

SKYWEST INC
Form 10-Q
August 07, 2018
Table of Contents

prorate

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 0-14719

SKYWEST, INC.

444 South River Road
Incorporated under the laws of Utah
87-0292166
(I.R.S. Employer ID No.)

Edgar Filing: SKYWEST INC - Form 10-Q

St. George, Utah 84790

(435) 634-3000

(Address of principal executive offices and telephone number)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

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

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

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

Edgar Filing: SKYWEST INC - Form 10-Q

Class	Outstanding at July 31, 2018
Common stock, no par value	52,078,165

Table of Contents

SKYWEST, INC.

QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

<u>PART I</u>	<u>FINANCIAL INFORMATION</u>	
	<u>Item 1. Financial Statements</u>	3
	<u>Consolidated Balance Sheets as of June 30, 2018 (unaudited) and December 31, 2017</u>	3
	<u>Consolidated Statements of Comprehensive Income (unaudited) for the three and six months ended June 30, 2018 and 2017</u>	5
	<u>Condensed Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2018 and 2017</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	7
	<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
	<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	35
	<u>Item 4. Controls and Procedures</u>	35
<u>PART II</u>	<u>OTHER INFORMATION</u>	
	<u>Item 1. Legal Proceedings</u>	36
	<u>Item Risk Factors</u>	
	<u>1A.</u>	36
	<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
	<u>Item 6. Exhibits</u>	36
	<u>Signature</u>	37

Exhibit 31.1 Certification of Chief Executive Officer

Exhibit 31.2 Certification of Chief Financial Officer

Exhibit 32.1 Certification of Chief Executive Officer

Exhibit 32.2 Certification of Chief Financial Officer

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

ASSETS

	June 30, 2018 (unaudited)	December 31, 2017 (a)
CURRENT ASSETS:		
Cash and cash equivalents	\$ 175,728	\$ 181,792
Marketable securities	473,362	503,503
Income tax receivable	11,115	5,316
Receivables, net	71,240	42,731
Inventories, net	118,901	119,755
Prepaid aircraft rents	90,324	115,098
Other current assets	34,555	26,938
Total current assets	975,225	995,133
PROPERTY AND EQUIPMENT:		
Aircraft and rotatable spares	5,929,735	5,335,870
Deposits on aircraft	49,000	49,000
Buildings and ground equipment	285,283	265,608
	6,264,018	5,650,478
Less-accumulated depreciation and amortization	(1,604,814)	(1,467,475)
Total property and equipment, net	4,659,204	4,183,003
OTHER ASSETS:		
Long-term prepaid assets	207,470	230,923
Other assets	71,194	65,341
Total other assets	278,664	296,264
Total assets	\$ 5,913,093	\$ 5,474,400

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

additional information.

See accompanying notes to condensed consolidated financial statements.

3

Table of Contents

SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2018 (unaudited)	December 31, 2017 (a)
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 353,743	\$ 309,678
Accounts payable	291,009	288,904
Accrued salaries, wages and benefits	160,428	154,367
Taxes other than income taxes	16,762	19,228
Other current liabilities	56,653	48,648
Total current liabilities	878,595	820,825
LONG-TERM DEBT, net of current maturities	2,615,637	2,377,346
DEFERRED INCOME TAXES PAYABLE	459,927	419,020
DEFERRED AIRCRAFT CREDITS	36,281	44,225
OTHER LONG-TERM LIABILITIES	62,001	58,662
COMMITMENTS AND CONTINGENCIES (Note 6)		
STOCKHOLDERS' EQUITY:		
Preferred stock, 5,000,000 shares authorized; none issued	—	—
Common stock, no par value, 120,000,000 shares authorized; 81,104,752 and 80,398,104 shares issued, respectively	682,545	672,593
Retained earnings	1,636,768	1,516,957
Treasury stock, at cost, 29,058,982 and 28,643,535 shares, respectively	(458,645)	(435,178)
Accumulated other comprehensive loss	(16)	(50)
Total stockholders' equity	1,860,652	1,754,322
Total liabilities and stockholders' equity	\$ 5,913,093	\$ 5,474,400

