

SKYWEST INC  
Form 10-Q/A  
February 07, 2003

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q/A**

Amendment No. 1

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002

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 number 0-14719

**SKYWEST, INC.**

Incorporated under the laws of Utah

87-0292166  
(I.R.S. Employer ID No.)

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

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes      X                      No      \_\_\_

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class  
Common stock, no par value

Outstanding at February 4, 2003  
57,645,478

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Exhibit 18.1

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The purpose of this Amendment No. 1 to Quarterly Report on Form 10-Q/A is to restate the Company's condensed consolidated financial statements for the three months ended March 31, 2002 and to modify the related disclosures.

The restatements of the Company's condensed consolidated financial statements for the three months ended March 31, 2002 disclosed in this Amendment No. 1 to Quarterly Report on Form 10-Q/A are described in Note J to the condensed consolidated financial statements, included herein within Item 1 of Part I, and under the heading, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Restatement of Financial Statements," included herein within Item 2 of Part I.

This Amendment No. 1 to Quarterly Report on Form 10-Q/A amends and restates the Company's original Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002 to reflect the effects of the restatement of the Company's financial statements as of and for the three months ended March 31, 2002 and related disclosures.

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SKYWEST, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Dollars in Thousands)  
(Unaudited)

## ASSETS

	March 31, 2002	December 31, 2001
	(Restated See Note J)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 62,226	\$ 42,692
Marketable securities	245,775	268,022
Receivables, net	27,755	20,112
Inventories	22,724	23,283
Prepaid aircraft rents	30,292	14,468
Other current assets	12,298	17,979
	<u>401,070</u>	<u>386,556</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Aircraft and rotatable spares	425,789	397,269
Deposits on aircraft	115,892	115,892
Buildings and ground equipment	69,715	84,231
	<u>611,396</u>	<u>597,392</u>
Less-accumulated depreciation and amortization	(167,177)	(155,686)
	<u>444,219</u>	<u>441,706</u>
<b>MAINTENANCE CONTRACT ASSET</b>	<u>5,577</u>	
<b>OTHER ASSETS</b>	<u>3,401</u>	<u>3,304</u>
<b>Total assets</b>	<u>\$ 854,267</u>	<u>\$ 831,566</u>

See notes to condensed consolidated financial statements.

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SKYWEST, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)  
(Dollars in Thousands)  
(Unaudited)

LIABILITIES AND STOCKHOLDERS EQUITY

	<u>March 31, 2002</u>	<u>December 31, 2001</u>
	(Restated See Note J)	
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 12,819	\$ 12,151
Accounts payable	21,543	36,278
Accrued salaries, wages and benefits	17,052	20,932
Accrued aircraft rents	21,184	19,960
Engine overhaul accrual		14,081
Income taxes payable	4,921	
Taxes other than income taxes	6,635	3,845
Other current liabilities	9,356	8,491
	<u>93,510</u>	<u>115,738</u>
LONG-TERM DEBT, net of current maturities	126,561	113,688
DEFERRED INCOME TAXES PAYABLE	42,193	41,173
DEFERRED AIRCRAFT CREDITS	15,926	15,127
MAINTENANCE CONTRACT LIABILITY	5,577	
<b>STOCKHOLDERS EQUITY:</b>		
Common stock	312,715	309,691
Retained earnings	281,131	258,024
Treasury stock	(20,285)	(20,285)
Accumulated other comprehensive loss	(3,061)	(1,590)
	<u>570,500</u>	<u>545,840</u>
Total liabilities and stockholders equity	<u>\$ 854,267</u>	<u>\$ 831,566</u>

See notes to condensed consolidated financial statements.

