2014. However, under our contractual arrangement with our major airline partners, the majority of the increase in interest expense would be passed through and recorded as passenger revenue in our consolidated statements of comprehensive income (loss). If interest rates were to decline, our major airline partners would receive the benefit of the reduced interest expense, since interest expense is generally passed through to our major airline partners in our passenger revenues.

We currently intend to finance the acquisition of aircraft through manufacturer financing or long-term borrowings. Changes in interest rates may impact the actual financing cost associated with these aircraft. To the extent we place these aircraft in service under our code-share agreements with Delta, United, American or Alaska, our code-share agreements currently provide that reimbursement rates will be adjusted higher or lower to reflect interest rate changes in our aircraft ownership costs.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
SkyWest, Inc.

We have audited the accompanying consolidated balance sheets of SkyWest, Inc. and subsidiaries as of December 31, 2016 and 2015, 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, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SkyWest, Inc. and subsidiaries at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), SkyWest, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, 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 27, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 27, 2017

SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

ASSETS

	December 31, 2016	December 31, 2015
CURRENT ASSETS:		
Cash and cash equivalents	$ 146,766	$ 203,035
Marketable securities	409,898	286,668
Restricted cash	8,243	8,216
Income tax receivable	6,989	2,871
Receivables, net	46,916	62,162
Inventories, net	118,509	140,312
Prepaid aircraft rents	162,360	195,216
Deferred tax assets	129,285	100,730
Other current assets	18,111	18,360
Total current assets	1,047,077	1,017,570
PROPERTY AND EQUIPMENT:		
Aircraft and rotable spares	4,839,501	5,242,790
Deposits on aircraft	38,800	38,150
Buildings and ground equipment	261,704	275,788
	5,140,005	5,556,728
Less-accumulated depreciation and amortization	(1,318,308)	(2,085,981)
Total property and equipment, net	3,821,697	3,470,747
OTHER ASSETS		
Intangible assets, net	8,249	10,499
Long-term prepaid assets	218,505	229,180
Other assets	41,723	53,988
Total other assets	268,477	293,667
Total assets	$ 5,137,251	$ 4,781,984

See accompanying notes to consolidated financial statements.

SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

(Dollars in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2016	December 31, 2015
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 305,460	$ 268,667
Accounts payable	241,215	279,864
Accrued salaries, wages and benefits	139,885	138,291
Taxes other than income taxes	15,618	17,176
Other current liabilities	45,087	44,028
Total current liabilities	747,265	748,026
OTHER LONG TERM LIABILITIES	50,844	56,191
LONG TERM DEBT, net of current maturities	2,240,051	1,659,234
DEFERRED INCOME TAXES PAYABLE	694,689	749,575
DEFERRED AIRCRAFT CREDITS	53,459	62,523
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDERS' EQUITY:		
Preferred stock, 5,000,000 shares authorized; none issued	—	—
Common stock, no par value, 120,000,000 shares authorized; 79,781,305 and 79,020,371 shares issued, respectively	657,353	641,643
Retained earnings	1,103,751	1,275,142
Treasury stock, at cost, 28,015,386 and 28,015,386 shares, respectively	(410,090)	(410,090)
Accumulated other comprehensive loss	(71)	(260)
Total stockholders' equity	1,350,943	1,506,435
Total liabilities and stockholders' equity	$ 5,137,251	$ 4,781,984

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,		
	2016	**2015**	**2014**
OPERATING REVENUES:			
Passenger	$ 3,051,414	$ 3,030,023	$ 3,168,000
Ground handling and other	69,792	65,540	69,447
Total operating revenues	3,121,206	3,095,563	3,237,447
OPERATING EXPENSES:			
Salaries, wages and benefits	1,211,380	1,203,312	1,258,155
Aircraft maintenance, materials and repairs	569,306	604,863	682,773
Depreciation and amortization	284,969	264,507	259,642
Aircraft rentals	262,602	273,696	305,334
Aircraft fuel	122,284	118,124	193,247
Ground handling services	72,659	82,694	123,917
Station rentals and landing fees	49,482	54,167	51,024
Special items	465,649	—	74,777
Other operating expenses	255,559	259,685	263,730
Total operating expenses	3,293,890	2,861,048	3,212,599
OPERATING INCOME (LOSS)	(172,684)	234,515	24,848
OTHER INCOME (EXPENSE):			
Interest income	2,143	1,997	4,096
Interest expense	(78,177)	(75,850)	(65,995)
Other, net	(94)	33,660	20,708
Total other expense, net	(76,128)	(40,193)	(41,191)
INCOME (LOSS) BEFORE INCOME TAXES	(248,812)	194,322	(16,343)
PROVISION (BENEFIT) FOR INCOME TAXES	(87,226)	76,505	7,811
NET INCOME (LOSS)	$ (161,586)	$ 117,817	$ (24,154)
BASIC EARNINGS (LOSS) PER SHARE	$ (3.14)	$ 2.31	$ (0.47)
DILUTED EARNINGS (LOSS) PER SHARE	$ (3.14)	$ 2.27	$ (0.47)
Weighted average common shares:			
Basic	51,505	51,077	51,237
Diluted	51,505	51,825	51,237
COMPREHENSIVE INCOME (LOSS):			
Net income (loss)	$ (161,586)	$ 117,817	$ (24,154)
Proportionate share of equity method investee foreign currency translation adjustment, net of taxes	—	—	(1,129)
Net unrealized appreciation (depreciation) on marketable securities, net of taxes	189	29	(719)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ (161,397)	$ 117,846	$ (26,002)

See accompanying notes to consolidated financial statements.

SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock		Retained	Treasury Stock		Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Shares	Amount	Income (Loss)	Total
Balance at December 31, 2013	77,326	$ 618,511	$ 1,197,819	(26,096)	$ (382,950)	$ 1,559	$ 1,434,939
Net loss	—	—	(24,154)	—	—	—	(24,154)
Proportionate share of other companies foreign currency translation adjustment, net of tax of $678	—	—	—	—	—	(1,129)	(1,129)
Net unrealized depreciation on marketable securities, net of tax of $437	—	—	—	—	—	(719)	(719)
Exercise of common stock options and vested restricted stock units	330	287	—	—	—	—	287
Sale of common stock under employee stock purchase plan	295	3,752	—	—	—	—	3,752
Stock based compensation expense related to the issuance of stock options and restricted stock units	—	5,318	—	—	—	—	5,318
Tax deficiency from exercise of common stock options	—	(1,347)	—	—	—	—	(1,347)
Treasury stock purchases	—	—	—	(669)	(8,414)	—	(8,414)
Cash dividends declared ($0.16 per share)	—	—	(8,187)	—	—	—	(8,187)
Balance at December 31, 2014	77,951	626,521	1,165,478	(26,765)	(391,364)	(289)	1,400,346
Net income	—	—	117,817	—	—	—	117,817
Net unrealized depreciation on marketable securities, net of tax of $18	—	—	—	—	—	29	29
Exercise of common stock options and vested restricted stock units	815	8,490	—	—	—	—	8,490
Sale of common stock under employee stock purchase plan	254	3,430	—	—	—	—	3,430
Stock based compensation expense related to the issuance of stock options and restricted stock units	—	5,368	—	—	—	—	5,368
Tax deficiency from exercise of common stock options	—	(2,166)	—	—	—	—	(2,166)
Treasury stock purchases	—	—	—	(1,250)	(18,726)	—	(18,726)
Cash dividends declared ($0.16 per share)	—	—	(8,153)	—	—	—	(8,153)
Balance at December 31, 2015	79,020	641,643	1,275,142	(28,015)	(410,090)	(260)	1,506,435
Net loss	—	—	(161,586)	—	—	—	(161,586)
Net unrealized depreciation on marketable securities, net of tax of $98	—	—	—	—	—	189	189
Exercise of common stock options and vested restricted stock units	609	4,979	—	—	—	—	4,979
Sale of common stock under employee stock purchase plan	152	3,163	—	—	—	—	3,163
Stock based compensation expense related to the issuance of stock options and restricted stock units	—	7,568	—	—	—	—	7,568
Cash dividends declared ($0.19 per share)	—	—	(9,805)	—	—	—	(9,805)
Balance at December 31, 2016	79,781	$ 657,353	$ 1,103,751	(28,015)	$ (410,090)	$ (71)	$ 1,350,943

See accompanying notes to consolidated financial statements.

SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (161,586)	$ 117,817	$ (24,154)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	284,969	264,507	259,642
Stock based compensation expense	7,568	5,368	5,318
Loss on sale of property and equipment	—	—	4,016
Gain from equity ownership in TRIP Airlines	—	—	(24,922)
Gain from early extinguishment of debt	(1,279)	(33,660)	—
Capitalized Brasilia EMB-120 engine overhauls	—	—	(18,812)
Special items	465,649	—	74,777
Net increase (decrease) in deferred income taxes	(83,441)	73,844	5,054
Changes in operating assets and liabilities:			
Decrease (increase) in restricted cash	(27)	3,366	637
Decrease in receivables	15,260	21,076	25,540
Increase in income tax receivable	(4,118)	(92)	(1,939)
Increase in inventories	(1,986)	(2,860)	(890)
Decrease (increase) in other current assets and prepaid aircraft rents	37,569	(28,598)	(25,985)
Decrease in deferred aircraft credits	(8,108)	(8,635)	(7,672)
Increase (decrease) in accounts payable and accrued aircraft rents	(47,563)	9,690	5,852
Increase (decrease) in other current liabilities	3,758	(4,498)	13,668
NET CASH PROVIDED BY OPERATING ACTIVITIES	506,665	417,325	290,130
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of marketable securities	(2,511,388)	(1,170,439)	(326,964)
Sales of marketable securities	2,388,168	1,299,069	398,148
Proceeds from the sale of aircraft, property and equipment	3,008	10,308	9,473
Proceeds from installment payment from sale of equity shares in TRIP Airlines	—	—	17,237
Proceeds from settlement of residual value guarantee aircraft agreements	90,000	—	—
Acquisition of property and equipment:			
Aircraft and rotable spare parts	(1,138,963)	(710,871)	(653,473)
Deposits on aircraft	(650)	—	—
Buildings and ground equipment	(14,350)	(10,405)	(21,966)
Return of deposits on aircraft	—	1,850	—
Decrease (increase) in other assets	7,097	10,772	(7,681)
NET CASH USED IN INVESTING ACTIVITIES	(1,177,078)	(569,716)	(585,226)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	926,069	591,881	460,600
Principal payments on long-term debt	(302,158)	(354,277)	(185,357)
Net proceeds from issuance of common stock	8,142	9,754	2,692
Purchase of treasury stock	—	(18,726)	(8,414)
Decrease (increase) in debt issuance cost	(8,653)	2,779	(4,591)
Payment of cash dividends	(9,256)	(8,260)	(8,195)
NET CASH PROVIDED BY FINANCING ACTIVITIES	614,144	223,151	256,735
Increase (Decrease) in cash and cash equivalents	(56,269)	70,760	(38,361)
Cash and cash equivalents at beginning of period	203,035	132,275	170,636
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 146,766	$ 203,035	$ 132,275
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Non-cash investing activities:			
Acquisition of rotable spare parts	$ 5,688	$ —	$ —
Cash paid during the period for:			
Interest, net of capitalized amounts	$ 76,589	$ 80,657	$ 67,763
Income taxes	$ 1,212	$ 5,104	$ 2,066

See accompanying notes to consolidated financial statements.

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

SkyWest, Inc. (the "Company"), through its subsidiaries, SkyWest Airlines, Inc. ("SkyWest Airlines") and ExpressJet Airlines, Inc. ("ExpressJet"), operates the largest regional airlines in the United States. As of December 31, 2016, SkyWest Airlines and ExpressJet offered scheduled passenger service under code-share agreements with United, Delta, American and Alaska with approximately 3,160 total daily departures to different destinations in the United States, Canada, Mexico and the Caribbean. Additionally, the Company provides airport customer service and ground handling services for other airlines throughout its system. As of December 31, 2016, the Company had 652 aircraft in scheduled service out of a combined fleet of 685 aircraft consisting of the following:

	CRJ200	CRJ700	CRJ900	ERJ135	ERJ145	E175	EMB120	Total
United	75	35	—	5	140	58	—	313
Delta	109	62	64	—	—	13	—	248
American	29	33	—	—	14	—	—	76
Alaska	—	—	—	—	—	15	—	15
Aircraft in scheduled service	213	130	64	5	154	86	—	652
Subleased to an un-affiliated entity	2	—	—	—	—	—	—	2
Other*	—	9	—	4	4	—	14	31
Total Fleet	215	139	64	9	158	86	14	685

* Other aircraft consisted of leased aircraft removed from service that were in the process of being returned to the lessor and owned aircraft removed from service that are in the process of being sold.

For the year ended December 31, 2016, approximately 52.2% of the Company's aggregate capacity was operated for United, approximately 36.5% was operated for Delta, approximately 6.3% was operated for American, and approximately 5.0% 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, 2016, SkyWest Airlines operated as a Delta Connection carrier primarily in Salt Lake City and Minneapolis, a United Express carrier primarily in Los Angeles, San Francisco, Denver, Houston, Chicago and the Pacific Northwest, an American carrier primarily in Chicago, Los Angeles and Phoenix and an Alaska carrier primarily in the Pacific Northwest.

As of December 31, 2016, ExpressJet operated as a Delta Connection carrier primarily in Atlanta and Detroit, a United Express carrier primarily in Chicago (O'Hare), Cleveland, Newark and Houston and an American carrier primarily in Dallas.

Basis of Presentation

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

In preparing the accompanying consolidated financial statements, the Company has reviewed, as determined necessary by the Company's management, events that have occurred after December 31, 2016, through the filing date of the Company's annual report with the U.S. Securities and Exchange Commission. The Company reclassified certain prior period amounts to conform to the current period presentation.

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 classified $8.2 million of cash as restricted cash collateralizing letters of credit under the Company's workers' compensation insurance policy and classified it accordingly in the consolidated balance sheets as of December 31, 2016 and 2015.

Marketable Securities

The Company's investments in marketable debt and equity securities are deemed by management to be available-for-sale and are reported at fair market value with the net unrealized appreciation (depreciation) reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. At the time of sale, any realized appreciation or depreciation, calculated by the specific identification method, is recognized in other income and expense. The Company's position in marketable securities as of December 31, 2016 and 2015 was as follows (in thousands):

At December 31, 2016	Amortized Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair market value
Total cash and cash equivalents	$ 146,766	$ —	$ —	$ 146,766
Available-for-sale securities:				
Bond and bond funds	$ 410,001	$ —	$ (116)	$ 409,885
Asset backed securities	13	—	—	13
Total available-for-sale securities	$ 410,014	$ —	$ (116)	$ 409,898
Total cash and cash equivalents and available for sale securities	$ 556,780	$ —	$ (116)	$ 556,664

At December 31, 2015	Amortized Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair market value
Total cash and cash equivalents	$ 203,035	$ —	$ —	$ 203,035
Available-for-sale securities:				
Bond and bond funds	$ 286,857	$ —	$ (220)	$ 286,637
Asset backed securities	30	1	—	31
Total available-for-sale securities	$ 286,887	$ 1	$ (220)	$ 286,668
Total cash and cash equivalents and available for sale securities	$ 489,922	$ 1	$ (220)	$ 489,703

Marketable securities had the following maturities as of December 31, 2016 (in thousands):

Maturities	Amount
Year 2017	$ 293,928
Thereafter	115,970

As of December 31, 2016 and 2015, the Company had classified $409.9 million and $286.7 million of marketable securities, respectively, as short-term since it had the intent to maintain a liquid portfolio and the ability to redeem the securities within one year. The Company has classified $2.3 million of investments as non-current and has identified them as "Other assets" in the Company's consolidated balance sheet as of December 31, 2015 (see Note 6).

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, 2016 and 2015 was $40.5 million and $13.9 million, respectively. The significant increase in 2016 was related to additional excess inventory identified as part of the impairment analysis of the 50-seat aircraft. See Note 8, *Special items,* for additional detail on the impairment. These allowances are based on management estimates, which can be modified based on future changes in circumstances.

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:

Assets	Depreciable Life	Residual Value
New Aircraft	18 years	30 %
Used Aircraft, rotable spares, and spare engines	up to 18 years	0 - 30 %
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, 2016, the Company had approximately $3.8 billion of property and equipment and related assets. Additionally, as of December 31, 2016, the Company had approximately $8.2 million in intangible assets. In accounting for these long-lived and intangible assets, the Company makes estimates about the expected useful lives of the assets, the expected residual values of certain of these assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. On September 7, 2005, the Company acquired all of the issued and outstanding capital stock of Atlantic Southeast and recorded an intangible asset for specifically identifiable contracts of approximately $33.7 million relating to the acquisition. The intangible asset is being amortized over fifteen years under the straight-line method. As of December 31, 2016 and 2015, the Company had $25.5 million and $23.3 million in accumulated amortization expense, attributable to the acquisition, respectively. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the long-lived assets, a significant change in the condition of the long-lived assets and operating cash flow losses associated with the use of the long-lived assets. On a periodic basis, the Company evaluates whether impairment indicators are present. When considering whether or not impairment of long-lived assets exists, 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.

In December 2016, the Company decided to remove CRJ200 aircraft from ExpressJet's operation. In connection therewith, the Company plans to remove approximately 46 CRJ200 aircraft from its fleet during 2017. Additionally, in December 2016, the Company entered into a termination agreement covering Bombardier's residual value guarantee ("RVG") agreements on 76 CRJ200 aircraft owned by SkyWest Airlines and ExpressJet whereby it agreed to terminate Bombardier's future RVG commitment in exchange for a cash payment and other consideration valued at $125 million. The agreement also eliminated the Company`s future requirement to return the aircraft to a mid-time maintenance condition and certain remarketing activities. This termination agreement allowed for the acceleration of the retirement of the CRJ 200 fleet. As a result of the scheduled reduction in the CRJ200 fleet in 2017, the termination of the RVG agreements with Bombardier and the current market values of its CRJ200 aircraft excluding Bombardier's RVGs, the Company concluded that indicators of impairment existed and therefore, evaluated its CRJ200 fleet and related assets for impairment. Pursuant to Accounting Standards Codification ("ASC") 360-10, Impairment and Disposal of Long-Lived Assets, the Company determined that separate asset groups existed based on the various major partner contracts. A recoverability test was performed utilizing estimated undiscounted future cash flows for each asset group pursuant to applicable contracts with the major partners and associated expenses as well as the value the Company would realize upon disposal of aircraft. This was compared to the carrying value of the related assets resulting in a cash flow deficiency indicating that an impairment existed. The impairment analysis required the Company to perform an assessment of the fair value of its long-lived assets related to the CRJ200 aircraft within the asset groups utilized in the recoverability test. The Company engaged a third party to assist in determining the fair value of certain of the long-lived assets, including the aircraft, spare engines and fixed asset spare parts inventory. These values were estimated based on listed market values or recent third-party market transactions for similar assets. Additionally, the Company estimated the fair value of certain long-lived prepaid lease assets using the net present value of estimated current CRJ200 lease rates. All fair values are considered to be Level 3 within the fair value hierarchy. The amounts the Company may ultimately realize from the disposal of its CRJ200 long-lived assets may vary from the December 31, 2016 fair value assessments. See Note 8, *Special Items*, for the impairment charges recorded during the year ended December 31, 2016 related to the CRJ200 long-lived assets.

Additionally, the Company's fixed-fee contract with United covering Embraer ERJ145 regional jet aircraft ("ERJ145") is scheduled to expire at the end of 2017, subject to United's two one-year extension rights intended to facilitate an orderly return of ERJ145 aircraft to United. The ERJ145 aircraft are leased from United and the Company is obligated to return the aircraft to United as each aircraft is scheduled to terminate under the contract. There are no significant unreimbursed return related costs associated with these lease returns. Under the terms of the fixed-fee contract, the Company anticipates removing approximately 45 ERJ145s from its fleet in 2017 and returning the aircraft to United. Due to the uncertainty regarding the probability of extending the ERJ145 fixed-fee arrangement with United beyond the existing terms and as the Company is obligated to return these aircraft to United upon the contract expiration, the Company also evaluated its ERJ145 related assets for impairment including spare engines and related spare parts inventory. The Company engaged a third party to assist in determining the fair value of the spare parts engines and inventory. The spare engines and inventory were valued based on recent market transactions for similar assets. All fair values are considered to be Level 3 within the fair value hierarchy. The amounts the Company may ultimately realize from the disposal of its ERJ145 long-lived assets may vary from the December 31, 2016 fair value assessments. See Note 8, *Special Items*, for the impairment charges recorded during the year ended December 31, 2016 related to the ERJ145 long-lived assets.

The Company did not recognize any impairment charges of long-lived assets during 2015.

In 2014, the Company had impairments on several long-lived assets relating to Embraer Brasilia EMB 120 ("EMB120") turboprop aircraft, ERJ145 aircraft type specific assets and an aircraft paint facility located in Saltillo, Mexico. See Note 8, *Special Items*, for the impairment charges recorded during the year ended December 31, 2014 related to these long-lived assets.

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, 2016, 2015 and 2014, the Company capitalized interest costs of approximately $1.5 million, $2.2 million, and $1.8 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 certain of its Bombardier CRJ700 Regional Jets ("CRJ700s"), Embraer ERJ145 regional jet aircraft and Embraer E175 jet ("E175") aircraft. Under the terms of the agreements, the Company pays a fixed dollar amount per engine hour flown on a monthly basis and the third-party vendors will assume the responsibility to repair the engines at no additional cost to the Company, subject to certain specified exclusions. Maintenance costs under these contracts are recognized when the engine hour is flown pursuant to the terms of each contract.

