GREENMAN TECHNOLOGIES INC
Form 10KSB
April 20, 2006

U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 10-KSB

(Mark One)
|X| ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2005

OR

|_| TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-13776

GreenMan Technologies, Inc.
(Name of small business issuer in its charter)

Delaware	71-0724248
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7 Kimball Lane, Building A, Lynnfield, MA 01940
(Address of principal executive offices) (Zip Code)

Issuer's telephone number (781) 224-2411

Securities registered pursuant to Section 12 (b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common Stock, $ .01 par value	American Stock Exchange

(Title of each class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act |_|

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 |_|

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. |X|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). |_|

The issuer's revenues for the fiscal year ended September 30, 2005 were $22,075,236.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of March 31, 2006 was $3,994,325.

As of March 31, 2006, 19,225,352 shares of common stock of issuer were outstanding.

Transitional Small Business Disclosure Format (check one) Yes |_| No |X|

GREENMAN TECHNOLOGIES, INC.

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-KSB contains forward-looking statements regarding future events and the future results of GreenMan Technologies, Inc. that are based on current expectations, estimates, forecasts, and projections and the beliefs and assumptions of our management. Words such as "expect," "anticipate," "target," "goal," "project," "intend," "plan," "believe," "seek," "estimate," "will," "likely," "may," "designed," "would," "future," "can," "could" and other similar expressions that are predictions of or indicate future events and trends or which do not relate to historical matters are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and involve a number of risks, uncertainties, and assumptions that are difficult to predict; consequently actual results may differ materially from those projected, anticipated, or implied.

PART I

Item 1. Description of Business

General

GreenMan Technologies, Inc. (together with its subsidiaries, "we", "us" or "our") was originally founded in 1992 and has been operated as a Delaware corporation since 1995. We are in the business of collecting, processing and marketing scrap tires in whole, shredded or granular form. We are headquartered in Lynnfield, Massachusetts and operate tire processing operations in California, Iowa and Minnesota.

Recent Developments

In September 2005, due to the magnitude of our continued operating losses, our Board of Directors approved separate plans to divest the operations of our Georgia and Tennessee subsidiaries and dispose of their respective assets. Accordingly, we have classified their respective results of operations as discontinued operations for all periods presented in the accompanying consolidated financial statements.

In September 2005 we entered into an agreement under which all Tennessee scrap tire collection contracts and certain other contracts with suppliers of waste tires and contracts to supply whole tires to certain cement kilns in the southeastern region of the United States were assigned to a company owned by a former employee. We received no cash consideration for these assignments and recorded a $1,334,849 non-cash loss (including $918,450 associated with goodwill written off) on disposal of the operations at September 30, 2005. The aggregate losses associated with the discontinued operations of our Tennessee subsidiary included in the results for the fiscal year ended September 30, 2005 were approximately $3.1 million.

During the quarter ended December 31, 2005, we substantially curtailed operations at our Georgia subsidiary. As a result, we wrote down the carrying value of all Georgia operating assets to their estimated fair value at September 30, 2005 and recorded a non-cash loss on disposal of $4,631,102 (including $1,253,748 of goodwill written off) net of a gain on settlement of our Georgia facility lease of $586,451. The aggregate losses associated with the discontinued operations of our Georgia subsidiary included in the results for the fiscal year ended September 30, 2005 were approximately $8.3 million. During the quarter ended March 31, 2006, we completed the sale of substantially all Georgia operating assets to two separate parties and received $405,000 in aggregate cash. In addition, the party to one of these transactions agreed to terminate several material supply and equipment lease agreements as well as a December 2005 letter of intent containing an exclusive option to acquire certain operating assets of the party.

In June 2005, our Wisconsin subsidiary sold all of its land and buildings and all remaining Wisconsin operations were consolidated into our Minnesota facility as of September 30, 2005.

Products and Services

Our tire processing operations are paid a fee to collect, transport and process scrap tires (i.e. collection/processing revenue) in whole or two inch or smaller rubber chips which are then sold (i.e. product revenue).

We collect scrap tires from three sources:

- local, regional and national tire stores;
- tire manufacturing plants; and
- illegal tire piles being cleaned-up by state, county and local governmental entities;

The tires we collect are processed and sold:

- as tire-derived fuel used in lieu of coal by pulp and paper producers, cement kilns and electric utilities;

- as an effective substitute for crushed stone in civil engineering applications such as road beds, landfill construction or septic field construction; or
- as crumb rubber (rubber granules) and used for playground and athletic surfaces, running tracks, landscaping/groundcover applications and bullet containment systems.

In some states where we previously had disposal contracts with cement kilns, our whole tire operations were paid a fee by existing tire collectors to dispose of whole tires at our location. We paid the cement kilns a fee to accept the whole tires which they then use as an alternative fuel source to coal, while also providing a source of iron oxide which is required in the cement making process. As of September 30, 2005, we no longer have disposal contracts with cement kilns.