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

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

SKYWEST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars and Shares in Thousands, Except per Share Amounts)

(Unaudited)

	Three months ended		Six months ended	
	June 30,	2017 (a)	June 30,	2017 (a)
	2018		2018	
OPERATING REVENUES:				
Flying agreements	\$ 793,637	\$ 781,724	\$ 1,561,602	\$ 1,516,253
Airport customer service and other	11,878	9,788	27,313	22,425
Total operating revenues	805,515	791,512	1,588,915	1,538,678
OPERATING EXPENSES:				
Salaries, wages and benefits	293,677	294,795	600,396	592,462
Aircraft maintenance, materials and repairs	139,774	152,356	281,380	284,681
Depreciation and amortization	82,714	71,206	160,298	141,320
Aircraft rentals	37,508	55,413	82,188	113,123
Aircraft fuel	30,011	20,071	56,950	38,504
Airport-related expenses	25,890	28,949	55,197	60,897
Other operating expenses	69,263	62,126	137,653	124,801
Total operating expenses	678,837	684,916	1,374,062	1,355,788
OPERATING INCOME	126,678	106,596	214,853	182,890
OTHER INCOME (EXPENSE):				
Interest income	1,705	1,330	3,409	1,990
Interest expense	(28,811)	(27,063)	(55,045)	(51,612)
Other income (expense), net	(1,245)	—	2,313	—
Total other expense, net	(28,351)	(25,733)	(49,323)	(49,622)
INCOME BEFORE INCOME TAXES	98,327	80,863	165,530	133,268
PROVISION FOR INCOME TAXES	22,468	30,386	35,310	48,005
NET INCOME	\$ 75,859	\$ 50,477	\$ 130,220	\$ 85,263
BASIC EARNINGS PER SHARE				
	\$ 1.46	\$ 0.98	\$ 2.51	\$ 1.65
DILUTED EARNINGS PER SHARE				
	\$ 1.43	\$ 0.95	\$ 2.46	\$ 1.61
Weighted average common shares:				
Basic	52,046	51,751	51,983	51,785
Diluted	52,913	52,977	52,973	53,090
COMPREHENSIVE INCOME:				
Net income	\$ 75,859	\$ 50,477	\$ 130,220	\$ 85,263
Net unrealized appreciation on marketable securities, net of taxes	84	17	33	56
TOTAL COMPREHENSIVE INCOME	\$ 75,943	\$ 50,494	\$ 130,253	\$ 85,319

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

See accompanying notes to condensed consolidated financial statements

5

Table of Contents

SKYWEST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In Thousands)

	Six months ended	
	June 30,	2017
	2018	2017
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 350,822	\$ 331,783
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(1,377,448)	(738,101)
Sales of marketable securities	1,407,623	665,246
Proceeds from the sale of aircraft, property and equipment	—	50,652
Acquisition of property and equipment:		
Aircraft and rotatable spare parts	(553,877)	(514,443)
Buildings and ground equipment	(19,070)	(2,420)
Aircraft deposits applied towards acquired aircraft	—	16,824
Increase in other assets	(4,962)	(6,098)
NET CASH USED IN INVESTING ACTIVITIES	(547,734)	(528,340)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	383,644	384,825
Principal payments on long-term debt	(160,387)	(169,550)
Net proceeds from issuance of common stock	2,320	1,783
Purchase of treasury stock and employee income tax paid on equity awards	(23,467)	(13,871)
Increase in debt issuance cost	(1,917)	(3,221)
Payment of cash dividends	(9,345)	(6,727)
NET CASH PROVIDED BY FINANCING ACTIVITIES	190,848	193,239
Decrease in cash and cash equivalents	(6,064)	(3,318)
Cash and cash equivalents at beginning of period	181,792	146,766
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 175,728	\$ 143,448
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		