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

Passenger and Ground Handling Revenues

The Company recognizes passenger and ground handling revenues when the service is provided under its code-share agreements. Under the Company's fixed-fee arrangements (referred to as "fixed-fee arrangements, "fixed-fee contracts" or "capacity purchase agreements") with Delta, United, American and Alaska (each, a "major airline partner"), the major airline partner generally pays the Company a fixed-fee for each departure, flight or block time incurred, and an amount per aircraft in service each month with additional incentives based on flight completion and on time performance. The major airline partner also directly reimburses the Company for certain direct expenses incurred under the fixed-fee arrangement such as fuel expense and landing fee expenses. Under the fixed-fee arrangements, revenue is earned when each flight is completed.

Under the Company's fixed-fee agreements with Delta, United, American and Alaska, the compensation structure generally consists of a combination of agreed-upon rates for operating flights and direct reimbursement for other certain costs associated with operating the aircraft. A portion of the Company's contract flying compensation is designed to reimburse the Company for certain aircraft ownership costs. The aircraft compensation structure 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. Under the Company's ExpressJet United Express ERJ Agreement and ExpressJet American ERJ145 Agreement, the major airline partner provides the aircraft to the Company for a nominal amount. The Company has concluded that a component of its revenue under these agreements is rental income, inasmuch as the agreements identify the "right of use" of a specific type and number of aircraft over a stated period of time. The amounts deemed to be rental income under the agreements for the years ended December 31, 2016, 2015 and 2014 were $516.0 million, $504.9 million and $497.0 million, respectively. These amounts are reflected as passenger revenues on the Company's consolidated statements of comprehensive income (loss). The Company has not separately stated aircraft rental income and aircraft rental expense in the consolidated statement of comprehensive income (loss) since the use of the aircraft is not a separate activity of the total service provided.

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

In several of the Company's agreements, the Company is eligible for incentive compensation upon the achievement of certain performance criteria. The incentives are defined in the agreements and are being measured and determined on a monthly, quarterly or semi-annual basis. At the end of each period, the Company calculates the incentives achieved during that period and recognizes revenue accordingly.

The Company's passenger and ground handling revenues could be impacted by a number of factors, including changes to the Company's code-share agreements with Delta, United, Alaska or American, contract modifications resulting from contract re-negotiations, the Company's ability to earn incentive payments contemplated under the Company's code-share agreements and settlement of reimbursement disputes with the Company's major airline partners.

Under a Revenue Sharing Arrangement (referred to as a "revenue-sharing" or "prorate" arrangement), the major airline and regional airline negotiate a passenger fare proration formula, pursuant to which the regional airline receives a percentage of the ticket revenues for those passengers traveling for one portion of their trip on the regional airline and the other portion of their trip on the major airline. Revenue is recognized under the Company's prorate flying agreements when each flight is completed based upon the portion of the prorate passenger fare the Company anticipates that it will receive for each completed flight.

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

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

Delta Connection Agreements

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
SkyWest Airlines Delta Connection Agreement (fixed-fee arrangement)	• CRJ 200 • CRJ 700 • CRJ 900 • E175	50 27 36 13	• Individual aircraft have scheduled removal dates under the agreement between 2017 and 2026 • The average remaining term of the aircraft under contract is 3.7 years
ExpressJet Delta Connection Agreement (fixed-fee arrangement)	• CRJ 200 • CRJ 700 • CRJ 900	38 35 28	• Individual aircraft have scheduled removal dates under the agreement between 2017 and 2022 • The average remaining term of the aircraft under contract is 2.8 years
SkyWest Airlines Delta Connection Prorate Agreement (revenue-sharing arrangement)	• CRJ 200	21	• Terminable with 30-day notice

United Express Agreements

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
SkyWest Airlines United Express Agreements (fixed-fee arrangement)	• CRJ 200 • CRJ 700 • E175	53 35 58	• Individual aircraft have scheduled removal dates under the agreement between 2017 and 2027 • The average remaining term of the aircraft under contract is 5.7 years
ExpressJet United ERJ Agreement (fixed-fee arrangement)	• ERJ 145 • ERJ 135	140 5	• Individual aircraft have scheduled removal dates under the agreement during 2017, subject to two one-year extensions • The average remaining term of the aircraft under contract is 0.9 years
SkyWest Airlines United Express Prorate Agreement (revenue-sharing arrangement)	• CRJ 200	22	• Terminable with 120-day notice

American Agreements

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
SkyWest Airlines American Agreement (fixed-fee arrangement)	• CRJ 200 • CRJ 700	9 23	• CRJ200 aircraft are scheduled to expire in 2017 and the CRJ700 aircraft are scheduled to expire in 2019
SkyWest Airlines American Prorate Agreement (revenue-sharing arrangement)	• CRJ 200	6	• Terminable with 120-day notice
ExpressJet American Agreement (fixed-fee arrangement)	• CRJ 200 • CRJ 700 • ERJ 145	11 10 14	• CRJ200 aircraft are scheduled to expire in 2017 and the CRJ700 aircraft are scheduled to expire in 2020
ExpressJet American Prorate Agreement (revenue-sharing arrangement)	• CRJ 200	3	• Terminable with 120-day notice

Alaska Capacity Purchase Agreement

Agreement	Aircraft type	Number of Aircraft	Term / Termination Dates
SkyWest Airlines Alaska Agreement (fixed-fee arrangement)	• E175	15	• Individual aircraft have scheduled removal dates under the agreement between 2027 and 2028

The Company anticipates placing an additional seven E175 aircraft with United, five additional E175 aircraft with Alaska and six E175 aircraft with Delta throughout 2017.

The Company is scheduled to have 49 CRJ700 aircraft in service with American by mid-2017, all of which were previously operated in the existing fleet of other major airline partners. At the end of 2016, the Company had 213 CRJ200 aircraft and 159 ERJ145/135 aircraft in scheduled service. The Company anticipates it will reduce its CRJ200 aircraft by approximately 46 aircraft and its ERJ145/135 aircraft by approximately 59 aircraft during 2017. The Company also anticipates that ExpressJet will transition to flying primarily dual-class aircraft in its CRJ aircraft operation by removing its CRJ200 aircraft from service over the next year.

Deferred Aircraft Credits

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

Income Taxes

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

Net Income (Loss) Per Common Share

Basic net income (loss) per common share ("Basic EPS") excludes dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share ("Diluted EPS") reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net income (loss) per common share. During the years ended December 31, 2016, 2015 and 2014, 2,077,000, 505,000 and 3,191,000 shares reserved for issuance upon the exercise of outstanding options were excluded from the computation of Diluted EPS respectively, as the respective exercise price exceeded the weighted average fair market value of the Company's stock for such year.

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, 2016, 2015 and 2014 (in thousands):

	Year Ended December 31,		
	2016	**2015**	**2014**
Numerator:			
Net Income (Loss)	$ (161,586)	$ 117,817	$ (24,154)
Denominator:			
Denominator for basic earnings per-share weighted average shares	51,505	51,077	51,237
Dilution due to stock options and restricted stock units	—	748	—
Denominator for diluted earnings per-share weighted average shares	51,505	51,825	51,237
Basic earnings (loss) per-share	$ (3.14)	$ 2.31	$ (0.47)
Diluted earnings (loss) per-share	$ (3.14)	$ 2.27	$ (0.47)

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 (depreciation) on marketable securities. Comprehensive loss for the year ended December 31, 2014 included unrealized gain (loss) on foreign currency translation adjustment related to the Company's equity investment in Trip Linhas Aéreas, a regional airline operating in Brazil ("TRIP").

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for receivables and accounts payable approximate fair values because of the immediate or short-term maturity of these financial instruments. Marketable securities are reported at fair value based on market quoted prices in the consolidated balance sheets. If quoted prices in active markets are no longer available, the Company has estimated the fair values of these securities utilizing a discounted cash flow analysis as of December 31, 2016. 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 $2,566.5 million as of December 31, 2016, as compared to the carrying amount of $2,570.9 million as of December 31, 2016. The Company's fair value of long-term debt as of December 31, 2015 was $1,939.8 million as compared to the carrying amount of $1,948.8 million as of December 31, 2015.

Segment Reporting

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" ("ASU No. 2014-09"). Under ASU No. 2014-09, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. In July 2015, the FASB deferred the effective date of ASU No. 2014-09 for annual reporting periods beginning after December 15, 2017. In 2016, the FASB issued several amendments to the standard, including principal versus agent considerations when another party is involved in providing goods or services to a customer and the application of identifying performance obligations. The Company continues to assess the potential impacts of ASU No. 2014-09 on its fixed-fee contracts, prorate flying agreements, ground handling agreements and other revenue transactions. The Company anticipates completing its review of the impact by the second quarter of 2017. Interpretations are on-going and could have a significant impact on the Company's implementation. The Company believes the principal versus agent considerations may change how the Company presents revenue for certain directly-reimbursed expenses under its fixed-fee contracts, such as fuel expenses. ASU No. 2014-09 is required to be applied either full retrospective to each prior reporting period presented or modified retrospective with the cumulative effect of initially applying it at the date of initial application. The Company anticipates using the full retrospective method of adoption.

In April 2015, the FASB issued Account Standards Update No. 2015-03, "Interest—Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs," which requires debt issuance costs related to a recognized debt liability to be presented as a direct deduction from the carrying amount of that debt liability. The new guidance only impacts financial statement presentation. The guidance was effective in the first quarter of 2016. The Company adopted this guidance January 1, 2016 on a retrospective basis. As a result, $20.9 million of unamortized debt issuance costs that had been included in the Other assets line on the consolidated balance sheets as of December 31, 2015 are now presented as direct deductions from the carrying amounts of the related debt liabilities.

In November 2015, the FASB issued Accounting Standards Update 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU No. 2015-17"). ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by ASU No. 2015-17. ASU No. 2015-17 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company's management currently anticipates the impact of adopting ASU No. 2015-17 to result in reducing the Company's current deferred tax asset to zero with corresponding resolution in the recorded amount of the Company's long-term deferred tax liabilities.

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases (Topic 842)" ("ASU No. 2016-02"). ASU No. 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU No. 2016-02 will be effective beginning in the first quarter of 2019. Early adoption of ASU No. 2016-02 is permitted. ASU No. 2016-02 requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company's management is currently evaluating the impact the adoption of ASU 2016-02 is anticipated to have on the Company's consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation—Stock Compensation (Topic 718)" ("ASU No. 2016-09"). ASU No. 2016-09 makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU No. 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. ASU No. 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. The Company's management anticipates the adoption of ASU No. 2016-09 will likely impact the Company's income tax provision, shareholders' equity and statement of cash flows consolidated financial statements. The impact is anticipated to vary depending on the employee stock option exercises each year.

(2) Segment Reporting

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

The Company's three reporting segments consist of the operations of SkyWest Airlines, ExpressJet and SkyWest Leasing activities. Corporate overhead expenses incurred by the Company are allocated to the operating expenses of SkyWest Airlines and ExpressJet.

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

The following represents the Company's segment data for the years ended December 31, 2016, 2015 and 2014 (in thousands).

	Year Ended December 31, 2016			
	SkyWest Airlines	ExpressJet	SkyWest Leasing	Consolidated
Operating revenues	$ 1,935,378	$ 1,044,828	$ 141,000	$ 3,121,206
Operating expense	1,886,173	1,339,569	68,148	3,293,890
Depreciation and amortization expense	139,159	83,935	61,875	284,969
Special items	184,295	281,354	—	465,649
Interest expense	26,211	6,773	45,193	78,177
Segment profit (loss) (1)	22,994	(301,514)	27,659	(250,861)
Identifiable intangible assets, other than goodwill	—	8,249	—	8,249
Total assets	2,343,814	618,637	2,174,800	5,137,251
Capital expenditures (including non-cash)	57,761	15,396	1,085,844	1,159,001

	Year Ended December 31, 2015			
	SkyWest Airlines	ExpressJet	SkyWest Leasing	Consolidated
Operating revenues	$ 1,848,363	$ 1,169,923	$ 77,277	$ 3,095,563
Operating expense	1,630,200	1,192,070	38,778	2,861,048
Depreciation and amortization expense	141,189	86,382	36,936	264,507
Interest expense	36,141	12,091	27,618	75,850
Segment profit (loss) (1)	182,022	(34,238)	10,881	158,665
Identifiable intangible assets, other than goodwill	—	10,499	—	10,499
Total assets	2,300,388	1,331,000	1,150,596	4,781,984
Capital expenditures (including non-cash)	30,897	24,679	659,513	715,089

	Year Ended December 31, 2014			
	SkyWest Airlines	ExpressJet	SkyWest Leasing	Consolidated
Operating revenues	$ 1,873,675	$ 1,346,859	$ 16,913	$ 3,237,447
Operating expense	1,758,145	1,446,050	8,404	3,212,599
Depreciation and amortization expense	162,699	88,459	8,484	259,642
Special items	57,046	17,731	—	74,777
Interest expense	39,451	18,754	7,790	65,995
Segment profit (loss) (1)	76,079	(117,945)	719	(41,147)
Identifiable intangible assets, other than goodwill	—	12,748	—	12,748
Total assets	2,475,283	1,386,564	526,971	4,388,818
Capital expenditures (including non-cash)	137,678	23,790	535,455	696,923

(1) Segment profit is operating income less interest expense

(3) Long-term Debt

Long-term debt consisted of the following as of December 31, 2016 and 2015 (in thousands):

	December 31, 2016	December 31, 2015
Notes payable to banks, due in semi-annual installments, variable interest based on LIBOR, or with interest rates ranging from 2.64% to 2.82% through 2017 to 2020, secured by aircraft	$ 63,408	$ 108,348
Notes payable to a financing company, due in semi-annual installments, variable interest based on LIBOR, or with interest rates ranging from 2.27% to 3.25% through 2017 to 2021, secured by aircraft	146,266	217,341
Notes payable to banks, due in semi-annual installments plus interest at 6.06% to 6.51% through 2021, secured by aircraft	86,052	108,069
Notes payable to a financing company, due in semi-annual installments plus interest at 5.78% to 6.23% through 2017, secured by aircraft	8,854	17,208
Notes payable to banks, due in monthly installments plus interest of 2.68% to 6.86% through 2025, secured by aircraft	426,389	479,170
Notes payable to banks, due in monthly installments, plus interest at 6.05% through 2020, secured by aircraft	8,998	11,304
Notes payable to banks, due in monthly installments, plus interest at 3.44% through 2019, secured by aircraft	3,280	4,615
Notes payable to banks, due in quarterly installments plus interest at 3.39% to 4.68% through 2028, secured by aircraft	1,806,981	966,156
Notes payable to banks, due in monthly installments, plus interest based on LIBOR at 3.54% through 2017, secured by aircraft	4,666	14,538
Notes payable to banks due in monthly installments, interest at 3.30% through 2019, secured by spare engines	16,010	22,054
Long-term debt	$ 2,570,904	$ 1,948,803
Less current maturities	(308,945)	(272,027)
Long-term debt, net of current maturities	$ 2,261,959	$ 1,676,776

The Company adopted guidance ASU 2015-03 on January 1, 2016. As a result, the unamortized debt issuance costs that had been included in Other assets line on the consolidated balance sheets as of December 31, 2015 are now presented as direct deductions from the carrying amounts of the related debt liabilities as shown below as of December 31, 2016 and 2015 (see Note 1 *Nature of Operations and Summary of Significant Accounting Policies*) (in thousands):

	December 31, 2016	December 31, 2015
Current portion long-term debt	$ 308,945	$ 272,027
Long-term debt net of current maturities	2,261,959	1,676,776
Total long-term debt (including current portion)	$ 2,570,904	$ 1,948,803
Unamortized debt issue cost, net	(25,393)	(20,902)
Total long-term debt, net of debt issue costs	$ 2,545,511	$ 1,927,901

During the year ended December 31, 2016, the Company acquired 41 new E175 aircraft. Approximately 85% of the aircraft purchase price was financed through the issuance of debt and 15% of the aircraft purchase price was paid with cash.

As of December 31, 2016 and 2015, the Company had $2.6 billion and $1.9 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, 2016 and 2015, was approximately 3.8% and 3.7%, respectively.

During the year ended December 31, 2016, the Company used $16.5 million in cash to extinguish $18.4 million in debt early. The payment resulted in a pre-tax gain of $1.3 million, reflected as other income in the consolidated statements of comprehensive income (loss). During the year ended December 31, 2015, the Company used $110.8 million in cash to pay off $145.4 million in debt. The payment resulted in a pre-tax gain of $33.7 million, reflected as other income in the consolidated statements of comprehensive income (loss).

The aggregate amounts of principal maturities of long-term debt as of December 31, 2016 were as follows (in thousands):

2017	$ 308,945
2018	286,164
2019	286,266
2020	251,265
2021	236,896
Thereafter	1,201,368
	$2,570,904

During the year ended December 31, 2016, the Company increased its line of credit with a bank from $25 million to $75 million. The line of credit includes minimum liquidity and profitability covenants and is secured by certain assets. As of December 31, 2016, the Company was in compliance with the line of credit covenants and had no borrowings outstanding under the facility. However, at December 31, 2016, the Company had $6.5 million in letters of credit issued under the facility which reduced the amount available under the facility to $68.5 million. The facility expires on June 1, 2018 and has a variable interest rate of LIBOR plus 2.5% (3.3% at December 31, 2016).

As of December 31, 2016 and 2015, the Company had $87.7 million and $88.9 million, respectively, in letters of credit and surety bonds outstanding with various banks and surety institutions.

(4) Income Taxes

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

	Year ended December 31,		
	2016	2015	2014
Current tax provision (benefit):			
Federal	$ (3,801)	$ 3,801	$ (176)
State	111	1,035	838
Foreign		—	2,081
	(3,690)	4,836	2,743
Deferred tax provision (benefit):			
Federal	(77,430)	66,430	4,697
State	(6,106)	5,239	371
	(83,536)	71,669	5,068
Provision for income taxes	$ (87,226)	$ 76,505	$ 7,811

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

	Year ended December 31,		
	2016	2015	2014
Computed provision (benefit) for income taxes at the statutory rate	$ (87,084)	$ 68,013	$ (5,720)
Increase (decrease) in income taxes resulting from:			
State income tax provision (benefit), net of federal income tax benefit	(5,768)	5,416	(107)
Non-deductible expenses	3,552	3,641	3,865
Valuation allowance changes affecting the provision for income taxes	751	(899)	5,981
Foreign income taxes, net of federal & state benefit	—	—	1,973
Other, net	1,323	334	1,819
Provision for income taxes	$ (87,226)	$ 76,505	$ 7,811

For the year ended December 31, 2016, the Company recorded a $0.8 million valuation allowance against certain deferred tax assets primarily associated with ExpressJet state net operating losses with a limited carry forward period. The release of the valuation allowance was based on changes in state tax laws and 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.

For the year ended December 31, 2015, the Company released a $0.9 million valuation allowance against certain deferred tax assets primarily associated with ExpressJet state net operating losses with a limited carry forward period. The release of the valuation allowance was based on the Company's other income related to early retirement of certain long term debt which reduced the amount of deferred tax assets that are anticipated to expire before the deferred tax assets may be utilized.

For the year ended December 31, 2014, the Company recorded a $6.0 million valuation allowance against certain deferred tax assets primarily associated with ExpressJet state net operating losses with a limited carry forward period. The valuation was based on the Company's assessment of deferred tax assets that are anticipated to expire before the deferred tax assets may be utilized. The Company also recorded a $2.0 million foreign tax expense associated with Brazilian withholding tax on the sale of the Company's equity interest in TRIP.

The significant components of the Company's net deferred tax assets and liabilities as of December 31, 2015 and 2014 are as follows (in thousands):

	As of December 31,	
	2016	2015
Deferred tax assets:		
Intangible asset	$ 4,983	$ 30,369
Accrued benefits	48,482	47,514
Net operating loss carryforward	286,389	82,211
AMT credit carryforward	17,589	21,391
Deferred aircraft credits	60,415	55,544
Accrued reserves and other	47,906	24,575
Total deferred tax assets	465,764	261,604
Valuation allowance	(8,877)	(8,126)
Deferred tax liabilities:		
Accelerated depreciation	(1,022,291)	(902,322)
Total deferred tax liabilities	(1,022,291)	(902,322)
Net deferred tax liability	$ (565,404)	$ (648,844)

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 U.S. Generally Accepted Accounting Principles ("GAAP") depreciation policy for such assets using the straight-line method (see Note 1 *Nature of Operations and Summary of Significant Accounting Policies*).

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

At December 31, 2016 and 2015, the Company had federal net operating losses of approximately $763.9 million and $189.0 million and state net operating losses of approximately $469.2 million and $352.2 million, respectively. The estimated effective tax rate applicable to the state and federal net operating losses as of December 31, 2016 was 35.0% and 2.6%, respectively. The Company anticipates that the federal and state net operating losses will start to expire in 2027 and 2017, respectively. The Company has recorded a valuation allowance for state net operating losses the Company anticipates will expire before the benefit will be realized due to the limited carry forward periods. As of December 31, 2016 and 2015, the Company also had an alternative minimum tax credit of approximately $17.6 million and $21.4 million, respectively, which does not expire.