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SKYWEST, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (Dollars and Shares in Thousands, Except per Share Amounts)  
 (Unaudited)

	Three Months Ended March 31,	
	2002	2001
	(Restated See Note J)	
<b>OPERATING REVENUES:</b>		
Passenger	\$ 173,215	\$ 129,824
Freight and other	1,131	1,370
	174,346	131,194
<b>OPERATING EXPENSES:</b>		
Flying operations	76,301	56,066
Customer service	30,541	21,117
Maintenance	19,706	18,737
Depreciation and amortization	12,423	9,728
General and administrative	9,638	8,207
Promotion and sales	3,281	6,107
	151,890	119,962
<b>OPERATING INCOME</b>	<b>22,456</b>	<b>11,232</b>
<b>OTHER INCOME (EXPENSE):</b>		
Interest income	3,261	5,478
Interest expense	(52)	
	3,209	5,478
<b>INCOME BEFORE INCOME TAXES</b>	<b>25,665</b>	<b>16,710</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>10,009</b>	<b>6,517</b>
<b>INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>	<b>15,656</b>	<b>10,193</b>
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAXES OF \$5,492</b>	<b>8,589</b>	
<b>NET INCOME</b>	<b>\$ 24,245</b>	<b>\$ 10,193</b>
<b>BASIC EARNINGS PER SHARE:</b>		
Income before cumulative effect of change in accounting principle	\$ 0.28	\$ 0.18
Cumulative effect of change in accounting principle, net of tax	0.15	
Basic earnings per share	<b>\$ 0.43</b>	<b>\$ 0.18</b>
<b>DILUTED EARNINGS PER SHARE:</b>		

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Income before cumulative effect of change in accounting principle	\$ 0.27	\$ 0.18
Cumulative effect of change in accounting principle, net of tax	0.15	
	<u>          </u>	<u>          </u>
Diluted earnings per share	\$ 0.42	\$ 0.18
	<u>          </u>	<u>          </u>
<b>WEIGHTED AVERAGE COMMON SHARES:</b>		
Basic	56,939	56,030
Diluted	57,530	56,924

See notes to condensed consolidated financial statements.

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SKYWEST, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in Thousands)  
(Unaudited)

	Three Months Ended March 31,	
	2002	2001
	(Restated See Note J)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 24,245	\$ 10,193
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,423	9,728
Maintenance expense related to disposition of rotatable spares	286	295
Increase (decrease) in allowance for doubtful accounts	(2)	5
Increase in deferred income taxes	1,020	1,927
Tax benefit from exercise of common stock options	302	4,910
Deferred aircraft credits	799	
Changes in operating assets and liabilities:		
(Increase) decrease in receivables, net	(7,641)	7,274
Decrease (increase) in inventories	559	(1,087)
(Increase) in prepaid aircraft rents and other current assets	(10,143)	(13,184)
(Decrease) increase in accounts payable	(14,735)	2,118
(Decrease) increase in engine overhaul accrual	(14,081)	4,057
Increase (decrease) in other current liabilities	5,920	(239)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(1,048)</b>	<b>25,997</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases and maturities of marketable securities, net	20,776	(25,337)
Acquisition of property and equipment:		
Aircraft and rotatable spares	(29,666)	(32,943)
Buildings and ground equipment	(4,269)	(10,489)
Proceeds from sales of property and equipment	18,785	
Return of deposits on aircraft and rotatable spares		7,658
(Increase) decrease in other assets	(171)	28
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>5,455</b>	<b>(61,083)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term debt	15,731	
Principal payments on long-term debt	(2,190)	(1,824)
Net proceeds from issuance of common stock	2,722	(961)
Payment of cash dividends	(1,136)	(1,116)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>15,127</b>	<b>(3,901)</b>
Increase (decrease) in cash and cash equivalents	19,534	(38,987)
Cash and cash equivalents at beginning of period	42,692	66,190
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 62,226</b>	<b>\$ 27,203</b>

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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:		
Interest	\$ 873	\$ 622
Income taxes	268	2,654

See notes to condensed consolidated financial statements.