(5) Commitments and Contingencies

Lease Obligations

The Company leases 415 aircraft, as well as airport facilities, office space, and various other property and equipment under non-cancelable operating leases which are generally on a long-term net rent basis where the Company pays taxes, maintenance, insurance and certain other operating expenses applicable to the leased property. The following table summarizes future minimum rental payments required under operating leases that have non-cancelable lease terms as of December 31, 2016 (in thousands):

2017	$ 191,292
2018	155,799
2019	123,308
2020	135,386
2021	112,535
Thereafter	236,503
	$ 954,823

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

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

Total rental expense for non-cancelable aircraft operating leases was approximately $262.6 million, $273.7 million and $305.3 million for the years ended December 31, 2016, 2015 and 2014, respectively. The minimum rental expense for airport station rents was approximately $31.4 million, $35.1 million and $29.0 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Self-insurance

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

Legal Matters

The Company is subject to certain legal actions which it considers routine to its business activities. As of December 31, 2016, management believed, after consultation with legal counsel, that the ultimate outcome of such legal matters was not likely to have a material adverse effect on the Company's financial position, liquidity or results of operations.

Concentration Risk and Significant Customers

The Company requires no collateral from its major airline partners or customers, but monitors the financial condition of its major airline partners. Under the majority of the Company's code-share agreements, the Company receives weekly payments from its major code-share partners that approximate a significant percentage of the compensation earned for such period. Additionally, the Company provides certain customer service functions at multiple airports for various airlines and the Company maintains an allowance for doubtful accounts receivable based upon expected collectability of all accounts receivable. The Company's allowance for doubtful accounts totaled $173,000 and $187,000 as of December 31, 2016 and 2015, respectively. For the years ended December 31, 2016, 2015 and 2014, the Company's contractual relationships with Delta and United combined accounted for approximately 85.4%, 86.9% and 88.7%, respectively of the Company's total revenues.

Employees Under Collective Bargaining Agreements

As of December 31, 2016, the Company had approximately 16,900 full-time equivalent employees. Approximately 33.4% of these employees were represented by unions, including the following employee groups. Notwithstanding the completion of the ExpressJet Combination, ExpressJet's employee groups continue to be represented by those unions who provided representation prior to the ExpressJet Combination.

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

Employee Group	Approximate Number of Active Employees Represented	Representatives	Status of Agreement
Atlantic Southeast Pilots	1,238	Air Line Pilots Association International	Amendable February 2018
Atlantic Southeast Flight Attendants	833	International Association of Machinists and Aerospace Workers	Currently Amendable
Atlantic Southeast Flight Controllers	68	Transport Workers Union of America	Currently Amendable
Atlantic Southeast Mechanics	366	International Brotherhood of Teamsters	Currently Amendable
Atlantic Southeast Stock Clerks	35	International Brotherhood of Teamsters	Currently Amendable
ExpressJet Delaware Pilots	1496	Air Line Pilots Association International	Amendable February 2018
ExpressJet Delaware Flight Attendants	783	International Association of Machinists and Aerospace Workers	Currently Amendable
ExpressJet Delaware Mechanics	730	International Brotherhood of Teamsters	Currently Amendable
ExpressJet Delaware Dispatchers	47	Transport Workers Union of America	Currently Amendable
ExpressJet Delaware Stock Clerks	47	International Brotherhood of Teamsters	Currently Amendable

In February 2016, the Atlantic Southeast Pilots and the ExpressJet Delaware Pilots ratified a two-year contract extension to their respective labor agreements.

(6) Fair Value Measurements

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

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

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

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

As of December 31, 2016, 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, 2016			
	Total	Level 1	Level 2	Level 3
Marketable Securities				
Bonds and bond funds	$ 409,885	$ —	$ 409,885	$ —
Commercial paper	13	—	13	—
Asset backed securities	$ 409,898	$ —	$ 409,898	$ —
Cash, Cash Equivalents and Restricted Cash	155,009	155,009	—	—
Total Assets Measured at Fair Value	$ 564,907	$ 155,009	$ 409,898	$ —

	Fair Value Measurements as of December 31, 2015			
	Total	Level 1	Level 2	Level 3
Marketable Securities				
Bonds and bond funds	$ 286,637	$ —	$ 286,637	$ —
Commercial paper	31	—	31	—
Asset backed securities	$ 286,668	$ —	$ 286,668	$ —
Cash, Cash Equivalents and Restricted Cash	211,251	211,251	—	—
Auction Rate Securities(a)	2,321	—	—	2,321
Total Assets Measured at Fair Value	$ 500,240	$ 211,251	$ 286,668	$ 2,321

(a) Auction rate securities included in long-term “Other assets” in the Consolidated Balance Sheet

Based on market conditions, the Company used a discounted cash flow valuation methodology for auction rate securities. Accordingly, for purposes of the foregoing consolidated financial statements, these securities were categorized as Level 3 securities. The Company’s “Marketable Securities” classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities.

No significant transfers between Level 1, Level 2 and Level 3 occurred during the year ended December 31, 2016. The Company’s policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

The following table presents the Company’s assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2016 (in thousands):

Fair Value Measurements Using Significant Unobservable Inputs

(Level 3)

	Auction Rate Securities
Balance at January 1, 2016	$ 2,321
Total realized and unrealized gains or (losses)	
Included in earnings	161
Included in other comprehensive income	18
Transferred out	—
Settlements	(2,500)
Balance at December 31, 2016	$ —

(7) Investment in Other Companies

In 2014, the Company completed the sale of its 20% interest in TRIP to Trip investments Ltda (“Trip Investimentos”) for $42 million. The Company recorded a gain from the sale of its TRIP shares of $24.9 million during the year ended December 31, 2014, which is reflected in Other Income in the Consolidated Statements of Comprehensive Income (Loss).

(8) Special Items

In December 2016, the Company decided to remove CRJ200 aircraft from ExpressJet's operation. In connection therewith, the Company plans to remove approximately 46 CRJ200 aircraft from its fleet during 2017. Additionally, in December 2016, the Company entered into a termination agreement covering RVG agreements on 76 CRJ200 aircraft owned by SkyWest Airlines and ExpressJet whereby it agreed to terminate Bombardier's future RVG commitment in exchange for a cash payment and other consideration valued at $125 million. The agreement also eliminated the Company's future requirement to return the aircraft to a mid-time maintenance condition and certain remarketing activities. This termination agreement allowed for the acceleration of the retirement of the CRJ 200 fleet. As a result of the scheduled reduction in the CRJ200 fleet in 2017, the termination of the RVG agreements with Bombardier and the current market values of its CRJ200 aircraft excluding Bombardier's RVGs, the Company concluded that indicators of impairment existed and therefore, evaluated its CRJ200 fleet and related assets for impairment. Pursuant to ASC 360-10, "Impairment and Disposal of Long-Lived Assets," the Company determined that with respect to the CRJ200 aircraft, separate asset groups existed based on the various major partner contracts. A recoverability test was performed utilizing estimated undiscounted future cash flows for each asset group pursuant to applicable contracts with the major partners and forecasted cash flow including the estimated value the Company would realize upon disposal of aircraft. This was compared to the carrying value of the related assets resulting in a cash flow deficiency indicating that an impairment existed. The impairment analysis required the Company to perform an assessment of the fair value of its long-lived assets related to the CRJ200 aircraft within the asset groups utilized in the recoverability test. The Company engaged a third party to assist in determining the fair value of certain of the long-lived assets, including the aircraft, spare engines and fixed asset spare parts inventory. These values were estimated based on listed market values or recent third-party market transactions for similar assets, and considering the related maintenance status of the fleet. Additionally, the Company estimated the fair value of certain long-lived prepaid lease assets using the net present value of estimated current CRJ200 lease rates. All fair values are considered to be Level 3 within the fair value hierarchy. The amounts the Company may ultimately realize from the disposal of its CRJ200 long-lived assets may vary from the December 31, 2016 fair value assessments.

Additionally, the Company's fixed-fee contract with United covering certain of the ERJ145 aircraft is scheduled to expire at the end of 2017, subject to United's two one-year extension rights intended to facilitate an orderly return of ERJ145 aircraft to United. The ERJ145 aircraft are leased from United and the Company is obligated to return the aircraft to United as each aircraft is scheduled to terminate under the contract. There are no significant unreimbursed return related costs associated with these lease returns. Under the terms of the fixed-fee contract, the Company anticipates removing approximately 45 ERJ145s from its fleet in 2017 and returning the aircraft to United. Due to the uncertainty regarding the probability of extending the ERJ145 fixed-fee arrangement with United beyond the existing terms, the Company evaluated the ERJ145 asset group for impairment including spare engines and related spare parts inventory. The Company engaged a third party to assist in determining the fair value of the spare parts engines and inventory. The spare engines and inventory were valued based on recent market transactions for similar assets. All fair values are considered to be Level 3 within the fair value hierarchy. The amounts the Company may ultimately realize from the disposal of its ERJ145 long-lived assets may vary from the December 31, 2016 fair value assessments.

The following table summarizes the components of the Company's special items, for the year ended December 31, 2016, 2015 and 2014 (in thousands):

	Year ended December 31,		
	2016	**2015**	**2014**
Special items:			
CRJ200 aircraft related items (1)	$ 424,466	$ —	$ —
EMB120 aircraft related items (2)	—	—	57,046
ERJ145 aircraft related items (3)	41,183	—	12,931
Paint facility and related items (4)	—	—	4,800
Total special items	$ 465,649	$ —	$ 74,777

(1) Consists primarily of inventory valuation charges and impairment charges to write-down CRJ200 aircraft including related long-lived assets to their estimated fair value. The estimated fair value of the long-lived assets, including the aircraft and fixed asset spare parts inventory, was based on third party appraisals on the assets. These values were estimated based on listed market values or recent third-party market transactions for similar assets. Additionally, the Company estimated the fair value of certain long-lived prepaid lease assets using the net present value of estimated current CRJ200 lease rates. All fair values are considered to be Level 3 within the fair value hierarchy. Of the special items $184.3 million related to SkyWest Airlines and $240.2 million related to ExpressJet. These charges are net of $90 million in cash proceeds and other considerations from the Bombardier termination agreement. These special items are reflected in the SkyWest Airlines and ExpressJet operating expenses under Note 2 Segment Reporting.

(2) Consists primarily of impairment charges to write-down owned EMB120 aircraft including capitalized engine overhaul costs, and related long-lived assets to their estimated fair value and accrued obligations on leased aircraft and related costs. The estimated fair value of the long-lived assets was based on third party valuations for similar assets which is considered an unobservable input (Level 3) under the fair value hierarchy. In November 2014, the Company approved a plan to discontinue operating the EMB120 aircraft by the end of the second quarter of 2015. The decision to discontinue use of the EMB120 aircraft included management's assessment of the need for pilots to operate upcoming deliveries for the E175 aircraft, the incremental training cost to hire new pilots compared to retraining existing EMB120 pilots to operate CRJ or E175 aircraft, and the uncertainty related to the number of qualified pilots available for hire, combined with the overall age and increased operating costs of the Company's EMB120 fleet. These special items are reflected in the SkyWest Airlines operating expenses under Note 2 Segment Reporting.

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

The ERJ145 aircraft related items recorded in the 2014 special charge consist primarily of impairment charges to write-down certain ERJ145 long-lived assets, which primarily consisted of spare engines and ERJ145 spare aircraft parts, to their estimated fair value of $11.4 million and accrued obligations on leased aircraft and related costs of $1.5 million. The estimated fair value of the long-lived assets was based on third party valuations for similar assets which is considered an unobservable input (Level 3) under the fair value hierarchy. These special items are reflected in the ExpressJet operating expenses under Note 2 *Segment Reporting*.

(4) Consists primarily of the write-down of assets associated with the disposition of the Company's paint facility located in Saltillo, Mexico, which was sold during the year ended December 31, 2014. These special items are reflected in the ExpressJet operating expenses under Note 2 *Segment Reporting*.

(9) Capital Transactions

Preferred Stock

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

Stock Compensation

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

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. The Company granted 206,021, 267,433 and 255,503 stock options to employees under the 2010 Incentive Plan during the years ended December 31, 2016, 2015 and 2014, respectively. Stock options granted in 2015 and 2016 vest in three equal installments over a three-year period. Stock options granted in 2014 have three-year cliff vesting periods. The following table shows the assumptions used and weighted average fair value for grants in the years ended December 31, 2016, 2015 and 2014.

	2016	2015	2014
Expected annual dividend rate	1.08 %	1.18 %	1.32 %
Risk-free interest rate	1.15 %	1.62 %	1.50 %
Average expected life (years)	5.7	5.7	5.8
Expected volatility of common stock	0.412	0.401	0.431
Forfeiture rate	0.0 %	0.0 %	0.0 %
Weighted average fair value of option grants	$ 5.27	$ 4.75	$ 4.47

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

During the year ended December 31, 2016, the Company granted 380,358 restricted stock units to certain of the Company's employees under the 2010 Incentive Plan. The restricted stock units granted during the year ended December 31, 2016 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, 2016 was $14.81 per share.

The following table summarizes the activity of restricted stock units granted to certain Company employees as of December 31, 2016, 2015 and 2014:

	Number of Shares		Weighted-Average Grant-Date Fair Value
Non-vested shares outstanding at December 31, 2013	733,591	$	13.79
Granted	312,749		12.00
Vested	(284,891)		14.74
Cancelled	(38,273)		12.83
Non-vested shares outstanding at December 31, 2014	723,176		12.70
Granted	408,163		13.57
Vested	(215,856)		13.06
Cancelled	(106,184)		13.52
Non-vested shares outstanding at December 31, 2015	809,299		13.13
Granted	384,148		14.81
Vested	(215,146)		13.29
Cancelled	(51,370)		13.72
Non-vested shares outstanding at December 31, 2016	926,931	$	13.65

During the year ended December 31, 2016, the Compensation Committee granted performance share units, which are performance based restricted stock units, to certain Company employees with three-year performance based financial metrics that the Company must meet before those awards may be earned and the performance period for those grants ends December 31, 2018. The Compensation Committee will determine the achievement of performance results and corresponding vesting of performance shares for each performance period. At the end of each performance period, the number of shares awarded can range from 0% to 150% of the original granted amount, depending on the performance against the pre-established targets.

The following table summarizes the activity of performance share units granted at target as of December 31, 2016.

	Number of Shares		Weighted-Average Grant-Date Fair Value
Non-vested shares outstanding at December 31, 2014	—	$	—
Granted	222,583		13.61
Vested	—		—
Cancelled	(19,754)		13.51
Non-vested shares outstanding at December 31, 2015	202,829	$	13.62
Granted	183,577		14.89
Vested	—		—
Cancelled	(22,413)		14.16
Non-vested shares outstanding at December 31, 2016	363,993	$	14.23

During the years ended December 31, 2016, 2015 and 2014 the Company granted fully-vested shares of common stock to the Company's directors in the amounts of 42,624, 36,950 and 44,631 shares, respectively, with a weighted average grant-date fair value of $14.78, $14.05, and $12.10, respectively.

During the year ended December 31, 2016, 2015 and 2014, the Company recorded equity-based compensation expense of $7.6 million, $5.4 million and $5.3 million, respectively.

As of December 31, 2016, the Company had $9.7 million of total unrecognized compensation cost related to non-vested stock options, non-vested restricted stock grants and non-vested performance stock units. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. The Company expects to recognize this cost over a weighted average period of 1.7 years.

Options are exercisable for a period as defined by the Compensation Committee on the date granted; however, no stock option will be exercisable before six months have elapsed from the date it is granted and no 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, 2016, 2015 and 2014:

	2016				2015		2014	
	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 .	1,064,429	$ 13.64	3.7 years	$ 5,726.7	2,888,074	$ 16.46	3,407,575	$ 17.99
Granted.	206,021	14.90			267,433	13.63	255,503	11.96
Exercised	(351,296)	14.17			(544,917)	14.68	(6,701)	12.10
Cancelled	(99,173)	14.90			(1,546,161)	18.53	(768,303)	6.81
Outstanding at end of year	819,981	13.58	4.4 years	$ 18,756.9	1,064,429	13.64	2,888,074	16.46
Exercisable at December 31, 2016	263,851	13.76	2.8 years	$ 5,985.5				
Exercisable at December 31, 2015	484,747	14.46	1.7 years	$ 2,212.5				

The total intrinsic value of options to acquire shares of the Company's common stock that were exercised during the years ended December 31, 2016, 2015 and 2014 was $4,250,000, $1,800,000 and $30,000, respectively.

The following table summarizes the status of the Company's non-vested stock options as of December 31, 2016:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Non-vested shares at beginning of year.	579,682	$ 4.75
Granted.	206,021	5.31
Vested	(209,419)	5.00
Cancelled	(20,154)	4.96
Non-vested shares at end of year	556,130	$ 4.86

The following table summarizes information about the Company's stock options outstanding at December 31, 2016:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$8 to $11	19,458	4.4 years	$ 11.10	—	$ —
$12 to $14	732,048	4.6 years	13.43	205,087	13.26
$15 to $19	68,475	1.9 years	15.88	58,764	15.54
$8 to $19	819,981	4.4 years	$ 13.58	263,851	$ 13.76

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.

(10) Retirement Plans and Employee Stock Purchase Plans

SkyWest Retirement Plan

The Company sponsors the SkyWest, Inc. Employees' Retirement Plan (the "SkyWest Plan"). Employees who have completed 90 days of service and are at least 18 years of age are eligible for participation in the SkyWest Plan. Employees may elect to make contributions to the SkyWest Plan. Generally, the Company matches 100% of such contributions up to 2%, 4% or 6% of the individual participant's compensation, based upon length of service for non-pilot employees and up to 3%, 5% or 7% of the individual participant's compensation, based upon length of service for pilot employees. Additionally, a discretionary contribution may be made by the Company. The Company's combined contributions to the SkyWest Plan were $23.2 million, $20.4 million and $19.3 million for the years ended December 31, 2016, 2015 and 2014, respectively.

ExpressJet and Atlantic Southeast Retirement Plans

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

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

ExpressJet's contribution to the Atlantic Southeast and the ExpressJet Retirement Plans was $21.0 million, $24.0 million and $27.2 million for the years ended December 31, 2016, 2015 and 2014, 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, 2016, 2015 and 2014:

	Year ended December 31,		
	2016	2015	2014
Number of shares purchased	151,531	254,098	295,035
Average price of shares purchased	$ 20.87	$ 13.50	$ 12.72

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, 2016, 2015 and 2014.

(11) Stock Repurchase

The Company's Board of Directors has previously authorized the repurchase of the Company's common stock in the public market. The Company did not repurchase any shares of its common stock during the year ended December 31, 2016. During the years ended December 31, 2015 and 2014, the Company repurchased 1.3 million and 0.7 million shares of common stock for approximately $18.7 million and $8.4 million, respectively at a weighted average price per share of $14.98 and $12.54, respectively. Subsequent to December 31, 2016, the Company's Board of Directors authorized $100 million for additional repurchases of the Company's common stock over a three year period.

(12) Related-Party Transactions

The Company's Chairman of the Board and former Chief Executive Officer, serves on the Board of Directors of Zions Bancorporation ("Zions"). The Company maintains a line of credit (see Note 3) and certain bank and investment accounts with Zions. Zions is an equity participant in leveraged leases on one CRJ200 and two CRJ700 aircraft leased by the Company's subsidiaries. Zions also refinanced five CRJ200 and two CRJ700 aircraft in 2012 for terms of five years, becoming the debtor on these aircraft. Zions also serves as the Company's transfer agent. The Company's cash balance in the accounts held at Zions as of December 31, 2016 and 2015 was $116.0 million and $65.0 million, respectively. The Company's investment balance in the accounts held at Zions as of December 31, 2016 and 2015 was $121.6 million and $0, respectively.

During the year ended December 31, 2016, the Company purchased $244,540 of spare aircraft parts from an entity affiliated with a director of the Company.

(13) Quarterly Financial Data (Unaudited)

Unaudited summarized financial data by quarter for 2016 and 2015 is as follows (in thousands, except per share data):

	Year ended December 31, 2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues	$ 762,075	$ 801,338	$ 799,776	$ 758,017	$ 3,121,206
Operating income	61,809	84,137	85,834	(404,464)	(172,684)
Net income (loss)(1)	27,092	40,244	41,322	(270,244)	(161,586)
Net income (loss) per common share:					
Basic	0.53	0.78	0.80	(5.22)	(3.14)
Diluted	0.52	0.77	0.79	(5.22)	(3.14)
Weighted average common shares:					
Basic:	51,218	51,418	51,627	51,757	51,505
Diluted:	52,014	52,194	52,471	51,757	51,505

	Year ended December 31, 2015				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating revenues	$ 760,398	$ 788,417	$ 794,004	$ 752,744	$ 3,095,563
Operating income	34,075	69,932	78,296	52,212	234,515
Net income	9,620	31,475	36,268	40,454	117,817
Net income per common share:					
Basic	0.19	0.61	0.72	0.80	2.31
Diluted	0.18	0.61	0.71	0.78	2.27
Weighted average common shares:					
Basic:	51,457	51,357	50,616	50,880	51,077
Diluted:	52,392	51,971	51,282	51,657	51,825

(1) Operating loss for the fourth quarter of 2016 included a special charge of $465.6 million related to an impairment on the Company’s 50-seat aircraft.

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, 2016, 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, 2016 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, 2016.

The effectiveness of our internal control over financial reporting as of December 31, 2016, has been audited by Ernst & Young LLP ("Ernst & Young"), the independent registered public accounting firm who also has audited our Consolidated Financial Statements included in this Report. Ernst & Young's report on our internal control over financial reporting appears on the following page.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
SkyWest, Inc.

We have audited SkyWest, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, 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). SkyWest, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, SkyWest, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of SkyWest, Inc. and subsidiaries as of December 31, 2016 and 2015, 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, 2016 of SkyWest, Inc. and subsidiaries and our report dated February 27, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 27, 2017

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 2017 Annual Meeting of Shareholders scheduled for May 9, 2017. We intend to file our definitive proxy statement with the SEC not later than 120 days after December 31, 2016, 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 "Section 16(a) Beneficial Ownership Reporting Compliance"
ITEM 11.	**EXECUTIVE COMPENSATION**	"Corporate Governance," "Meetings and Committees of the Board," "Compensation Discussion and Analysis," "Compensation Committee Report," "Executive Compensation," "Director Compensation" and "Director Summary Compensation Table"
ITEM 12.	**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**	"Security Ownership of Certain Beneficial Owners" "Securities Authorized for Issuance Under Equity Compensation Plans"
ITEM 13.	**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**	"Certain Relationships and Related Transactions"
ITEM 14.	**PRINCIPAL ACCOUNTANT FEES AND SERVICES**	"Audit and Finance Committee Disclosure" and "Fees Paid to Independent Registered Public Accounting Firm"

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed:

1. Financial Statements: Reports of Independent Auditors, Consolidated Balance Sheets as of December 31, 2016 and 2015, Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2016, 2015 and 2014, Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014, Consolidated Statements of Stockholders' Equity for the years ended December 31, 2016, 2015, 2014 and 2013 and Notes to Consolidated Financial Statements.

2. Financial Statement Schedule. The following consolidated financial statement schedule of our company is included in this Item 15.

   - Report of independent auditors on financial statement schedule
   - Schedule II—Valuation and qualifying accounts

All other schedules for which provision is made in the applicable accounting regulations of the 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)
10.1	Amended and Restated Delta Connection Agreement, dated as of September 8, 2005, between SkyWest Airlines, Inc. and Delta Air Lines, Inc.	(3)
10.2	Second Amended and Restated Delta Connection Agreement, dated as of September 8, 2005, between Atlantic Southeast Airlines, Inc. and Delta Air Lines, Inc.	(3)
10.3	United Express Agreement dated July 31, 2003, between United Air Lines, Inc., and SkyWest Airlines, Inc.	(4)
10.4	Lease Agreement dated December 1,1989 between Salt Lake City Corporation and SkyWest Airlines, Inc.	(5)
10.5	Master Purchase Agreement dated November 7, 2000 between Bombardier, Inc. and SkyWest Airlines, Inc.	(6)
10.6	Supplement to Master Purchase Agreement dated November 7, 2000 between Bombardier, Inc. and SkyWest Airlines, Inc.	(4)
10.7	SkyWest, Inc. 2002 Deferred Compensation Plan, as amended and restated, effective January 1, 2008	(7)
10.8	First Amendment to the Amended and Restated SkyWest, Inc. 2002 Deferred Compensation Plan	(7)
10.9	SkyWest, Inc. 2009 Employee Stock Purchase Plan	(7)
10.10	SkyWest, Inc. 2010 Long-Term Incentive Plan	(8)
10.11	Form of Restricted Stock Unit Award Agreement	Filed herewith
10.12	Form of Performance Share Award Agreement	Filed herewith
10.13	Capacity Purchase Agreement, dated November 12, 2010, by and among ExpressJet Airlines, Inc. and Continental Airlines, Inc.	(9)
10.14	Aircraft Purchase Agreement, dated December 7, 2012, between Mitsubishi Aircraft Corporation and SkyWest, Inc.	(10)
10.15	Letter Agreement dated December 7, 2012, between Mitsubishi Aircraft Corporation and SkyWest, Inc.	(10)
10.16	Purchase Agreement COM0028-13, between Embraer S.A. and SkyWest Inc. dated February 15, 2013	(12)
10.17	Purchase Agreement COM0344-13, between Embraer S.A. and SkyWest Inc. dated June 17, 2013	(12)
10.18	Form of Indemnification Agreement by and between SkyWest, Inc. and each of Jerry C. Atkin, W. Steve Albrecht, Henry J. Eyring, Steven F. Udvar-Hazy, James L. Welch, Eric J. Woodward and Russell A. Childs, as of August 6, 2013	(12)
10.19	Form of Indemnification Agreement by and between SkyWest, Inc. and each of Ronald J. Mittelstaedt and Keith E. Smith, as of October 1, 2013	(12)
10.20	Amended and Restated Capacity Purchase Agreement, dated as of November 7, 2014, by and between ExpressJet Airlines, Inc. and United Airlines*	(13)
10.21	Indemnification Agreement by and between SkyWest, Inc. and Robert J. Simmons, as of March 16, 2015	(15)

Number	Exhibit	Incorporated by Reference
10.22	Form of Indemnification Agreement by and between SkyWest, Inc. and each of Meredith S. Madden and Andrew C. Roberts, as of May 5, 2015	(17)
21.1	Subsidiaries of the Registrant	(12)
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification of Chief Executive Officer	Filed herewith
31.2	Certification of Chief Financial Officer	Filed herewith
32.1	Certification of Chief Executive Officer	Filed herewith
32.2	Certification of Chief Financial Officer	Filed herewith
101.INS**	XBRL Instance Document	
101.SCH**	XBRL Taxonomy Extension Schema Document	
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document	
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document	
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document	

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

** Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statement of Comprehensive Income (Loss) for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, (ii) the Consolidated Balance Sheet at December 31, 2016 and December 31, 2015, and (iii) the Consolidated Statement of Cash Flows for the years ended December 31, 2016, December 31, 2015 and December 31, 2014

(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 26, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
SkyWest, Inc.

We have audited the consolidated financial statements of SkyWest, Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016, and have issued our report thereon dated February 27, 2017 (included elsewhere in this Form 10-K). Our audits also included the financial statement schedule listed in Item 15(a) of this Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

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

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 27, 2017

SKYWEST, INC. AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2016, 2015 and 2014
(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, 2016:				
Allowance for inventory obsolescence(1)	$ 13,933	$ 26,564	$ —	$ 40,497
Allowance for doubtful accounts receivable	187	—	(14)	173
	$ 14,120	$ 26,564	$ (14)	$ 40,670
Year ended December 31, 2015:				
Allowance for inventory obsolescence	$ 11,588	$ 2,345	$ —	$ 13,933
Allowance for doubtful accounts receivable	326	—	(139)	187
	$ 11,914	$ 2,345	$ (139)	$ 14,120
Year ended December 31, 2014:				
Allowance for inventory obsolescence	$ 10,138	$ 1,450	$ —	$ 11,588
Allowance for doubtful accounts receivable	94	232	—	326
	$ 10,232	$ 1,682	$ —	$ 11,914

(1) The increase in the inventory obsolescence related to additional excess inventory identified as part of the impairment analysis of the 50-seat aircraft. See note 8, *Special items*, for additional detail on the impairment.

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, 2016, to be signed on its behalf by the undersigned, thereunto duly authorized, on February 27, 2017.

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.

Name	Capacities	Date
/s/ JERRY C. ATKIN Jerry C. Atkin	Chairman of the Board	February 27, 2017
/s/ RUSSELL A. CHILDS Russell A. Childs	Chief Executive Officer and President (Principal Executive Officer) and Director	February 27, 2017
/s/ ROBERT J. SIMMONS Robert J. Simmons	Chief Financial Officer (Principal Financial Officer)	February 27, 2017
/s/ ERIC J. WOODWARD Eric J. Woodward	Chief Accounting Officer (Principal Accounting Officer)	February 27, 2017
/s/ STEVEN F. UDVAR-HAZY Steven F. Udvar-Hazy	Lead Director	February 27, 2017
/s/ W. STEVE ALBRECHT Steve Albrecht	Director	February 27, 2017
/s/ HENRY J. EYRING Henry J. Eyring	Director	February 27, 2017
/s/ MEREDITH S. MADDEN Meredith S. Madden	Director	February 27, 2017
/s/ RONALD J. MITTELSTAEDT Ronald J. Mittelstaedt	Director	February 27, 2017
/s/ ANDREW C. ROBERTS Andrew C. Roberts	Director	February 27, 2017
/s/ KEITH E. SMITH Keith E. Smith	Director	February 27, 2017
/s/ JAMES L. WELCH James L. Welch	Director	February 27, 2017

SkyWest, Inc.

444 South River Road ● St. George, UT 84790

March 22, 2017

Dear Shareholder:

You are invited to attend the Annual Meeting of Shareholders of SkyWest, Inc. scheduled to be held at 11:00 a.m., Tuesday, May 9, 2017, at our headquarters located at 444 South River Road, St. George, Utah, 84790.

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

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

We are pleased to make these proxy materials available over the Internet, which we believe increases the efficiency and reduces the expense of our annual meeting process. As a result, we are mailing to shareholders a Notice of Internet Availability of Proxy Materials (the "*Notice*") instead of paper copies of these proxy materials and our 2016 Annual Report. The Notice contains instructions on how to access those documents over the Internet or request that a full set of printed materials be sent to you. The Notice also gives instructions on how to vote your shares.

We look forward to seeing you at the Annual Meeting.

Sincerely,

Jerry C. Atkin
Chairman of the Board

SkyWest, Inc.

444 South River Road ● St. George, UT 84790

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

Date:	Tuesday, May 9, 2017
Time:	11:00 a.m., Mountain Daylight Time (MDT)
Place:	SkyWest, Inc. Headquarters 444 South River Road St. George, Utah 84790
Purposes:	1. To elect ten directors of SkyWest, Inc. (the "*Company*"), to serve until the next Annual Meeting of the Company's shareholders and until their successors are duly elected and qualified; 2. To conduct a vote, on an advisory basis, on the compensation of the Company's named executive officers; 3. To conduct a vote, on an advisory basis, on the frequency of holding future advisory votes on the compensation of the Company's named executive officers every one, two, or three years; 4. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the year ending December 31, 2017; and 5. To transact such other business that may properly come before the Annual Meeting and any adjournment thereof.
Who Can Vote:	Shareholders at the close of business on March 6, 2017.
How You Can Vote:	Shareholders may vote at the Annual Meeting, or in advance over the Internet, by telephone, or by mail.

By authorization of the Board of Directors,

Jerry C. Atkin
Chairman of the Board

March 22, 2017

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

To Be Held on Tuesday, May 9, 2017

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PROXY STATEMENT
FOR THE
ANNUAL MEETING OF SHAREHOLDERS
OF

SKYWEST, INC.

TUESDAY, MAY 9, 2017

OVERVIEW

Solicitation

This Proxy Statement, the accompanying Notice of Annual Meeting, proxy card and the Annual Report to Shareholders of SkyWest, Inc. (the "*Company*" or "*SkyWest*") are being mailed on or about March 22, 2017. 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 9, 2017 (the "*Meeting*"). The Board is soliciting your proxy in an effort to give all shareholders of record the opportunity to vote on matters that will be presented at the Meeting. This Proxy Statement provides information to assist you in voting your shares.

What is a proxy?

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

Why did I receive more than one notice?

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

Voting Information

Who is qualified to vote?

You are qualified to receive notice of and to vote at the Meeting if you owned shares of common stock of SkyWest (the "*Common Stock*") at the close of business on the record date of Monday, March 6, 2017.

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

As of March 6, 2017, there were 51,818,431 shares of Common Stock outstanding and entitled to vote. Each share of Common Stock is entitled to one vote on each matter presented at the Meeting.

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

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

How can I vote at the Meeting?

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

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

The Board recommends that you vote your shares as follows:

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

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

Proposal 3—for **ONE YEAR** with respect to the non-binding resolution to recommend the frequency of future non-binding votes of the Company's shareholders regarding the compensation of the Company's named executive officers.

Proposal 4—**FOR** the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the year ending December 31, 2017.

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

Proposal 3—You may cast your vote in favor of a one, two or three-year period. You may also abstain from voting.

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

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

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

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

Can I change my vote?

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

- by mailing a revised proxy card to the Chief Financial Officer of the Company;
- by changing your vote on the Internet website;

- by using the telephone voting procedures; or

- by voting in person at the Meeting.

What vote will be required to approve each proposal?

Proposal 1 provides that the 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 4 will be approved if the number of votes cast, in person or by proxy, in favor of a particular proposal exceeds the number of votes cast in opposition to the proposal. Proposal 2 is an advisory vote only, and has no binding effect on the Board or the Company.

Proposal 3 allows you to vote for one of four choices: holding the advisory vote on executive compensation every one, two or three years, or abstaining from voting. Therefore, shareholders will not be voting to approve or disapprove the recommendation of the Board, but will instead be casting their vote for the voting frequency they prefer. Proposal 3 is an advisory vote only, and has no binding effect on the Board or the Company.

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 2016 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 2016 Annual Report to Shareholders and a form of proxy card or voting instruction card. All shareholders who do not receive a Notice will receive a paper copy of the proxy materials by mail. The Company believes this process will allow it to provide its shareholders with the information they need in a more efficient manner, while reducing the environmental impact and lowering the costs of printing and distributing these proxy materials.

PROPOSAL 1
ELECTION OF DIRECTORS

Composition of the Board

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

The current composition of the Board is:

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

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

Nominees for Election as Directors

At the Meeting, the Company proposes to elect ten directors to hold office until the 2018 Annual Meeting of Shareholders and until their successors have been elected and have qualified. The ten nominees for election at the Meeting are listed below. All of the nominees are currently serving as a director of the Company and have consented to be named as a nominee. Shareholders voting in person or by proxy at the Meeting may only vote for ten nominees. If, prior to the Meeting, any of the nominees becomes unable to serve as a director, the Board may designate a substitute nominee. In that event, the persons named as proxies intend to vote for the substitute nominee designated by the Board.

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

Jerry C. Atkin

Age:	68
Director Since:	1974
Committees:	None
Principal Occupation:	Chairman of the Board
Experience:	Mr. Atkin joined the Company in July 1974 as a director and the Company's Director of Finance. In 1975, he assumed the office of President and Chief Executive Officer and was elected Chairman of the Board in 1991. Mr. Atkin served as President of the Company until 2011 and as Chief Executive Officer until December 31, 2015. The Board nominated Mr. Atkin to serve as a director, in part, because Mr. Atkin was the Company's Chief Executive Officer for more than 40 years. Mr. Atkin has a deep knowledge and understanding of the Company and its operating subsidiaries, SkyWest Airlines, Inc. ("*SkyWest Airlines*") and ExpressJet Airlines, Inc. ("*ExpressJet*"), as well as the regional airline industry generally. Mr. Atkin performs an extremely valuable role as the Chairman of the Board, providing critical leadership and direction to the Board's activities and deliberations. The Board also believes Mr. Atkin's values and integrity are tremendous assets to the Company and its shareholders.
Other Directorships: .	Mr. Atkin currently serves as a director of Zions Bancorporation, a regional bank holding company based in Salt Lake City, Utah ("*Zions*").

W. Steve Albrecht

Age:	70
Director Since:	2012 (Also served as a director of the Company from 2003 until 2009)
Committees:	Chairman of the Audit Committee; Member of the Nominating and Corporate Governance Committee; Audit Committee Financial Expert
Principal Occupation:	Professor at Brigham Young University
Experience:	Mr. Albrecht, a certified public accountant, certified internal auditor, and certified fraud examiner, joined the faculty of Brigham Young University in 1977, after teaching at the University of Illinois and Stanford University. At Brigham Young University, he served as director of the School of Accountancy from 1990 to 1999, and as associate dean of the Marriott School from 1999 to 2008. He served as the President of the Japan Tokyo Mission of The Church of Jesus Christ of Latter-day Saints from July 2009 to July 2012. Mr. Albrecht has also served as the President of the American Accounting Association, the Association of Certified Fraud Examiners and Beta Alpha Psi, an international honor organization for accounting, finance and information systems students. He has also served as a member of the Committee of Sponsoring Organizations of the Treadway Commission (also known as COSO); the Financial Accounting Standards Advisory Committee, an advisory committee to the Financial Accounting Standards Board (the "*FASB*"); and the Financial Accounting Foundation that oversees the FASB and the Governmental Accounting Standards Board. Mr. Albrecht has consulted with many major corporations and other organizations and has been an expert witness in over 35 major financial statement fraud cases. The Board recognizes Mr. Albrecht's valuable contribution as a director of the Company from 2003 through 2009 and since his re-election in 2012, including his service as the Chairman of the Audit Committee. The Board nominated Mr. Albrecht because of his exceptional academic and professional record, his many achievements, awards and other forms of recognition in the accounting profession, his extensive training in accounting practices and fraud detection, and his outstanding past service on the Board.
Other Directorships: .	Mr. Albrecht currently serves as a director of Red Hat, Inc. and Cypress Semiconductor Corporation.

Russell A. Childs

Age:	49
Director Since:	2016
Committees:	None
Principal Occupation:	Chief Executive Officer and President of the Company and its operating subsidiaries, SkyWest Airlines and ExpressJet.
Experience:	Mr. Childs was named Chief Executive Officer of the Company effective January 1, 2016, and has served as President of the Company since 2014 responsible for the holding company's operating entities and all commercial activities. He joined the Company in 2001 and became Vice President – Controller later that year. He served as the President and Chief Operating Officer of SkyWest Airlines from 2007 to 2014. Mr. Childs earned his bachelor's degree in Economics and master's degree in Accounting from Brigham Young University. Prior to joining the Company, Mr. Childs was a certified public accountant employed by a public accounting firm. The Board nominated Mr. Childs, among other reasons, because the Board believes it is important to have the Company's Chief Executive Officer serve on the Board as he is the one closest to the Company's day-to-day operations and plays a critical role in communicating the Board's expectations, advice and encouragement to the approximately 16,900 full-time equivalent employees of the Company and its operating subsidiaries.

Henry J. Eyring

Age:	53
Director Since:	2006 (Also served as a director of the Company from 1995 until 2003)
Committees:	Member of the Compensation Committee; Member of the Audit Committee
Principal Occupation:	Academic Vice President at Brigham Young University Idaho
Experience:	Mr. Eyring has served in various positions of administration at Brigham Young University–Idaho since 2006, including Academic Vice President. Mr. Eyring will become President of Brigham Young University–Idaho in April 2017. Mr. Eyring was President of the Japan Tokyo North Mission of The Church of Jesus Christ of Latter-day Saints from 2003 until 2006. From 2002 until 2003, he was a special partner with Peterson Capital, a private equity investment firm; and from 1998 through 2002, he was the Director of the Masters of Business Administration Program at Brigham Young University. The Board recognizes the strong business and strategic consulting experience Mr. Eyring contributes to the Board's direction of the Company. In addition to the recent experience summarized above, Mr. Eyring was previously engaged with the Monitor Company, an internationally-recognized management consulting firm. Mr. Eyring is a sound strategic thinker who possesses the ability to apply his academic thought and studies to the practical day-to-day challenges of the Company's operations. The Board believes that Mr. Eyring's thoughtful application of business and legal principles makes him a valuable contributor to the Board.

Meredith S. Madden

Age:	43
Director Since:	2015
Committees:	Member of the Compensation Committee; Member of the Safety and Compliance Committee
Principal Occupation:	Chief Executive Officer of NORDAM Group, Inc. ("*NORDAM*").
Experience:	Mrs. Madden was appointed Chief Executive Officer of NORDAM, one of the world's largest independently owned aerospace companies in July 2011. Prior to becoming the Chief Executive Officer of NORDAM, Mrs. Madden served in various leadership roles at NORDAM including President, Chief Operating Officer, Vice President Repair Group, Vice President Global Sales and Marketing and Vice President of NORDAM International, a subsidiary of NORDAM. Since joining NORDAM in 1999, Mrs. Madden has played a key role in transforming NORDAM into the global aerospace entity it is today. The Board believes that Mrs. Madden's expertise and strategic insights related to aircraft maintenance vendor planning and her extensive expertise working with international maintenance service providers make her a valuable contributor to the Board.
Other Directorships: .	Mrs. Madden currently serves as a director of NORDAM, Erickson AirCrane, Inc. and World Travel Service LLC.

Ronald J. Mittelstaedt

Age:	53
Director Since:	2013
Committees:	Member of the Compensation Committee; Member of the Nominating and Corporate Governance Committee; Member of the Safety and Compliance Committee
Principal Occupation:	Chairman of the Board and Chief Executive Officer of Waste Connections, Inc. ("*Waste Connections*")
Experience:	Mr. Mittelstaedt has served as the Chairman and Chief Executive Officer of Waste Connections, a company he founded, since January 1998. Under Mr. Mittelstaedt's leadership, Waste Connections has become the second largest company in the North American solid waste and recycling industry, employing more than 15,000 people nationwide. 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. The common stock of Waste Connections is traded on the New York Stock Exchange. Mr. Mittelstaedt holds a bachelor's degree in Business Economics and Finance from the University of California—Santa Barbara. The Board nominated Mr. Mittelstaedt, in part, because of his expertise in making large capital equipment decisions, extensive experience working with groups of diverse employees in various geographic regions and history of developing an organizational culture of strong work ethics. Mr. Mittelstaedt also contributes to the Board his insight as an experienced chief executive officer of a publicly-traded company, which the Board has found valuable in its deliberations.
Other Directorships: .	Mr. Mittelstaedt currently serves as Chairman of the Board for Waste Connections and as a director of Pride Industries, a non-profit organization which provides manufacturing, supply chain, logistics and facilities services to public and private organizations nationwide, while creating jobs for people with disabilities.