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SKYWEST, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Note A Condensed Consolidated Financial Statements

The condensed consolidated financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the following disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the results of operations for the interim periods presented. All adjustments are of a normal recurring nature, except that subsequent to March 31, 2002, the Company identified certain restatement adjustments to previously reported amounts. As discussed further in Notes E and J, the adjustments primarily relate to the Company's maintenance activities and related costs and accounting for CRJ engine modifications, aircraft purchase incentives and early EMB lease terminations. The Company suggests that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Amendment No. 1 to Annual Report on Form 10-K/A for the year ended December 31, 2001. The results of operations for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

## Note B Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

## Note C Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

## Note D 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 or 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, will be recognized as a component of operating results. The Company's position in marketable securities as of March 31, 2002 and December 31, 2001 was as follows (in thousands):

Investment Types	March 31, 2002		December 31, 2001	
	Cost	Market Value	Cost	Market Value
Commercial paper	\$	\$	\$ 7,307	\$ 7,390
Bond funds	205,629	200,688	187,427	184,295
Corporate notes	28,554	28,531	61,198	61,599
Asset backed securities	16,610	16,556	10,623	10,670
Other			4,073	4,068
	250,793	245,775	270,628	268,022
Allowance for unrealized depreciation	(5,018)		(2,606)	
Total	\$245,775	\$245,775	\$268,022	\$268,022



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SKYWEST, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Continued)

Marketable securities had the following maturities as of March 31, 2002 (in thousands):

Maturities	Amount
Year 2002	\$ 148,321
Years 2003 through 2005	70,918
Thereafter	26,536
	<u>\$ 245,775</u>

The Company has classified all marketable securities as short-term since it has the intent to maintain a liquid portfolio and the ability to redeem the securities within the year.

Note E Maintenance and Change in Accounting Principle

The Company operates under an FAA-approved continuous inspection and maintenance program. The Company's historical maintenance accounting policy for engine overhaul costs has included a combination of accruing for overhaul costs on a per-flight-hour basis at rates estimated to be sufficient to cover the overhauls (the accrual method) and capitalizing the cost of engine overhauls and expensing the capitalized cost over the estimated useful life of the overhaul (the deferral method). The Company uses the deferral method of accounting for Brasilia engines and was using the accrual method for Canadair Regional Jet (CRJ) engines through December 31, 2001. As discussed below, during the quarter ended March 31, 2002, the Company elected to change its method of accounting for CRJ engine overhauls to expensing overhaul maintenance events as incurred (the direct-expense method). The costs of maintenance for airframe and avionics components, landing gear and normal recurring maintenance are expensed as incurred. For leased aircraft, the Company is subject to lease return provisions that require a minimum portion of the life of an overhaul be remaining on the engine at the lease return date. For Brasilia engine overhauls related to leased aircraft to be returned, the Company adjusts the estimated useful lives of the final engine overhauls based on the respective lease return dates.

Effective August 1, 2001, the Company and GE Engine Services, Inc. (GE) executed a sixteen-year engine services agreement (the Services Agreement) covering the scheduled and unscheduled repair of CRJ engines. Under the terms of the Services Agreement, the Company agreed to pay GE a fixed rate per-engine-hour, payable monthly, and GE assumed the responsibility to overhaul the Company's CRJ engines as required during the term of the Services Agreement, subject to certain exclusions. The Company accounted for all CRJ engine overhaul costs through December 31, 2001 under the accrual method using an estimated hourly accrual rate through August 1, 2001, and then using the fixed rate per-engine-hour pursuant to the Services Agreement from August 1, 2001 through December 31, 2001. Pursuant to the Services Agreement, GE assumed responsibility for the CRJ engine hours accumulated at the inception of the Services Agreement and agreed to perform certain engine improvements at no additional cost to the Company. As a result, the engine overhaul accrual at the inception of the Services Agreement of \$14.9 million was being amortized, based on the sixteen-year term of the Services Agreement, to offset a portion of the amounts paid under the Services Agreement. Additionally, the estimated portion of the amounts payable under the Services Agreement applicable to the engine improvements to be performed by GE, was being recorded as a prepayment towards the future engine improvements to be capitalized.

In response to changing market conditions, the Company and one of its major