Andrew C. Roberts

Age:	*56*
Director Since:	2015
Committees:	Chairman of the Safety and Compliance Committee; Member of the Audit Committee
Principal Occupation:	Executive Chairman, Ryan Herco Flow Solutions, LLC ("*Ryan Herco Flow Solutions*")
Experience:	Mr. Roberts has served as the Executive Chairman of Ryan Herco Flow Solutions since September 2015. Prior to joining Ryan Herco Flow Solutions, Mr. Roberts served as the President and Chief Executive Officer of Align Aerospace LLC, a global distributor of products to the aerospace and aviation industries, from 2014 to September 2015. Mr. Roberts served as Chief Executive Officer of Permaswage Holding S.A.S., a designer and manufacturer of fluid fitting products, providing proprietary and standard components, tooling, and training to major aerospace companies, from 2009 until 2014. Mr. Roberts also developed significant experience in the management and operation of mainline and regional airlines from 1997 until 2008. During this time, Mr. Roberts served in multiple executive positions, including as Executive Vice President, Operations; Senior Vice President of Technical Operations; and Vice President of Materials Management Operations of Northwest Airlines, Inc.; and the Chairman of the Board and Chief Executive Officer of MCH, Inc., the holding company of Mesaba Airlines and Compass Airlines, two regional airlines. From 2000 until 2008, Mr. Roberts also served as Chairman of the Board of Aeroxchange Ltd., an aviation equipment purchasing portal established by 13 international airlines to create a global, neutral e-commerce platform designed to support the aviation supply chain. Mr. Roberts holds a bachelor of science degree (with Honors) in Engineering from the University of Birmingham and a post graduate diploma in Manufacturing Engineering from Coventry University. Mr. Roberts' nomination for service as a director by the Board is based, in part, on Mr. Roberts' extensive background in the aviation maintenance and overhaul industry, as well as Mr. Roberts' experience as the principal executive officer of two regional airlines and as a senior executive officer of a major airline. The Board also recognizes Mr. Roberts' education and professional training in the fields of engineering and aviation manufacturing, which has allowed him to make valuable contributions to the Board in assessing the Company's technical operations.
Other Directorships: .	Mr. Roberts is a director of Continental Motors Group Limited.

Keith E. Smith

Age:	56
Director Since:	2013
Committees:	Chairman of the Compensation Committee; Member of the Audit Committee
Principal Occupation:	President and Chief Executive Officer of Boyd Gaming Corporation ("*Boyd Gaming*")
Experience:	Mr. Smith is President, Chief Executive Officer and a director of Boyd Gaming, one of the nation's leading casino entertainment companies, with 24 operations in eight states and more than 25,000 employees. Mr. Smith is an industry veteran with nearly 31 years of gaming experience. He joined Boyd Gaming in 1990 and held various executive positions before being promoted to Chief Operating Officer in 2001. In 2005, Mr. Smith was named President and elected as a director of Boyd Gaming and in 2008 he assumed the role of Chief Executive Officer. The common stock of Boyd Gaming is traded on the New York Stock Exchange. Mr. Smith holds a bachelor's degree in Accounting from Arizona State University. He served as Chairman of the Los Angeles Branch of the Federal Reserve Bank of San Francisco from 2012 to 2014. He also serves as Chairman of the American Gaming Association and the Nevada Resort Association. He served as Vice Chairman of the Las Vegas Convention and Visitors Authority from 2005 to 2011. The Board recognizes Mr. Smith's diverse experience in investing in, financing, and managing capital assets and real properties in various geographic regions. Mr. Smith also has extensive experience in leading and directing a large group of diverse employees. Mr. Smith's accounting training and experience and his service as Chairman of the Los Angeles Branch of the Federal Reserve Bank of San Francisco also enable him to provide valuable service as the Chair of the Compensation Committee and to the Audit Committee.
Other Directorships: .	Mr. Smith is a director of Boyd Gaming.

Steven F. Udvar-Hazy

Age:	71
Director Since:	1986
Committees:	Lead Independent Director; Chairman of the Nominating and Corporate Governance Committee; Member of the Compensation Committee
Principal Occupation:	Chairman of the Board and Chief Executive Officer of Air Lease Corporation
Experience:	Mr. Udvar-Hazy has been engaged in aircraft leasing and finance for more than 46 years and has served as the Chairman of the Board and Chief Executive Officer of Air Lease Corporation since February 2010. Prior to his current engagement with Air Lease Corporation, which leases and finances commercial jet aircraft worldwide, Mr. Udvar-Hazy founded and served as the Chairman of the Board and Chief Executive Officer of International Lease Finance Corporation, which leases and finances commercial jet aircraft. Mr. Udvar-Hazy is recognized as one of the leading experts in the aviation industry, and contributes to the Board the wisdom and insight he has accumulated through a lengthy, distinguished career in aviation, aircraft leasing and finance. The Company has benefitted greatly from Mr. Udvar-Hazy's recognized position in the aviation industry, including introductions to his vast industry contacts and networking opportunities. In addition to his extensive industry experience, Mr. Udvar-Hazy is extremely knowledgeable of the Company's operations and opportunities, having served as a director of the Company for more than 30 years. The Board believes that Mr. Udvar-Hazy's even temperament and ability to encourage discussion, together with his experience as a chief executive officer and director of other successful organizations in the airline industry, make him an effective Lead Independent Director.
Other Directorships: .	Mr. Udvar-Hazy is Chairman of the Board of Air Intercontinental, Inc., an aviation investment company, President and director of Ocean Equities, Inc., a financial holding company, Chairman of the Executive Committee of the Board of Directors of Emerald Financial LLC, a real estate investment company, and Chairman of the Board of Air Lease Corporation.

James L. Welch

Age:	62
Director Since:	2007
Committees:	Member of the Audit Committee; Member of the Nominating and Corporate Governance Committee; Member of the Safety and Compliance Committee
Principal Occupation:	Chief Executive Officer of YRC Worldwide Inc. ("*YRC Worldwide*").
Experience:	Since July 2011, Mr. Welch has served as the Chief Executive Officer of YRC Worldwide, a provider of global, national and regional ground transportation services. From 2008 until July 2011, Mr. Welch served as the President and Chief Executive Officer of Dynamex, Inc., a provider of same-day transportation and logistics services in the United States and Canada. During 2007 and 2008 he served as Interim Chief Executive Officer of JHT Holdings, a holding company of multiple enterprises engaged in automotive transport and management services. From 2000 until 2007, Mr. Welch served as the President and Chief Executive Officer of Yellow Transportation, an international transportation services provider. Mr. Welch has over 34 years of senior executive experience in the transportation sector, including valuable experience in the leadership of large and varied groups. That experience includes extensive experience working with organized labor groups, including labor unions. Mr. Welch's insights have been particularly valuable to the Board as the Company has addressed labor and related issues arising in the operation of SkyWest Airlines and ExpressJet. Mr. Welch also contributes to the Board valuable practical experience in the operation of a large enterprise, as well as the perspective of a successful entrepreneur.
Other Directorships: .	Mr. Welch serves as a director for YRC Worldwide and Erickson Air Crane, a manufacturer and operator of heavy-lift helicopters.

EXECUTIVE OFFICERS

In addition to Russell A. Childs, the Chief Executive Officer of the Company, whose biographical information is set forth above, the following individuals served as executive officers of the Company or its operating subsidiaries during 2016.

Robert J. Simmons, 54, is the Chief Financial Officer of Company, SkyWest Airlines and ExpressJet. He is responsible for the areas of finance, accounting, treasury and investor relations for the Company and its subsidiaries.

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

Wade J. Steel, 41, is the Chief Commercial Officer of the Company, SkyWest Airlines and ExpressJet. He is responsible for the Company's contractual relationships with American Airlines, Inc. ("*American*"), Delta Air Lines, Inc. ("*Delta*"), United Airlines, Inc. ("*United*") and Alaska Airlines, Inc. ("*Alaska*"), development of new business opportunities with network airlines, fleet management and information technology. He also plays a vital role in the strategic planning and development opportunities of the Company.

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

Michael B. Thompson, 41, is the Chief Operating Officer of SkyWest Airlines. He is responsible for oversight of all aspects of SkyWest Airlines' operations, including safety, quality, flight operations, maintenance and customer service. He also oversees SkyWest Airline's operational relationships with American, Delta, United and Alaska.

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

Terry M. Vais, 49, is the Chief Operating Officer of ExpressJet. Mr. Vais is responsible for oversight of all aspects of ExpressJet's operations, including safety, quality, flight operations, maintenance and customer service. He also oversees ExpressJet's operational relationships with its major airline partners, including American, Delta and United.

Prior to his appointment as Chief Operating Officer of ExpressJet in September 2015, Mr. Vais served as Vice President of Operations, Planning and Support for ExpressJet since 2014 and served as Vice President of Customer Care for ExpressJet from 2008 to 2014. He has accumulated more than 26 years of airline experience in various leadership positions.

Eric J. Woodward, 45, is the Chief Accounting Officer of the Company, SkyWest Airlines and ExpressJet. He is responsible for the oversight of the Company's financial accounting practices, internal controls and reporting to the Securities and Exchange Commission.

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

CORPORATE GOVERNANCE

Corporate Governance Guidelines

The Board adopted Corporate Governance Guidelines on August 2, 2005 and periodically reviews and ratifies those guidelines, most recently on February 8, 2017. The Corporate Governance Guidelines can be accessed at the Company's website, *inc.skywest.com.* The Company's Corporate Governance Guidelines supplement the Company's Bylaws and the charters of the Board's committees. Excerpts from the principal sections of the Company's Corporate Governance Guidelines are noted below:

Director Independence

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

Director Qualifications

Criteria for Membership

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

Terms and Limitations

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

Retirement

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

Ownership of Company Stock

Directors are encouraged to own shares of Common Stock having a value equal to three times the amount of their annual compensation base.

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

Meeting Responsibilities

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

Executive Sessions of Independent Directors

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

Director Compensation

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

Chief Executive Officer Evaluation and Management Succession

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

Annual Evaluations

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

Review and Access to Guidelines

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

Board Leadership Structure

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

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

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

Communications with the Board

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

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

Code of Ethics

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

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

Risk Oversight

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

Whistleblower Hotline

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

MEETINGS AND COMMITTEES OF THE BOARD

The Board

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of his or her duties and to attend all Board, committee and shareholders' meetings. The Board met four times during 2016, all of which were regularly-scheduled meetings. All directors attended at least 75% of the meetings of the Board and of the committees on which he or she served during the year ended December 31, 2016 and all ten of the Company's directors who were then serving attended the Company's Annual Meeting of Shareholders held on May 3, 2016.

Committees of the Board

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

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

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

* Committee Chairman

Audit Committee

The Audit Committee has five members and met eight times during the year ended December 31, 2016. The Board has determined that Mr. W. Steve Albrecht, Chairman of the Audit Committee, is an "audit committee financial expert" within the meaning established by the Securities and Exchange Commission.

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

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

Additional information regarding the Audit Committee's processes and procedures is addressed below under the heading "Audit Committee Disclosure." The Report of the Audit Committee is set forth on page 60 of this Proxy Statement.

Compensation Committee

The Compensation Committee has five members and met four times during the year ended December 31, 2016. The Compensation Committee's responsibilities, which are discussed in detail in its charter, include the responsibility to:

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

Additional information regarding the Compensation Committee's processes and procedures for consideration of executive compensation are addressed below under the Heading "Compensation Discussion and Analysis." The report of the Compensation Committee is set forth on page 37 of this Proxy Statement.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee has four members and met once during the year ended December 31, 2016. The Nominating and Corporate Governance Committee's responsibilities, which are discussed in detail in its charter, include the responsibility to:

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

- Consider the independence of each director and nominee for director; and

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

Safety and Compliance Committee

The Safety and Compliance Committee has four members and met twice during the year ended December 31, 2016. The responsibilities of the Safety and Compliance Committee, which are discussed in detail in its charter, include the responsibility to:

- Review and make recommendations to the Board addressing airline flight operations, safety and compliance with safety regulations;

- Periodically review with the Company's management, and such advisors as the Safety and Compliance Committee deems appropriate, aspects of flight operations, safety and compliance with safety regulations; and

- Monitor and provide input with respect to management's efforts to create and maintain a safety culture within the Company's operations.

Nomination Process

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

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

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

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

Compensation Committee Interlocks and Insider Participation

Keith E. Smith, Ronald J. Mittelstaedt, Henry J. Eyring, Steven F. Udvar-Hazy and Meredith S. Madden served as members of the Compensation Committee during the year ended December 31, 2016. None of the individuals who served on the Compensation Committee during the year ended December 31, 2016 was an officer or employee of the Company in 2016 or any time prior thereto. None of the members of the Compensation Committee during the year ended December 31, 2016 had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"). None of the executive officers of the Company served as a member of the Compensation Committee or of any similar committee of any other company whose executive officer(s) served as a director of the Company.

COMPENSATION DISCUSSION AND ANALYSIS

The following compensation discussion and analysis provides information regarding the Company's executive compensation objectives, principles, practices and decisions as they relate to the following named executive officers of the Company (the "*Named Executives*") for 2016:

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

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

Current Year Accomplishments

2016 was a year of leadership and business transition for SkyWest, and the Company believes that such transition was successfully executed. Mr. Childs began as the Chief Executive Officer at the start of 2016, after serving as President of the Company prior to 2016. SkyWest made great strides operationally and structurally in 2016, positioning itself for changes in the industry and future profitability by adding new aircraft at improved economics under Mr. Childs' leadership.

The Company believes that 2016 was an excellent year for SkyWest in terms of its operations, its position for future growth, and for its shareholders as a result of the 103% increase in share price during the fiscal year. The Company's 2016 pre-tax loss under generally accepted accounting principles in the United States ("*GAAP*") was $249 million, however this loss included a non-cash impairment on the Company's 50-seat aircraft related assets and early aircraft lease return charges that were recognized during the year. The Company believes its fleet transition that resulted in these charges reduces both its overall risk profile and future investment that would have been required in its Canadair CRJ200 regional jet ("*CRJ200*") fleet. The Company also believes these strategic changes positions the Company to continue to deploy its capital against its best investment opportunities and are expected to help improve future liquidity and fleet flexibility.

The Company's GAAP loss before income taxes of $249 million and operating loss of $172 million in 2016 included $482 million of fleet related charges consisting of (i) a pre-tax impairment of $466 million on the Company's 50-seat aircraft and related long-lived assets and spare aircraft parts and (ii) a pre-tax $16 million expense related to early lease returns charges on eight Canadair CRJ700 regional jet ("*CRJ700*") aircraft. These charges were primarily incurred to transition the fleet and to update contracts to enhance the Company's long-term performance and its ability to respond to partners' future needs. The Company entered into a termination agreement with Bombardier related to 76 CRJ200 aircraft. Bombardier agreed to pay the Company $90 million and other consideration in exchange for the release. Terminating this agreement with Bombardier helped the Company by eliminating two points of risk and uncertainty for the Company, specifically the terminated agreement required the sale of each aircraft and the Company eliminated the cost of returning the aircraft to mid-time condition as required under the terminated agreement.

The Company's income before income taxes would have been $233 million in 2016 compared to $194 million in 2015 if the $482 million of pre-tax special item expenses were excluded. The same special item exclusions would have resulted in 2016 operating income of $310 million in 2016 compared to $234 million in 2015. Such adjusted year-over-year improvement was driven by the following accomplishments and contributed to the Company's 103% stock price appreciation during 2016:

- The continued improvement in aircraft fleet mix, which included reducing the number of aircraft available for service from 660 aircraft at December 31, 2015 to 652 at December 31, 2016, summarized as follows:
    - Took delivery of 41 new Embraer dual-class regional jet ("*E175*") aircraft under flying contracts that we believe will improve our profitability;
    - Removed 40 50-seat aircraft from unprofitable or less profitable flying contracts; and
    - Removed 9 CRJ700 aircraft from flying contracts.
- SkyWest Airlines' and ExpressJet's continued improvement in the excellence of their operations, which resulted in a higher amount of flying contract performance incentives;
- The Company was able to place its older CRJ700 aircraft into profitable multi-year contracts, including placing 23 CRJ700 aircraft in service with American Airlines; and
- Net income per diluted share, excluding special items, improved to $2.73 per share in 2016 from $1.98 per share in 2015, or a 38% improvement.

These accomplishments not only improved the Company's performance, but the Board believes these accomplishments will 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 to 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 the Company.

Executive Compensation Procedures

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

Role of Consultants. During 2015 and 2016, the Company and the Compensation Committee received advice from Frederic W. Cook & Co., Inc. ("*F.W. Cook*") with respect to executive compensation practices and trends generally and within the airline industry and the peer group listed below. The Company and the Compensation Committee retained F.W. Cook to advise on the amounts and forms of compensation awarded to Named Executives in 2015 and 2016. 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 2016. The Compensation Committee has sole authority to hire and fire external compensation consultants.

Industry Compensation Data. The Compensation Committee also evaluates surveys and other available data regarding the executive compensation programs of other regional and major 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 August 2015, which included a review of the executive compensation levels and practices at peer companies with revenue and enterprise value between approximately one-third times and three times SkyWest's. The Company's revenue and enterprise value were both above the peer group median at the time the study was conducted. The peer companies used in the 2015 review were: Alaska Air Group, Inc., Allegiant Travel Company, Air Transport Services Group Inc., Atlas Air Worldwide Holdings, Inc., Forward Air Corporation, Genesee & Wyoming Inc., Hawaiian Holdings, Inc., Hub Group, Inc., JetBlue Airways Corporation, Old Dominion Freight Line, Inc., Republic Airways Holdings Inc., Spirit Airlines, Inc., Virgin America Inc., Werner Enterprises, Inc., WestJet Airlines Ltd., and XPO Logistics, Inc..

The peer group was modified slightly in 2016 to remove bankrupt companies, and those with less than one-third times to three times the Company's revenue and enterprise value guideline. As a result, Republic Airways Holdings, Inc., Air Transport Services Group Inc., and Forward Air Corporation were removed, while Air Canada Inc., J.B. Hunt Transport Services, Inc., Kansas City Southern, and YRC Worldwide Inc. were added as new peers. The Company's revenue and enterprise value size continued to be above the 2016 peer group median.

The Compensation Committee had the 2015 peer group data available when 2016 Named Executive compensation decisions were made at the start of the year and it had the 2016 compensation peer group data available when it approved cash incentive payouts for 2016.

Any survey data reviewed by the Compensation Committee is not compiled specifically for the Company but rather represents a database containing comparative compensation data and information for a broad range of other comparable companies, thereby permitting the Compensation Committee to review pooled compensation data for positions similar to those held by each Named Executive. The survey data provided to the Compensation Committee does not include the particular names of those companies whose pay practices are surveyed with respect to any particular position being reviewed. Unlike the peer group compensation data, which is limited to publicly available information and does not provide precise comparisons for certain positions, the more comprehensive survey data can be used to provide pooled compensation data for positions closely akin to those held by each Named Executive. In addition, the pool of senior executive talent from which we draw, and against which we compare ourselves, extends beyond the limited community of our immediate peer group. Rather, this pool includes a wide range of other organizations in the sectors outside of our traditional competitors. As a result, the Compensation Committee relies on a combination of industry survey data and peer group compensation data in evaluating our executive compensation.

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

However, the Company does not believe that it is appropriate to establish compensation levels solely by benchmarking. The Company does not target specific pay levels and uses the peer company market data for context. Instead, its directors rely upon their judgment in making compensation decisions, after reviewing the factors described above. While competitive market compensation paid by other companies is one of the many factors that the Company considers in assessing the reasonableness of compensation, the Company does not attempt to maintain a certain target percentile within a peer group or otherwise rely entirely on that data to determine executive officer compensation. Instead, the Company's compensation determination processes are designed to be flexible in an effort to respond to and adjust for the evolving business environment and individual circumstances.

However, the review of peer data in July 2015 and then again in November 2016 showed that the total compensation levels for the Named Executives generally approximated the 25th percentile of the Company's peer group of companies.

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

Compensation Committee Consideration of Shareholder Advisory Vote. At the Company's Annual Meeting of Shareholders held in May 2016, 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 96% of votes cast. The Compensation Committee considered the results of the 2016 vote and views the outcome as evidence of positive shareholder support of its executive compensation decisions and policies.

The Compensation Committee continued to refine the Company's executive compensation program for 2016 in an effort to better align the compensation packages of the Named Executives with the executive compensation programs of other regional carriers and major airlines and to recognize that the Chief Executive and much of the leadership team is relatively new in their roles. The Compensation Committee will continue to review completed compensation surveys 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 surveys and voting results.

Elements of Compensation

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

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

The compensation components for each Named Executive for 2016 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 salaries of the Named Executives are set forth in the Summary Compensation Table immediately following this section. The salaries of Mr. Childs and Mr. Vais were increased for 2016 due to their promotions, while the salary for Mr. Steel was adjusted more rapidly than is typical due to the Compensation Committee's review of the peer company market data and its conclusion that his 2015 salary was significantly below the 25th percentile of the executives in comparable positions within the peer group companies. The salary for Mr. Simmons was based on a partial year 2015, and Mr. Simmons was provided a more typical salary adjustment of approximately three percent when annualizing his 2015 salary. Mr. Thompson, was provided a more typical annual salary adjustment in the range of two to three percent. Even after these adjustments, the 2016 salaries for Mr. Steel, Mr. Simmons and Mr. Thompson approximated the 25th percentile of the executives in comparable positions within the peer group companies.

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 August 2016 showed that the 2016 total cash opportunity of the Named Executives, consisting of salary plus target cash incentive, and approximated the 25th percentile for all Named Executives when compared to the peer group competitive market data.

The purpose of the annual cash incentive program is to reward the Named Executives with an annual cash incentive in an amount that correlates (i) in part, to one or more financial objectives achieved for the year; and (ii) in part, to the achievement of one or more specific operational objectives during the year. The 2016 annual target incentive opportunity was 100% of salary for Mr. Childs and 80% of salary for Messrs. Simmons, Steel, Thompson and Vais, and their potential annual incentive was allocated 75% based on the financial objective established by the Compensation Committee and 25% based on the operational objective targets established by the Compensation Committee. Mr. Childs was eligible for a maximum cash incentive payout of 200% of salary. Messrs. Simmons, Steel, Thompson and Vais were eligible for maximum cash incentive payouts of 150% of their salaries. The differing percentages for the Named Executives are due to differing entity level responsibilities.

2016 Corporate Performance Objectives. For 2016 annual incentive determination purposes, the Compensation Committee determined that pre-tax earnings would be the financial objective and that controllable completion would be the operational objective. In the case of Messrs. Childs, Simmons and Steel, the applicable pre-tax earnings objective and controllable completion objective were based on the pre-tax earnings and controllable completion of the entire Company. This is because they are corporate level executives with Company-wide responsibility and accountability. Mr. Thompson's pre-tax earnings objective and controllable completion objective were set solely based on the SkyWest Airlines operating segment, since this is his area of responsibility and accountability. Similarly, Mr. Vais is principally engaged in running the operations of the ExpressJet operating segment, so his pre-tax earnings objective and controllable completion objective were set to reflect ExpressJet performance.

- *2016 Adjusted Financial Objective.* In setting the 2016 pre-tax earnings objective, the Compensation Committee considered both the planned 2016 budget, with other unusual or non-recurring items, including changes in pro-rate flying market yields and fuel price changes, non-cash impairments, as well as considering the level of pre-tax earnings that would reflect strong performance and generate shareholder value. Evaluation of unusual or non-recurring items are considered to incentivize the Named Executives to make beneficial long-term business decisions. 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.

- *2016 Operational Objective.* A portion of the Named Executives' annual cash incentive 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 2016, the Compensation Committee determined that the operational objectives would be tied to controllable completion. Controllable completion is the percentage of completed scheduled flights over which the Company had control, excluding cancelled flights due to uncontrollable factors such as weather.

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 a Named Executive to earn 200% of his target annual incentive for the Chief Executive and 187.5% of his target annual incentive for each of the other Named Executives. The higher Chief Executive upside was to reflect his role in the event of over-achievement.

At year-end, the Compensation Committee reviewed the actual pre-tax earnings and operating performance for the year and determined the extent to which the applicable objectives were met. The actual amount of the cash incentive payment for each Named Executive is determined by the Compensation Committee based on the Company's and/or applicable subsidiary's achievement of the foregoing objectives and the actual cash incentives paid for 2016 were based on the pre-established 2016 cash incentive formula, without application of discretion.

The table below includes the "threshold," "target" and "maximum" objectives assigned by the Compensation Committee for the corporate performance measures for 2016 and the Company's 2016 performance relative to those objectives for the Named Executives.

	2016 Annual Cash Incentive Objectives					Chief Executive	Other Named Executives
	Weight	Threshold	Target	Maximum	Achieved	Achieved Results (% of Salary)	Achieved Results (% of Salary)
SkyWest, Inc.							
Pre-tax Earnings ($millions)	75.0%	$ 191.0	$ 224.0	$ 257.0	$ 256.6	149.1%	111.9%
Operating Objective - Controllable completion	25.0%	99.2%	99.5%	99.7%	99.9%	50.0%	37.5%
SkyWest Airlines							
Pre-tax Earnings ($millions)	75.0%	$ 178.0	$ 208.0	$ 238.0	$ 228.9		96.6%
Operating Objective - Controllable completion	25.0%	99.2%	99.5%	99.7%	99.9%		37.5%
ExpressJet							
Pre-tax Earnings ($millions)	75.0%	$ (30.0)	$ (18.0)	$ (6.0)	$ (5.8)		112.5%
Operating Objective - Controllable completion	25.0%	99.2%	99.5%	99.7%	99.8%		37.5%

The Company's achieved pre-tax earnings of $256.6 million for purposes of the 2016 annual incentive plan payouts included certain adjustments to GAAP pre-tax earnings, including special items consisting of (i) a pre-tax non-cash impairment charge of $466 million on SkyWest's 50-seat aircraft and long-lived assets and spare aircraft parts, (ii) a pre-tax $16 million expense related to early lease returns charges on eight CRJ700 aircraft, and (iii) a pre-tax $23 million loss related to other unusual or non-recurring items such as changes in pro-rate flying market yields, fuel price changes and non-cash related aircraft charges. The Compensation Committee believes these adjustments to GAAP pre-tax earnings lead to continued focus on long-term profitability and incentivize Named Executives to make beneficial long-term business decisions and will enhance the Company's long-term financial performance and ability to respond to its major airline partners' future needs.

The corresponding annual cash incentive payments earned for each Named Executive based on performance versus the annual cash incentive objectives during the year ended December 31, 2016, are set forth below.

	Threshold Annual Cash Incentive (% of Salary)	Target Annual Cash Incentive (% of Salary)	Maximum Annual Cash Incentive (% of Salary)	Pre-tax Earnings (% of Salary)		Operating Objective (% of Salary)		Total Annual Cash Incentive Results	Target Annual Cash Incentive	Total Annual Cash Incentive Results
				Weighting of Target	Results	Weighting of Target	Results	(% of Salary)	($)	($)
Russell A. Childs . . .	50.0%	100.0%	200.0%	75.0%	149.1%	25.0%	50.0%	199.1%	$ 400,000	$ 796,364
Robert J. Simmons . .	40.0%	80.0%	150.0%	60.0%	111.9%	20.0%	37.5%	149.4%	$ 248,000	$ 463,027
Wade J. Steel	40.0%	80.0%	150.0%	60.0%	111.9%	20.0%	37.5%	149.4%	$ 224,000	$ 418,218
Michael B. Thompson.	40.0%	80.0%	150.0%	60.0%	96.6%	20.0%	37.5%	134.1%	$ 176,000	$ 294,965
Terry M. Vais	40.0%	80.0%	150.0%	60.0%	112.5%	20.0%	37.5%	150.0%	$ 192,000	$ 360,000

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

Amount of 2016 Performance-Based Annual Cash Incentive. The total annual performance-based cash incentive amounts earned by the Named Executives for 2016 are included in the amounts shown in the Summary Compensation Table below under the caption heading "Non-Equity Incentive Plan Compensation."

2017 Annual Cash Incentive Program. The annual cash incentive objectives were reset for the 2017 plan and the cash incentive plan design for 2017 was refined to align all executives with the same upside (the 2017 annual incentive design allows all Named Executives to earn up to 200% of their target cash incentive) and to administer the cash incentive plan so that earned awards may qualify for the performance based exception to the $1,000,000 cap on tax deductible compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "*Code*"), which is to ensure financial efficiency for shareholders.

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

Long-term incentive awards are made to encourage the Named Executives to continue their engagement with the Company throughout the vesting periods of the awards and to align management and shareholder interests. In making awards to the Named Executives, the grant size and the appropriate mix of equity-based awards are considered. The Compensation Committee generally grants long-term incentive awards at its first meeting of each year. Long-term incentive awards generally vest only if the Named Executive remains employed by the Company for three years from the date of grant, with the exception of stock options which vest one third at each annual anniversary of the date of grant over a three year period. The Compensation Committee believes the three-year cliff-vesting schedule for non-stock option grants and pro-rata vesting over three years for stock options assists in retaining Named Executives and encourages the Named Executives to focus on the Company's long-term performance. Commencing with long-term incentive awards granted during 2017, long-term incentive awards granted to the Named Executives will accelerate under certain circumstances, as described below.

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

Amount and allocation of grant—For 2016, the total annual targeted long-term incentive grant value was 125% of salary and targeted annual cash incentive for Mr. Childs and 100% of salary and targeted annual cash incentive for Messrs. Simmons, Steel, Thompson and Vais. The Compensation Committee established these annual targeted amounts to provide a competitive pay package and to ensure that a large portion of each Named Executive's compensation was based on continuing long-term service and correlated to the creation of shareholder value. This has been the Compensation Committee's policy for several years, but is subject to review and continuation or modification each year by the Compensation Committee. The targeted levels of long-term incentive awards for Mr. Childs are higher than the targeted levels of long-term incentive awards for other Named Executives as a result of his overall responsibility for the long-term success of the Company. Each Named Executive's 2016 long-term incentive award was allocated among the three types of long-term incentive awards as follows: stock options, restricted stock units and performance shares.

Stock options, restricted stock unit and performance share grants in 2016 were made pursuant to the Company's 2010 Plan, as shown in greater detail below and in the table labeled "Grants of Plan Based Awards."

The following table summarizes the number and nature of long-term incentive awards granted to the Named Executives by the Company in 2016 under the 2010 Plan.

	Time Vesting Awards		Performance Vesting Awards
	Options	**Number of Restricted Stock Units**	**"Target" Performance Shares (1)**
Russell A. Childs	41,020	27,064	27,064
Robert J. Simmons	22,889	15,101	15,101
Wade J. Steel	20,674	13,640	13,640
Michael B. Thompson	16,244	10,717	10,717
Terry M. Vais	17,721	11,691	11,691

(1) Number of performance shares if 100% of target is achieved, although the threshold earnout is 50% of target and the maximum earnout is 150% of target.

Stock Options—Options are granted with an exercise price equal to the closing price per share on the date of grant and vest one third at each annual anniversary of the date of grant over a three year period. Grants are made on a systematic schedule, generally one grant per year made at the first Compensation Committee meeting of each year.

The purpose of stock options is to tie a significant percentage of the award's ultimate value to increases in the market price of the Common Stock, thereby rewarding increased value to the shareholders. A stock option only has a value to the extent the value of the underlying shares on the exercise date exceeds the exercise price. Accordingly, stock options provide compensation only if the underlying share price increases over the option term and the Named Executive's employment continues through the vesting date.

The size of the grant for each Named Executive is calculated by determining the number of shares with a theoretical future value equal to the targeted compensation for stock options, assuming each option will have a value equal to 33% of its exercise price (i.e., the fair value modifier, like a Black-Scholes value, is set at 33% to simplify administration). This value generally correlates to the ASC Topic 718 grant date fair value of the option awards. The option allocation was 20% of each Named Executive's total target long-term incentive value in 2016.

Restricted Stock Units—The Company also granted restricted stock units to the Named Executives in 2016 under the 2010 Plan. Restricted stock units comprised 40% of each Named Executive's 2016 long-term incentive compensation. The restricted stock units awarded to a Named Executive entitle the Named Executive to receive a designated number of shares of Common Stock upon completion of a three-year vesting period, measured from the date of grant. Until the vesting date, the shares underlying the restricted stock units are not issued and outstanding. Accordingly, the Named Executive is not entitled to vote or receive dividends on the shares underlying his restricted stock units unless and until those restricted stock units vest. The purpose of the restricted stock unit component is to support continued employment through volatile economic and stock market conditions, to manage dilution overhang, and to align officers' interests with maintaining shareholder value already created as well as future value creation. The Compensation Committee believes this approach mitigates the incentive for Named Executives to take unnecessary risks and helps retain the Named Executives' expertise through continued employment. Restricted stock unit awards deliver significantly greater share-for-share compensation value at grant than do stock options, and the Company can offer what it anticipates will be comparable grant date compensation value with approximately 65% fewer shares than if the grant were made solely with stock options.

Performance Shares. The remaining component of each Named Executive's 2016 annual long-term incentive compensation was performance shares payable in Common Stock under the 2010 Plan. Performance share value comprised 40% of each Named Executive's 2016 long-term incentive g compensation (target performance share value is stock price at grant multiplied by the shares earned if the objectives are achieved). The purpose of the performance share awards is to reward achievement of the three-year financial plan, which the Company believes will also support shareholder value achievement. Under each Named Executive's performance shares award, a number of performance shares will vest upon completion of a three-year performance period from the date of the grant (subject to the Named Executive's continued employment through the vesting date), based on the achievement of certain corporate performance objectives.

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

The Compensation Committee's philosophy for setting performance share targets is to set maximum targets that will be difficult for the Named Executives to achieve on a consistent basis. For the 2016-2018 PSU Awards, the Compensation Committee established threshold, target and maximum performance levels for each of the three corporate performance objectives, with the actual number of performance shares that will vest to be adjusted in proportion to the extent to which the combined actual results varied from the target levels of performance. The performance shares are allocated equally between each of the three metrics in determining the actual awarded performance shares payable in Common Stock. Specifically, a number of performance shares attributable to each objective according to the weightings assigned by the Compensation Committee will be earned ranging from 50% (for threshold performance) to 100% (for target performance) to 150% (for maximum performance), with performance in between such levels determined by linear interpolation. If performance is below the threshold level for one or more of the objectives, no performance shares will be earned with respect to such objective(s).

The corporate objectives for the 2016-2018 PSU Awards for each Named Executive were based on the Company-wide performance, with no individual component or subsidiary-level objectives, in order to encourage teamwork and a collective focus on the creation of long-term value for the Company's shareholders. In determining the degree to which the corporate objectives have been attained, the Company's performance will be automatically adjusted for unusual or non-recurring items.

Actual results for 2016-2018 PSU Awards are measured over the three year performance period. Therefore, the degree to which performance shares granted in 2016 ultimately earned will not be determined until the conclusion of the 2018 calendar year.

Long-Term Incentive Awards for 2017. The Compensation Committee adjusted the long-term incentive metrics for performance shares awarded for 2017 to better align the incentive awards with the creation of shareholder value and to align the compensation package of the Named Executives with those of other regional and major air carrier executive compensation programs. Stock options will not be issued in 2017, which simplifies the long-term incentive program design and aligns with the industry trend away from stock options. The 2017 long-term incentive awards will consist of performance shares and restricted stock units. The target grant value of the performance shares component will be upweighted from the 40% weighting in 2016 to a 60% weighting for Named Executives and the performance shares upside will be increased from 150% of target to 200% of target for "maximum" performance. This is intended to replace the performance-based component of the discontinued stock options with performance-based equity value from performance shares. The Compensation Committee implemented a performance measurement for restricted stock units so that earned awards may be eligible to qualify for the performance based exception to the $1 million cap on tax deductible compensation under Section 162(m) of the Code, which is to ensure financial efficiency for shareholders.

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

Specifically, restricted stock unit awards granted to the Named Executives will vest on an accelerated basis (i) in the event of the Named Executive's involuntary termination without cause or resignation for good reason (although such vesting will be subject to the achievement of a threshold performance objective included in such restricted stock unit awards for Section 162(m) purposes unless such termination occurs within 24 months following a change in control of the Company), or (ii) in the event of the Named Executive's death.

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

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.

Retirement and Other Benefits.

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

The Company also maintains the SkyWest, Inc. 2002 Deferred Compensation Plan, a non-qualified deferred compensation plan for the benefit of officers and other highly compensated employees. All of the Named Executives other than Mr. Vais participate in the SkyWest, Inc. 2002 Deferred Compensation Plan. ExpressJet also maintains a separate but similar non-qualified deferred compensation plan, the ExpressJet Executive Deferred Compensation Plan, for its highly compensated management employees, including Mr. Vais. Under both such deferred compensation plans (the "*Deferred Compensation Plans*"), the employer credits each Named Executive's account with a discretionary employer contribution equal to 15% of salary and annual cash incentive. These amounts are included in the Summary Compensation Table under the column "All Other Compensation". Additional information on the Deferred Compensation Plans is found in the section "Non-Qualified Deferred Compensation for 2016" below. The purpose of the Deferred Compensation Plans is to attract and retain executive talent by assisting with building retirement assets over the course of their career with the Company.

The SkyWest Inc. 2002 Deferred Compensation Plan (but not the ExpressJet Executive Deferred Compensation Plan) also permits eligible executives, including the Named Executives, to elect in advance of each calendar year to defer up to 100% of their cash salary and annual cash incentive compensation for the year. Only Mr. Simmons elected to defer any portion of his salary or annual cash incentive for 2016.

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

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

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

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

Share Ownership Guidelines

The Company maintains ownership guidelines for the Named Executives to encourage the alignment of their interests with the long-term interests of the Company's shareholders. Each Named Executive is strongly encouraged 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 Named Executives are limited in their ability to sell shares under long-term incentive awards until their applicable guideline ownership level is reached.

The guidelines also include an expectation that the Named Executives will hold 50% of their net after-tax profit shares held after vesting or option exercise if the applicable guideline ownership level is not met. Any Named Executive that did not meet the guidelines at December 31, 2016 is encouraged to make progress towards the ownership guideline. The holdings of the Named Executives are summarized in the table entitled "Security Ownership of Certain Beneficial Owners" below.

Deductibility of Executive Compensation

Section 162(m) of the Code imposes a $1 million annual limit on the amount that a publicly traded company may deduct for compensation paid to the company’s principal executive officer during a tax year or to any of the company’s three other most highly compensated executive officers who are still employed at the end of the tax year (other than the Company’s principal financial officer). The limit does not apply to compensation that meets the requirements of Section 162(m) of the Code for “qualified performance-based compensation” (i.e., compensation paid only if the executive meets pre-established, objective goals based upon performance criteria approved by the Company’s shareholders). The Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Code. In certain situations, the Compensation Committee may approve compensation that will not meet the requirements of Code Section 162(m) in order to ensure competitive levels of total compensation for its executive officers.

Effect of Compensation on Risk

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

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

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

COMPENSATION COMMITTEE REPORT

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

The Compensation Committee

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

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

EXECUTIVE COMPENSATION

Summary Compensation Table

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

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Stock Awards: Restricted Stock Units ($)(2)	Stock Awards: Performance Shares ($)(2)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	All Other Compensation ($)	Total ($)
Russell A. Childs	2016	$ 400,000	$ —	$ 400,000	$ 400,000	$ 200,000	$ 796,364	$ 161,745 (4)	$ 2,358,109
CEO & President	2015	$ 330,000	$ —	$ 330,000	$ 330,000	$ 165,000	$ 464,277	$ 111,563 (5)	$ 1,730,840
	2014	$ 287,317	$ 252,475	$ 209,128	$ —	$ 97,481	$ 237,593	$ 104,210 (6)	$ 1,188,204
Robert J. Simmons	2016	$ 310,000	$ —	$ 223,200	$ 223,200	$ 111,600	$ 463,027	$ 126,103 (7)	$ 1,457,130
Chief Financial Officer	2015	$ 225,000	$ —	$ 251,014	$ 251,014	$ 125,507	$ 337,656	$ 56,308 (8)	$ 1,246,499
Wade J. Steel	2016	$ 280,000	$ —	$ 201,600	$ 201,600	$ 100,800	$ 418,218	$ 110,424 (9)	$ 1,312,642
Chief Commercial Officer	2015	$ 240,000	$ —	$ 172,800	$ 172,800	$ 86,400	$ 270,125	$ 85,299 (10)	$ 1,027,424
	2014	$ 185,708	$ 130,240	$ 103,549	$ —	$ 45,959	$ 146,140	$ 56,133 (11)	$ 667,729
Michael B. Thompson . . .	2016	$ 220,000	$ —	$ 158,400	$ 158,400	$ 79,200	$ 294,965	$ 96,159 (12)	$ 1,007,124
Chief Operating Officer —SkyWest Airlines	2015	$ 215,300	$ —	$ 155,016	$ 155,016	$ 77,508	$ 235,624	$ 78,770 (13)	$ 917,234
	2014	$ 176,125	$ 112,050	$ 98,347	$ —	$ 43,585	$ 138,239	$ 53,483 (14)	$ 621,829
Terry M. Vais	2016	$ 240,000	$ —	$ 172,800	$ 172,800	$ 86,400	$ 360,000	$ 69,841 (15)	$ 1,101,841
Chief Operating Officer —ExpressJet	2015	$ 165,200	$ —	$ 101,205	$ 101,205	$ 51,883	$ 163,371	$ 51,412 (16)	$ 634,276

(1) Includes discretionary annual performance bonuses approved by the Compensation Committee for 2014 of $19,100 to Mr. Childs and $12,345 to Mr. Steel. Such bonuses were paid during 2015, Messrs. Simmons, Thompson and Vais did not receive a discretionary annual performance bonus for 2014. No discretionary annual performance bonuses were awarded to the Named Executives in 2015 or 2016.

The amounts in this column also include the amounts, approved by the Compensation Committee, of discretionary performance unit awards issued in 2015 with respect to 2014, but payable in cash in 2017, subject to forfeiture in the event of termination of employment prior to February 18, 2017. The 2017 cash value of those discretionary performance unit awards for 2014 service were $233,375 for Mr. Childs, $117,895 for Mr. Steel and $112,050 for Mr. Thompson. Messrs. Simmons and Vais did not receive discretionary performance unit awards with respect to 2014.

(2) These columns show the grant date fair value of the options and 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. The maximum potential value of the performance share awards, assuming the highest level of performance achievement, is as follows: Mr. Childs, $495,000 (2015), $600,000 (2016); Mr. Simmons, $376,521 (2015), $334,800 (2016); Mr. Steel, $259,200 (2015), $302,400 (2016); Mr. Thompson, $232,524 (2015), $237,600 (2016); and Mr. Vais, $151,808 (2015), $259,200 (2016). 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, 2016 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 2016 is reported in the "Grants of Plan-Based Awards for 2016" table below.

(4) All other compensation for Mr. Childs for 2016 consists of: $132,490 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2016; $5,958 in employer-paid health insurance premiums; $15,728 for a personal vehicle lease; $5,606 for personal use of the Company's recreational equipment; and $1,963 in discretionary matching contributions under the SkyWest 401(k) Plan.

(5) All other compensation for Mr. Childs for 2015 consists of: $88,793 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2015; $5,887 in employer-paid health insurance premiums; $10,505 for a personal vehicle lease; $5,155 for personal use of the Company's recreational equipment; and $1,223 in discretionary matching contributions under the SkyWest 401(k) Plan.

(6) All other compensation for Mr. Childs for 2014 consists of: $77,440 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2014; $5,289 in employer-paid health insurance premiums; $14,727 for a personal vehicle lease; $5,943 for personal use of the Company's recreational equipment; and $811 in discretionary matching contributions under the SkyWest 401(k) Plan.

(7) All other compensation for Mr. Simmons for 2016 consists of: $98,158 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2016; $5,958 in employer-paid health insurance premiums; $14,418 for a personal vehicle allowance; $5,606 for personal use of the Company's recreational equipment and $1,963 in discretionary matching contributions under the SkyWest 401(k) Plan.

(8) All other compensation for Mr. Simmons for 2015 consists of: $34,452 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2015; $5,887 in employer-paid health insurance premiums; $10,814 for a personal vehicle allowance; and $5,155 for personal use of the Company's recreational equipment.

(9) All other compensation for Mr. Steel for 2016 consists of: $84,897 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2016; $5,958 in employer-paid health insurance premiums; $12,000 for a personal vehicle lease; $5,606 for personal use of the Company's recreational equipment; and $1,963 in discretionary matching contributions under the SkyWest 401(k) Plan.

(10) All other compensation for Mr. Steel for 2015 consists of: $60,422 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2015; $5,887 in employer-paid health insurance premiums; $12,000 for a personal vehicle lease; $5,155 for personal use of the Company's recreational equipment; and $1,835 in discretionary matching contributions under the SkyWest 401(k) Plan.

(11) All other compensation for Mr. Steel for 2014 consists of: $37,640 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2014; $5,132 in employer-paid health insurance premiums; $6,000 for a personal vehicle lease; $5,943 for personal use of the Company's recreational equipment; and $1,418 in discretionary matching contributions under the SkyWest 401(k) Plan.

(12) All other compensation for Mr. Thompson for 2016 consists of: $70,790 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2016; $5,800 in employer-paid health insurance premiums; $12,000 for a personal vehicle lease; $5,606 for personal use of the Company's recreational equipment; and $1,963 in discretionary matching contributions under the SkyWest 401(k) Plan.

(13) All other compensation for Mr. Thompson for 2015 consists of: $54,051 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2015; $5,729 in employer-paid health insurance premiums; $12,000 for a personal vehicle lease; $5,155 for personal use of the Company's recreational equipment; and $1,835 in discretionary matching contributions under the SkyWest 401(k) Plan.

(14) All other compensation for Mr. Thompson for 2014 consists of: $34,990 of employer credits under the SkyWest Deferred Compensation Plan attributable to compensation earned for 2014; $5,132 in employer-paid health insurance premiums; $6,000 for a personal vehicle lease; $5,943 for personal use of the Company's recreational equipment; and $1,418 in discretionary matching contributions under the SkyWest 401(k) Plan.

(15) All other compensation for Mr. Vais for 2016 consists of: $50,601 of employer credits under the ExpressJet Deferred Compensation Plan attributable to compensation earned for 2016; $4,840 in employer-paid health insurance premiums; and $14,400 for a personal vehicle lease.

(16) All other compensation for Mr. Vais for 2015 consists of: $42,972 of employer credits under the ExpressJet Deferred Compensation Plan attributable to compensation earned for 2015; $4,840 in employer-paid health insurance premiums; and $3,600 for a personal vehicle lease.

Grants of Plan-Based Awards For 2016

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, 2016:

		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	Grant Date Fair Value of Stock and Option Awards
Name	Grant Date	Threshold ($)(1)	Target ($)(1)	Maximum ($)(1)	Threshold (#)(2)	Target (#)(2)	Maximum (#)(2)	(#)(3)	(#)(4)	($/Share)(5)	($)(6)
Russell A. Childs		$ 200,000	$ 400,000	$ 800,000							$ 400,000
	10-Feb-2016				13,532	27,064	40,596				$ 400,000
	10-Feb-2016							27,064			$ 400,000
	10-Feb-2016								41,020	$ 14.78	$ 200,000
Robert J. Simmons		$ 124,000	$ 248,000	$ 465,000							$ 248,000
	10-Feb-2016				7,551	15,101	22,652				$ 223,200
	10-Feb-2016							15,101			$ 223,200
	10-Feb-2016								20,889	$ 14.78	$ 111,600
Wade J. Steel		$ 112,000	$ 224,000	$ 420,000							$ 224,000
	10-Feb-2016				6,820	13,640	20,460				$ 201,600
	10-Feb-2016							13,640			$ 201,600
	10-Feb-2016								20,674	$ 14.78	$ 100,800
Michael B. Thompson . .		$ 88,000	$ 176,000	$ 330,000							$ 176,000
	10-Feb-2016				5,359	10,717	16,076				$ 158,400
	10-Feb-2016							10,717			$ 158,400
	10-Feb-2016								16,244	$ 14.78	$ 79,200
Terry M. Vais		$ 96,000	$ 192,000	$ 360,000							$ 192,000
	10-Feb-2016				5,846	11,691	17,537				$ 172,800
	10-Feb-2016							11,691			$ 172,800
	10-Feb-2016								17,721	$ 14.78	$ 86,400

(1) The amounts in these columns reflect the threshold, target and maximum amount of each Named Executive's annual cash incentive opportunity for 2016. 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 2016-2018 PSU Awards granted in 2016 which will be eligible to vest based on corporate performance during the three year performance period ending December 31, 2018. The Compensation Committee determined that the corporate objectives for purposes of such awards would be pre-tax earnings, earnings per share and return on invested capital actually attained over the three year performance period. Until the vesting date, the shares underlying the performance shares 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 2016-2018 PSU Awards, the Compensation Committee established threshold, target and maximum performance levels for each of the three corporate performance objectives, with the actual number of performance shares that will vest to be adjusted in proportion to the extent to which the combined actual results varied from the target levels of performance. The performance shares are allocated equally between each of the three metrics in determining the actual awarded performance shares payable in Common Stock. Specifically, a number of performance shares attributable to each objective according to the weightings assigned by the Compensation Committee will be earned ranging from 50% (for threshold performance) to 100% (for target

performance) to 150% (for maximum performance), with performance in between such levels determined by linear interpolation. If performance is below the threshold level for one or more of the objectives, no performance shares will be earned with respect to such objective(s).

(3) Represents restricted stock unit awards that vest on the third anniversary of the date of grant, subject to the Named Executive's continued employment through the vesting date.

(4) Represents stock option awards that vest one third at each annual anniversary of the date of grant over a three year period.

(5) The exercise price of the options of $14.78 per share for the February 10, 2016 grant date is the market closing price of the Common Stock on the date of grant.

(6) This column shows the grant date fair value of the options and 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, 2016 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 year-end 2016 holdings of stock options and other stock awards (restricted stock units and performance shares) by the Named Executives.

	Option Awards				Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price ($)	Option Expiration Date(1)	Number of Share Units That Have Not Vested (#)	Market Value of Share Units That Have Not Vested(9)($)	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. . .	9,929		$ 15.51	2-Feb-18				
	22,979		13.06	15-Feb-19				
	16,389		$ 13.24	13-Feb-20				
		18,054 (2)	$ 12.10	18-Feb-21	13,896 (2)	$ 506,509		
		4,687 (3)	$ 11.36	15-May-21	3,608 (3)	$ 131,512		
	12,217	24,806 (4)	$ 13.51	17-Feb-22	24,426 (4)	$ 890,328	36,639 (6)	$ 1,335,492
		41,020 (5)	$ 14.78	10-Feb-23	27,064 (5)	$ 986,483	27,064 (7)	$ 986,483
Robert J. Simmons. .	7,997	16,236 (4)	$ 14.12	17-Feb-22	15,988 (4)	$ 582,763	23,982 (6)	$ 874,144
		22,889 (5)	$ 14.78	10-Feb-23	15,101 (5)	$ 550,431	15,101 (7)	$ 550,431
Wade J. Steel		5,429 (2)	$ 12.10	18-Feb-21	4,179 (2)	$ 152,325		
		6,059 (3)	$ 11.36	15-May-21	4,664 (3)	$ 170,003		
		12,989 (4)	$ 13.51	17-Feb-22	12,791 (4)	$ 466,232	19,187 (6)	$ 699,348
		20,674 (5)	$ 14.78	10-Feb-23	13,640 (5)	$ 497,178	13,640 (7)	$ 497,178
Michael B. Thompson		5,051 (2)	$ 12.10	18-Feb-21	3,888 (2)	$ 141,718		
		5,868 (3)	$ 11.36	15-May-21	4,516 (3)	$ 164,608		
		11,652 (4)	$ 13.51	17-Feb-22	11,474 (4)	$ 418,227	17,211 (6)	$ 627,341
		16,244 (5)	$ 14.78	10-Feb-23	10,717 (5)	$ 390,635	10,717 (7)	$ 390,635
Terry M. Vais		5,515 (2)	$ 12.10	18-Feb-21	4,245 (2)	$ 154,730		
		4,715 (4)	$ 13.51	17-Feb-22	4,642 (4)	$ 169,201	6,963 (6)	$ 253,801
	1,116	2,265 (8)	$ 17.25	9-Sep-22	2,231 (8)	$ 81,320	5,021 (6)	$ 183,015
		17,721 (5)	$ 14.78	10-Feb-23	11,691 (5)	$ 426,137	11,691 (7)	$ 426,137

(1) All stock option awards have a term of seven years from the date of grant.

(2) Awards scheduled to vest on February 18, 2017.

(3) Awards scheduled to vest on May 15, 2017.

(4) Restricted stock unit awards scheduled to vest on February 17, 2018. One third of the shares subject to the options vest on each anniversary of the date of grant over a three year period.

(5) Restricted stock unit awards scheduled to vest on February 10, 2019. One third of the shares subject to the options vest on each anniversary of the date of grant over a three year period.

(6) Represents performance share awards granted in 2015 which will be eligible to vest based on corporate performance during the three year performance period ending December 31, 2017 (the "2015-2017 PSU Awards"). The Compensation Committee determined that the corporate objectives for purposes of such awards would be pre-tax earnings, earnings per share and return on invested capital actually attained over the three year performance period. Until the vesting date, the shares underlying the performance shares 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 2015-2017 PSU Awards, the Compensation Committee established threshold, target and maximum performance levels for each of the three corporate performance objectives, with the actual number of performance shares that will vest to be adjusted in proportion to the extent to which the combined actual results varied from the target levels of performance. The performance shares are allocated equally between each of the three metrics in determining the actual awarded performance shares payable in Common Stock. Specifically, a number of performance shares attributable to each objective according to the weightings assigned by the Compensation Committee will be earned ranging from 50% (for threshold performance) to 100% (for target performance) to 150% (for maximum performance), with performance in between such levels determined by linear interpolation. If performance is below the threshold level for one or more of the objectives, no performance shares will be earned with respect to such objective(s). The actual number of shares of Common Stock issued to our Named Executives following the conclusion of a performance period will be based on our performance relative to the corporate performance objectives for that performance period. As of December 31 2016, the Company's performance relative to the objectives was tracking at "maximum" performance levels and as such the "maximum" number of performance shares subject to these awards are reported in the table above.

(7) Represents the 2016-2018 PSU Awards granted in 2016 which will be eligible to vest based on corporate performance during the three year performance period ending December 31, 2018 (. The Compensation Committee determined that the corporate objectives for purposes of such awards would be pre-tax earnings, earnings per share and return on invested capital actually attained over the three year performance period. Until the vesting date, the shares underlying the performance shares 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 2016-2018 PSU Awards, the Compensation Committee established threshold, target and maximum performance levels for each of the three corporate performance objectives, with the actual number of performance shares that will vest to be adjusted in proportion to the extent to which the combined actual results varied from the target levels of performance. The performance shares are allocated equally between each of the three metrics in determining the actual awarded performance shares payable in Common Stock. Specifically, a number of performance shares attributable to each objective according to the weightings assigned by the Compensation Committee will be earned ranging from 50% (for threshold performance) to 100% (for target performance) to 150% (for maximum performance), with performance in between such levels determined by linear interpolation. If performance is below the threshold level for one or more of the objectives, no performance shares will be earned with respect to such objective(s). The actual number of shares of Common Stock issued to our Named Executives following the conclusion of a performance period will be based on our performance relative to the corporate performance objectives for that performance period and our stock price on the applicable vesting date. 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 September 9, 2018. One third of the shares subject to the options vest on each anniversary of the date of grant over a three year period.

(9) Based on market closing price per share of Common Stock of $36.45 on December 30, 2016, the last trading day of 2016.

Option Exercises and Stock Vested

Stock options exercised and restricted stock units that vested for the Named Executives during the year ended December 31, 2016 are outlined below.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired On Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Russell A. Childs	31,029	$ 443,609	12,391	$ 190,326
Robert J. Simmons	—	$ —	—	$ —
Wade J. Steel	11,292	$ 171,301	3,701	$ 56,847
Michael B. Thompson	10,321	$ 155,949	3,464	$ 53,207
Terry M. Vais	20,648	$ 212,550	3,731	$ 57,308

Non-Qualified Deferred Compensation for 2016

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

Each Named Executive's account under the SkyWest Deferred Compensation Plan and ExpressJet Deferred Compensation Plan, as applicable, is also credited with a discretionary employer contribution monthly, whether or not the Named Executive contributes. For 2016 that discretionary employer contribution was 15% of the Named Executive's salary and annual cash incentive. Participant account balances under the SkyWest and ExpressJet Deferred Compensation Plans are fully vested and will be paid by the Company to each Named Executive upon retirement or separation from employment, or on other specified dates, in a lump sum form or in installments according to a schedule elected in advance by the Named Executive.

The following table provides information regarding the SkyWest Deferred Compensation Plan for Messrs. Childs, Simmons, Steel and Thompson for the year ended December 31, 2016:

Name	Executive Contributions in Last Year ($)(1)	Registrant Contributions in Last Year ($)(2)	Aggregate Earnings in Last Year ($)(3)	Aggregate Withdrawals/ Distributions in Last Year ($)	Aggregate Balance at Last Year End ($)(4)
Russell A. Childs	$ —	$ 132,490	$ 79,168	$ —	$1,203,837
Robert J. Simmons	$ 2,587	$ 98,158	$ 13,548	$ —	$ 148,183
Wade J Steel	$ —	$ 84,897	$ 21,326	$ —	$ 305,745
Michael B. Thompson	$ —	$ 70,790	$ 42,071	$ —	$ 466,631

(1) The amount in this column represents deferral of base salary for 2016 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 2016 at the rate of 15% of each Executive's 2016 base salary and annual cash incentive which was paid in 2016. 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 2016 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, $132,490 (2016), $88,793 (2015) and $77,440 (2014); Mr. Simmons, $100,745 (2016) and $34,452 (2015); Mr. Steel, $84,897 (2016), $60,422 (2015) and $37,640 (2014); and Mr. Thompson, $70,790 (2016), $56,025 (2015) and $35,467 (2014).

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

The following table provides information regarding the ExpressJet Deferred Compensation Plan for Mr. Vais for 2016.

Name	Executive Contributions in Last Year ($)(1)	Registrant Contributions in Last Year ($)(2)	Aggregate Earnings in Last Year ($)(3)	Aggregate Withdrawals/ Distributions in Last Year ($)	Aggregate Balance at Last Year End ($)(4)
Terry M. Vais	—	$ 50,601	$ 44,534	—	383,105

(1) The amount in this column represents deferral of base salary for 2016 and annual performance cash incentives earned for the ensuing calendar year, which deferred amounts are reported in the Summary Compensation Table above.

(2) The amount in this column reflects the employer contributions credited under the applicable deferred compensation plan for 2016 at the rate of 15% of Mr. Vais's 2016 base salary and annual cash incentive which was paid in 2016. The amount reported in this column is also included in the amount reported in the "Other Compensation" column of the Summary Compensation Table appearing above.

(3) The amounts in this column reflect the notational earnings during 2016 credited to Mr. Vais's account under the ExpressJet Deferred Compensation Plan. This amount is not reported in the Summary Compensation Table because it is based on market rates determined by reference to mutual funds that are available to participants in the ExpressJet 401(k) Plan or, in certain cases, otherwise broadly available.

(4) All Named Executive and Company contributions in prior years to the ExpressJet Deferred Compensation Plan have been reported in the Summary Compensation Tables in the company's previously filed proxy statements, to the extent that Mr. Vais was a named executive officer in that fiscal year. These amounts are as follows: $50,601 (2016), and $42,972 (2015).

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, 2016, or the Company had undergone a change in control on December 31, 2016. 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 Upon Change In Control. Under the Company's long-term incentive plans, all outstanding stock options, restricted stock units, performance shares and performance units held by a Named Executive on December 31, 2016, would have become fully vested upon a "change in control" occurring on that date without regard to whether the Named Executive terminated employment in connection with or following the change in control if such awards were not assumed by the acquirer. The Company's long-term incentive plans generally define a "change in control" as any of the following events: (i) the acquisition by any person of 50% or more of the Company's voting shares, (ii) replacement of a majority of the Company's directors within a two-year period under certain conditions, or (iii) shareholder approval of a merger in which the Company is not the surviving entity, sale of substantially all of the Company's assets or liquidation.

The following table shows for each Named Executive the intrinsic value of his unvested stock options, unvested restricted stock units, performance shares and performance units payable in cash, as of December 31, 2016, that would have been accelerated had a change in control of the Company occurred on that date and the vesting of such awards accelerated, calculated in the case of restricted stock units, performance shares and stock options, by multiplying the number of underlying shares by the closing price of the Common Stock on December 30, 2016, the last trading day of 2016 ($36.45 per share), and, in the case of stock options, by then subtracting the applicable option exercise price:

Name	Early Vesting of Stock Options	Early Vesting of Restricted Stock Units	Early Vesting of Performance Shares(1)	Early Vesting of Performance Units
Russell A. Childs	$ 2,015,165	$ 2,514,831	$ 2,321,975	$ 233,375
Robert J. Simmons	$ 858,555	$ 1,133,194	$ 1,424,575	$ —
Wade J. Steel	$ 1,030,190	$ 1,285,737	$ 1,196,526	$ 117,895
Michael B. Thompson	$ 889,524	$ 1,115,188	$ 1,017,976	$ 112,050
Terry M. Vais	$ 669,954	$ 831,388	$ 862,953	$ 56,600

(1) Reflects the value of the performance shares granted in 2015 at "maximum" performance levels and the value of the performance shares granted in 2016 at "target" performance levels.

Deferred Compensation. If the employment of a Named Executive were terminated on December 31, 2016, 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 2016 year-end account balances under those plans are shown in the applicable Non-qualified Deferred Compensation Tables set forth above. A Named Executive's account balance would continue to be credited with notational investment earnings or losses through the date of actual distribution.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Transaction with Related Party

Jerry C. Atkin, the Company's Chairman of the Board and former Chief Executive Officer, serves on the Board of Directors of Zions. The Company maintains a line of credit and certain bank and investment accounts with Zions. The Company's cash balances in the accounts held at Zions as of December 31, 2016 and 2015 were $116.0 million and $65.0 million, respectively. The Company's investment balance in the accounts held at Zions as of December 31, 2016 and 2015 were $121.6 million and $0.0 million, respectively. Zions is an equity participant in leveraged leases on three aircraft leased by the Company's subsidiaries. Zions also refinanced seven aircraft operated by the Company, becoming the debtor on these aircraft. Zions also serves as the Company's transfer agent for which the Company pays to Zions annual fees of approximately $10,000.

During the year ended December 31, 2016, the Company purchased $245,000 of spare aircraft parts from NORDAM, an entity affiliated with Meredith S. Madden, a director of the Company.

Review and Approval of Transactions with Related Parties

The Company believes that transactions between the Company and its directors and executive officers, or between the Company and persons related to directors and executive officers of the Company, present a heightened risk of creating or appearing to create a conflict of interest. Accordingly, the Company has adopted a policy regarding related-party transactions that has been approved by the Board and incorporated into the Charter of the Audit Committee. The policy provides that the Audit Committee will review all transactions between the Company and related persons (as defined in Item 404 of Regulation S-K promulgated by the Securities and Exchange Commission) for potential conflicts of interest. Under the Company's policy, all transactions between the Company and related persons are required to be submitted to the Audit Committee for approval prior to the Company's entry or participation in such transactions.

DIRECTOR COMPENSATION

The Company uses a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve as directors. In setting director compensation, the Company considers the significant amount of time that directors expend in fulfilling their duties to the Company, as well as the skill level required by the Company of its directors. Directors are encouraged to own shares of Common Stock having a value equal to three times the amount of their annual cash retainer.

Cash Compensation Paid to Directors

For the year ended December 31, 2016, all directors who were not employees of the Company received an annual cash retainer of $40,000 and attendance fees of $2,000 for each in-person Board meeting attended, $1,800 for each in-person Audit Committee meeting attended, $1,400 for each in-person Compensation Committee meeting attended, $1,400 for each in-person Nominating and Corporate Governance Committee meeting attended and $1,400 for each in-person Safety and Compliance Committee meeting attended. Non-employee directors who participated in telephonic meetings of the Board or its committees were also paid $1,000 for each telephonic Board meeting, $1,000 for each telephonic Audit Committee meeting and $1,000 for each telephonic Compensation Committee meeting, $1,000 for each telephonic Nominating and Corporate Governance Committee meeting and $1,000 for each telephonic Safety and Compliance Committee meeting. The Chairman of the Audit Committee was paid an annual fee of $16,000, the Chairman of the Compensation Committee was paid an annual fee of $8,000, the Chairman of Nominating and Corporate Governance Committee was paid an annual fee of $4,000, the Chairman of the Safety and Compliance Committee was paid an annual fee of $4,000 and the Lead Independent Director was paid an annual fee of $18,000. The Chairman of the Board was paid an annual fee of $280,000. Russell A. Childs, who is a director and an employee of the Company, received no compensation for his service on the Board.

Stock Awards

Each non-employee director receives a stock award annually. On February 10, 2016, each of the non-employee directors received an award of 4,736 shares of Common Stock, representing approximately $70,000 of value based on the closing price of the Common Stock on the date of award. The Company did not grant stock options to its non-employee directors in 2016.

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 strongly encouraged 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 compensation base for each director. The director guideline ownership level is three times the annual compensation base. Any director who did not meet the guidelines at December 31, 2016 is encouraged to make progress towards the ownership guideline. The holdings of the directors are summarized in the table entitled "Security Ownership of Certain Beneficial Owners" below.

DIRECTOR SUMMARY COMPENSATION TABLE

The table below summarizes the compensation paid by the Company to its non-employee directors for the year ended December 31, 2016.

(a) Name(1)	(b) Fees Earned or Paid in Cash ($)	(c) Stock Awards ($)(3)	(d) Option Awards ($)	(e) Change in Pension Value and Deferred Compensation Earnings ($)	(f) All Other Compensation ($)	(g) Total ($)
Jerry C. Atkin (2).	$ 277,368	$ 69,998	—	—	—	$347,366
Steven F. Udvar-Hazy. . . .	$ 79,600	$ 69,998	—	—	—	$149,598
W. Steve Albrecht	$ 77,600	$ 69,998	—	—	—	$147,598
Henry J. Eyring	$ 63,400	$ 69,998	—	—	—	$133,398
James L. Welch	$ 56,800	$ 69,998	—	—	—	$126,798
Keith E. Smith	$ 72,700	$ 69,998	—	—	—	$142,698
Ronald J. Mittelstaedt	$ 60,800	$ 69,998	—	—	—	$130,798
Andrew C. Roberts	$ 66,000	$ 69,998	—	—	—	$135,998
Meredith S. Madden	$ 64,400	$ 69,998	—	—	—	$134,398

(1) Russell A. Childs, the Chief Executive Officer, President and a director of the Company, is not included in the foregoing table as he was an employee of the Company during 2016 and received no financial remuneration for his service as a director.

(2) As of December 31, 2016, Jerry C. Atkin has 364,700 performance unit awards payable in cash, 190,329 stock options, 59,241 restricted stock units and 31,887 performance shares outstanding from the Company related to grants occurring prior to his retirement as a Named Executive.

(3) Represents the closing price of a share of Common Stock awarded on the grant date of (a) February 10, 2016, of $14.78 per share, multiplied by the 4,736 shares. These amounts are 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, 2016 which are included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. All such shares of Common Stock are fully vested.

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 6, 2017, 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	Total	Beneficial Ownership(1)
Russell A. Childs	42,326	105,322	147,648	(2)
Robert J. Simmons	2,000	23,547	25,547	(2)
Wade J. Steel	6,094	18,648	24,742	(2)
Michael B. Thompson	19,116	—	19,116	(2)
Terry M. Vais	8,201	14,800	23,001	(2)
Eric J. Woodward	11,771	—	11,771	(2)
W. Steve Albrecht	36,974	—	36,974	(2)
Jerry C. Atkin	1,191,340	173,896	1,365,236	2.6%
Henry J. Eyring	37,862	—	37,862	(2)
Meredith S. Madden	10,180	—	10,180	(2)
Ronald J. Mittelstaedt	17,631	—	17,631	(2)
Andrew C. Roberts	10,180	—	10,180	(2)
Keith E. Smith	27,631	—	27,631	(2)
Steven F. Udvar-Hazy	47,032	—	47,032	(2)
James L. Welch	37,415	—	37,415	(2)
All officers and directors as a group (15 persons)	1,505,753	336,213	1,841,966	3.5%

(1) Based on 51,818,431 shares outstanding as of March 6, 2017.

(2) Less than one percent of the total shares outstanding as of March 6, 2017.

Security Ownership of Other Beneficial Owners

As of March 6, 2017, 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.

	Amount of Beneficial Ownership Common Stock	
Name	**Shares**	**Percent of Class**
Black Rock, Inc. . . . . 55 East 52nd Street New York, NY 10055	5,798,696 (1)	11.19 %
The Vanguard Group, Inc. . . . . 100 Vanguard Blvd Malvern, PA 19355	5,589,998 (2)	10.79 %
Dimensional Fund Advisors LP . . . . 6300 Bee Cave Road Austin, TX 78746	4,366,613 (3)	8.43 %
AllianceBernstein L.P. . . . . 1345 Avenue of the Americas New York, NY 10105	2,884,922 (4)	5.57 %

(1) Based on a Schedule 13G/A filed on January 17, 2017 by BlackRock, Inc., which stated therein that it has sole voting power over 5,705,776 shares and sole dispositive power over 5,798,696 shares.

(2) Based on a Schedule 13G/A filed on February 13, 2017 by The Vanguard Group, Inc., which stated therein that it has sole voting power over 58,361 shares, shared voting power over 700 shares, sole dispositive power over 5,531,565 shares and shared dispositive power over 58,433 shares.

(3) Based on a Schedule 13G/A filed by Dimensional Fund Advisors LP on February 9, 2017, which stated therein that it has sole voting power over 4,203,945 shares and sole dispositive power over 4,366,613 shares.

(4) Based on a Schedule 13G filed by AllianceBernstein L.P. on February 10, 2017, which stated therein that it has sole voting power over 2,469,359 shares and sole dispositive power over 2,884,922 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, 2016.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders(1)	819,981	$ 13.58	4,192,385

(1) Consists of the Company's SkyWest Inc. Long Term Incentive Plan, and its Employee Stock Purchase Plan.

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 2017 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2016 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 24 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, 2016 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
ADVISORY VOTE ON THE FREQUENCY OF FUTURE VOTES ON NAMED EXECUTIVE COMPENSATION

Background

Section 14A also provides that the Company’s shareholders must be given the opportunity to vote on an advisory (non-binding) basis for their preference as to how frequently the Company should consider future Say-on-Pay proposals at its annual meetings of shareholders (referred to as a “Say-on-Frequency” vote). This Proposal 3 gives the Company’s shareholders the opportunity to indicate whether they would prefer that the Company’s shareholders address future Say-on-Pay proposals once every one, two, or three years. Shareholders also may, if they wish, abstain from casting a vote on this proposal.

The Board values dialogue with its shareholders on executive compensation and other important corporate governance matters. The Board believes that addressing a Say-on-Pay proposal in the Company’s annual meeting once a year will achieve an appropriate balance between fostering such dialogue and affording sufficient time to evaluate the merits of the Company’s overall compensation philosophy, policies and practices in the context of the Company’s long-term business results for the corresponding period and any changes made in response to the outcome of a prior Say-on-Pay proposal. The Company’s compensation programs are straightforward, weighted toward performance, and do not tend to materially change from year to year.

Similar to the Say-on-Pay proposal, this vote is only advisory in nature and will not bind the Company or the Board to adopt any particular frequency. However, the Board values the opinion of the Company’s shareholders and will consider the outcome of the vote when determining how frequently to address future Say-on-Pay proposals. Regardless of the outcome of this Say-on-Frequency vote, the Board may decide that it is in the best interests of the Company’s shareholders and the Company to include a Say-on-Pay proposal in the Company’s proxy statement more or less frequently than the frequency receiving the most votes cast by the Company’s shareholders in this vote.

Voting

The proxy card allows you to vote for one of four choices: holding the advisory vote on executive compensation every one, two or three years, or abstaining from voting. Therefore, shareholders will not be voting to approve or disapprove the recommendation of the Board, but will instead be casting their vote for the voting frequency they prefer.

The Board Recommends that Shareholders Vote for the Option of *ONCE EVERY YEAR* as the Frequency of Holding Future Advisory Votes on Named Executive Compensation.

PROPOSAL 4
RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has recommended and approved the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm to examine the consolidated financial statements of the Company for the year ending December 31, 2017. The Company is seeking shareholder ratification of such action.

It is expected that representatives of Ernst & Young LLP will attend the Meeting and be available to make a statement or respond to appropriate questions.

The Board and the Audit Committee Recommend that Shareholders Vote *FOR* the Ratification of Appointment of Ernst & Young LLP as the Company's Independent Registered Public Accounting Firm for the year ending December 31, 2017.

AUDIT COMMITTEE DISCLOSURE

Who served on the Audit Committee?

The members of the Audit Committee as of December 31, 2016, were W. Steve Albrecht (Chairman), Henry J. Eyring, Andrew C. Roberts, Keith E. Smith and James Welch. Each member of the Audit Committee has been determined by the Board to be independent under the rules of the Securities and Exchange Commission and The Nasdaq Global Select Market. The Board has determined that W. Steve Albrecht, who served on the Audit Committee during the year ended December 31, 2016, is an "audit committee financial expert" as defined in Item 407(d) (5)(ii) of Regulation S-K promulgated under the Exchange Act.

What document governs the activities of the Audit Committee?

The Audit Committee acts under a written charter, which sets forth its responsibilities and duties, as well as requirements for the Audit Committee's composition and meetings. The Audit Committee charter is available on the Company's website at inc.skywest.com, and is also available in print, free of charge, upon request. Requests for a printed copy of the Audit Committee charter should be submitted to Eric J. Woodward, Chief Accounting Officer of the Company, at 444 South River Road, St. George, Utah 84790.

How does the Audit Committee conduct its meetings?

During the year ended December 31, 2016, the Audit Committee met with the senior members of the Company's financial management team at each of its regularly scheduled quarterly meetings. The Audit Committee also met with representatives of Ernst & Young LLP ("*EY*"), the Company's independent registered public accounting firm, at each of its in-person meetings and met with representatives of Protiviti, Inc. ("*Protiviti*"), the Company's principal internal auditor, at several of its meetings. Agendas for the Audit Committee's meetings are established by the Chairman of the Audit Committee, after consultation with the Company's Chief Financial Officer and Chief Accounting Officer. At those meetings, the Audit Committee reviewed and discussed the Company's financial performance, financial reporting practices, various financial and regulatory issues, accounting and financial management issues, developments in the accounting profession, as well as the Company's industry, risk management and a summary of calls received on the Company's anonymous reporting line. The Audit Committee also had separate, executive sessions regularly with representatives of EY, the Company's Chief Financial Officer, Protiviti and the Company's legal counsel, at which meetings candid discussions of financial management, accounting, internal controls and legal and compliance issues took place. Additionally, the Chairman of the Audit Committee had separate discussions regularly with the Chief Financial Officer and representatives of EY, Protiviti and the Company's legal counsel.

Does the Audit Committee review the periodic reports and other public financial disclosures of the Company?

The Audit Committee reviews each of the Company's quarterly and annual reports, including Management's Discussion and Analysis of Financial Condition and Results of Operations. As part of its review, the Audit Committee discusses the reports with the Company's management and independent registered public accounting firm and considers the audit and review reports prepared by the independent registered public accounting firm about the Company's quarterly and annual reports, as well as related matters such as the quality (and not just the acceptability) of the Company's accounting practices, alternative methods of accounting under GAAP and the preferences of the independent registered public accounting firm in this regard, the Company's critical accounting policies and the clarity and completeness of the Company's financial and other disclosures.

Did the Audit Committee play any role in connection with the Company's report on internal controls?

The Audit Committee reviewed management's report on internal control over financial reporting, required under Section 404 of the Sarbanes Oxley Act of 2002 and related rules. As part of this review, the Audit Committee reviewed the bases for management's conclusions in that report, and also reviewed the report of the independent registered public accounting firm on internal control over financial reporting. Throughout the year ended December 31, 2016, the Audit Committee reviewed management's plan for documenting and testing controls, the results of their documentation and testing, any deficiencies discovered and the resulting remediation of any such deficiencies.

What is the role of the Audit Committee in connection with the financial statements and controls of the Company?

Management of the Company has primary responsibility for the Company's financial statements and internal control over the Company's financial reporting. The Company's independent registered public accounting firm has responsibility for the integrated audit of the Company's financial statements and internal control over financial reporting. It is the responsibility of the Audit Committee to oversee financial and control matters, among other responsibilities fulfilled by the Audit Committee under its charter. The Audit Committee meets regularly with representatives of EY and Protiviti, without the presence of management, to ensure candid and constructive discussions about the Company's compliance with accounting standards and best practices among public companies comparable in size and scope to the Company. The Audit Committee also regularly reviews with its outside advisors material developments in the law and accounting literature that may be pertinent to the Company's accounting financial reporting practices.

Does the Audit Committee have any policy-making responsibility?

From time to time, the Audit Committee establishes certain policies as required by the rules of the Securities and Exchange Commission and the listing standards of The Nasdaq Global Select Market. For example, the Audit Committee has established a policy for the receipt and retention (including on an anonymous basis) of complaints about financial and control matters. The Audit Committee also has implemented a policy that addresses when the Company may recruit personnel who formerly were employed by the Company's independent registered public accounting firm. In other cases, the Audit Committee is responsible for overseeing the efficacy of management policies, including compliance with the Company's Code of Ethics and the availability of perquisites.

What matters have members of the Audit Committee discussed with the independent registered public accounting firm?

In its meetings with representatives of EY, the Audit Committee asked EY to address and discuss their responses to several questions that they believed were particularly relevant to its oversight. These questions included:

- Are there any significant judgments made by management in preparing the financial statements that would have been made differently had EY prepared and been responsible for the financial statements?

- Based on EY's experience, and their knowledge of the Company, do the Company's financial statements fairly present to investors, with clarity and completeness, the Company's financial position and performance for the reporting period in accordance with GAAP and Securities and Exchange Commission disclosure requirements?

- Based on EY's experience, and their knowledge of the Company, has the Company implemented internal controls and internal audit procedures that are appropriate for the Company?

- During the course of the applicable year, has EY received any communication or discovered any information indicating any improprieties with respect to the Company's accounting and reporting procedures or reports?

The Audit Committee has also discussed with EY that they are retained by the Audit Committee and that they must raise any concerns about the Company's financial reporting and procedures directly with the Audit Committee. Based on these discussions and its discussions with management, the Audit Committee believes it has a basis for its oversight judgments and for recommending that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

What has the Audit Committee done with regard to the Company's audited financial statements for the year ended December 31, 2016?

The Audit Committee has:

- Reviewed and discussed the Company's audited financial statements with the Company's management; and

- Discussed with EY the matters required to be discussed by applicable standards of the Public Company Accounting Oversight Board ("*PCAOB*").

Has the Audit Committee considered the independence of the Company's independent registered public accounting firm?

The Audit Committee has received from EY the written disclosures regarding EY's independence required by PCAOB Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence, and has discussed with EY their independence. The Audit Committee has concluded that EY is independent from the Company and its management.

Has the Audit Committee made a recommendation regarding the audited financial statements for the year ended December 31, 2016?

Based upon its review and the discussions with management and the Company's independent registered public accounting firm, the Audit Committee recommended to the Board that the audited consolidated financial statements for the Company be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Does the Audit Committee provide a periodic report of its activities to the Board?

The Audit Committee provides reports of its activities at each regularly scheduled Board meeting.

Has the Audit Committee reviewed the fees paid to the Company's independent registered public accounting firm during the year ended December 31, 2016?

The Audit Committee has reviewed and discussed the fees paid to EY during the year ended December 31, 2016, for the annual audit of the Company's financial statements, including the integrated audit of internal control over financial reporting and the quarterly reviews of the Company's financial statements included in its Quarterly Reports on Form 10-Q, which are set forth below under "Fees Paid to Independent Registered Public Accounting Firm." The Audit Committee has concluded that EY's delivery of non-audit services is compatible with EY's independence.

What is the Company's policy regarding the retention of the Company's independent registered public accounting firm?

The Audit Committee has adopted a policy regarding the retention of the independent registered public accounting firm that requires pre-approval of all services by the Audit Committee or the Chairman of the Audit Committee. When services are pre-approved by the Chairman of the Audit Committee, notice of such approval is given to the other members of the Audit Committee and presented to the full Audit Committee at its next scheduled meeting.

FEES PAID TO INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Fees

During the years ended December 31, 2016 and 2015, the Company paid EY fees in the aggregate amount of $1,397,000 and $1,265,000, respectively, for the annual audit of the Company's financial statements, including the integrated audit of internal control over financial reporting and the quarterly reviews of the Company's financial statements included in its Quarterly Reports on Form 10-Q.

Audit-Related Fees, Tax Fees and All Other Fees

The Company did not pay EY for audit-related fees, tax fees and all other fees during the years ended December 31, 2016 and 2015.

REPORT OF THE AUDIT COMMITTEE

In connection with the financial statements for the year ended December 31, 2016, 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 Accounting Oversight Board; and

(3) received the written disclosures and letter from EY regarding the auditors' independence required by PCAOB Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence, and has discussed with the independent auditors the independent auditor's independence.

Based upon these reviews and discussions, the Audit Committee recommended to the Board at the February 8, 2017 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, 2016, filed with the Securities and Exchange Commission. The Board approved this inclusion.

The Audit Committee

W. Steve Albrecht, Chair
Henry J. Eyring
Andrew C. Roberts
Keith E. Smith
James L. Welch

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

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Company's executive officers, directors and 10% shareholders are required under Section 16 of the Exchange Act to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Copies of these reports must also be furnished to the Company.

Based solely on a review of copies of reports furnished to the Company, or written representations that no reports were required, the Company believes that during 2016 its executive officers, directors and 10% holders complied with all filing requirements of Section 16 of the Exchange Act.

SHAREHOLDER PROPOSALS FOR THE 2018 ANNUAL MEETING OF SHAREHOLDERS

If any shareholder intends to present a proposal to be considered for inclusion in the Company's proxy material in connection with the Company's 2018 Annual Meeting of Shareholders, the proposal must be in proper form (per Securities and Exchange Commission Regulation 14A, Rule 14a-8—Shareholder Proposals) and received by the Chief Financial Officer of the Company on or before November 22, 2017. Shareholder proposals to be presented at the 2018 Annual Meeting of Shareholders which are not to be included in the Company's proxy materials must be received by the Company no earlier February 8, 2018, and no later than February 28, 2018, 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 2016 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 2016 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 2016 Annual Report to Shareholders should submit a request in writing to Robert J. Simmons, Chief Financial Officer of the Company, 444 South River Road, St. George, Utah 84790, Telephone: (435) 634-3200. Beneficial owners sharing an address who are receiving multiple copies of proxy materials and annual reports and who wish to receive a single copy of such materials in the future will need to contact their broker, bank or other nominee to request that only a single copy of each document be mailed to all shareholders at the shared address in the future.

OTHER BUSINESS

The Company's management does not know of any other matter to be presented for action at the Meeting. However, if any other matters should be properly presented at the Meeting, it is the intention of the persons named in the accompanying proxy to vote said proxy in accordance with their best judgment.

Robert J. Simmons

Chief Financial Officer

St. George, Utah

March 22, 2017

OFFICERS AND DIRECTORS
SKYWEST, INC and SUBSIDIARIES

SKYWEST, INC

Russell A. Childs
President & Chief Executive Officer

Robert J. Simmons
Chief Financial Officer

Wade J. Steel
Chief Commercial Officer

Eric J. Woodward
Chief Accounting Officer

James B. Jensen
Vice President, Information Technology

SKYWEST AIRLINES, INC

Michael Thompson
Chief Operating Officer

Steve Black
Vice President, Customer Service

Brad Blake
Vice President, Operations Control Center

Bill Dykes
Vice President, Maintenance

Tracy Gallo
Vice President, Flight Operations

Lori Hunt
Vice President, People

Sonya Wolford
Vice President, InFlight Services

EXPRESSJET AIRLINES, INC

Terry Vais
Chief Operating Officer

Denise E. Harvill
Vice President, People Resources

Jamie Hill
Vice President, Maintenance & Engineering

Brandee Reynolds
Vice President, InFlight Services

Greg Wooley
Vice President, Flight Operations

Kevin Wade
Vice President, Finance & Controller

BOARD OF DIRECTORS

Jerry C. Atkin
Chairman of the Board
Elected Chairman 1991
Member of the Board Since 1974

Steven F. Udvar-Hazy
Chairman and CEO, Air Lease Corporation
Board Lead Director
Chairman, Nominating & Corporate Governance Committee
Member, Compensation Committee
Member of the Board since 1986

W. Steve Albrecht
Professor, Brigham Young University
Chairman, Audit Committee
Member, Nominating & Corporate Governance Committee
Member of the Board since 2012 (also served from 2003-2009)

Henry J. Eyring
President, Brigham Young University Idaho
Member, Audit Committee
Member, Compensation Committee
Member of the Board since 2006 (also served from 1995-2003)

Meredith S. Madden
Chief Executive Officer, NORDAM
Member, Compensation Committee
Member, Safety & Compliance Committee
Member of the Board since 2015

Ronald J. Mittelstaedt
Chairman & CEO, Waste Connections Inc
Member, Compensation Committee
Member, Nominating & Corporate Governance
Member, Safety & Compliance Committee
Member of the Board since 2013

Andrew C. Roberts
Executive Chairman, Ryan Herco Flow Solutions, LLC
Chairman, Safety & Compliance Committee
Member, Audit Committee
Member of the Board since 2015

Keith E. Smith
President & Chief Executive Officer, Boyd Gaming Corporation
Chairman, Compensation Committee
Member, Audit Committee
Member of the Board since 2013

James L. Welch
Chief Executive Officer, YRC Worldwide, Inc
Member, Audit Committee
Member, Nominating & Corporate Governance Committee
Member, Safety & Compliance Committee
Member of the Board since 2007

CORPORATE INFORMATION

Headquarters
444 South River Road
St George Utah 84790
P: 435-634-3000
inc.skywest.com
NASDAQ Stock Symbol: SKYW

Independent Public Accountants
Ernst & Young, LLP
178 South Rio Grande Street, Suite 400
Salt Lake City, Utah 84101

Registrar and Transfer Agent
Zions First National Bank
Stock Transfer Department
PO Box 9088
Salt Lake City, Utah 84130

SkyWest AIRLINES®

EXPRESSJET™

inc.skywest.com