Manufacturing/Processing

Our tire shredding operations currently have the capacity to process about 20 million passenger tire equivalents annually. We collected over 18.3 million passenger tire equivalents in the fiscal year ended September 30, 2005 (excluding approximately 13.1 associated with our discontinued Georgia and Tennessee operations), compared to approximately 17.5 million passenger tire equivalents during the year ended September 30, 2004 (excluding approximately 13.1 associated with our curtailed Georgia and Tennessee operations). We anticipate processing over 20 million passenger tire equivalents in fiscal 2006, based on current processing volumes.

The method used to process tires is a series of commercially available shredders that sequentially reduce tires from whole tires to two-inch chips or smaller. Bead-steel is removed magnetically yielding a "95% wire-free chip." This primary recycling process recovers approximately 60% of the incoming tire. The remaining balance consists of un-saleable cross-contaminated rubber and steel ("waste wire"), which we have historically disposed of at costs exceeding

$1 million annually. Our Iowa and Minnesota facilities further process the waste wire residual into saleable components of rubber and steel which reduces residual disposal costs and provides additional sources of revenue. In our Iowa facility, rubber is further granulated into particles less than one-quarter inch in size for use in the rapidly expanding athletic surfaces and playground markets.

Raw Materials

We believe we will have access to a supply of tires sufficient to meet our requirements for the foreseeable future. According to the latest information available from the Rubber Manufacturers Association, in 2003 approximately 290 million passenger tire equivalents (approximately one per person per year) were discarded in the United States ("current generation scrap tires") in addition to an estimated several hundred million scrap passenger tire equivalents already stockpiled in illegal tire piles. The Rubber Manufacturers Association estimates that a total of approximately 233 million passenger tire equivalents are currently recycled, of which approximately 130 million are burned as tire-derived fuel; 55 million are used in civil engineering applications; and 48 million are used in various other applications such as crumb rubber production, retreading and export. The approximately 57 million remaining passenger tire equivalents are now added to landfills annually. Based on this and other data, there appears to be an adequate supply of tires to meet our needs.

Customers

Our customers continue to consist of major tire manufacturers, local and regional tire outlets, and state and local governments. We have many long-term, stable relationships with our customers and we do not believe that the loss of any individual customer would have a material adverse effect on our business. During 2005, no single customer accounted for more than 10% of our total net sales.

We do not have any long-term contracts which require any customer to purchase any minimum amount of products or provide any minimum amount of tires. There can be no assurance that we will continue to receive orders of the same magnitude as in the past from existing customers or that we will be able to market our current or proposed products to new customers.

Sales and Marketing

We continue to utilize in-house sales staff for securing new accounts and marketing processed materials. This strategy maximizes revenue and concentrates our sales/marketing efforts on highly focused initiatives. Sales/marketing personnel have extensive experience in the tire recycling industry and in industries where our processed materials are consumed.

Competition

We compete in a highly fragmented and decentralized market with a large number of small competitors. Although we continue to believe there is an opportunity for industry consolidation we have focused our attention on strategic value-added vertical integration. Our strategy is to continue to increase the number of passenger tire equivalents that we processes through aggressive sales and marketing efforts as well as continuing to focus on identifying and generating new marketing strategies for recycled tires and their value added by-products.

Government Regulation

Our tire recycling and processing activities are subject to extensive and rigorous government regulation designed to protect the environment. We do not believe that our activities result in emission of air pollutants, disposal of combustion residues, or storage of hazardous substances except in compliance with applicable permits and standards. The establishment and operation of plants for tire recycling, however, are subject to obtaining numerous permits and compliance with environmental and other government regulations. The process of obtaining required regulatory approvals can be lengthy and expensive. The Environmental Protection Agency and comparable state and local regulatory agencies actively enforce environmental regulations and conduct periodic inspections to determine compliance with government regulations. Failure to comply with applicable regulatory requirements can result in, among other things, fines, suspensions of approvals, seizure or recall of products, operating restrictions, and criminal prosecutions. Furthermore, changes in existing regulations or adoption of new regulations could impose costly new procedures for compliance, or prevent us from obtaining, or affect the timing of, regulatory approvals. We use our best efforts to keep abreast of changed or new regulations for immediate implementation.

Protection of Intellectual Property Rights and Proprietary Rights

None of the equipment or machinery that we currently use or intend to use in our current or proposed manufacturing activities is proprietary. Any competitor can acquire equivalent equipment and machinery on the open market.

We have used the name "GreenMan" in interstate commerce since inception and assert a common law right in and to such name.

Employees

As of September 30, 2005, we had 159 full time employees. We are not a party to any collective bargaining agreements and consider the relationship with our employees to be satisfactory.

Item 2. Description of Properties

Our Minnesota location consists of production facilities and office space situated on approximately eight acres which we lease from a related party pursuant to a March 2004 sale/leaseback arrangement. The lease expires in 2016, but provides for two additional 4-year extensions. (See "Item 12. Certain Relationships and Related Transactions - Related Party Transactions.")

Our Iowa location consists of production facilities and office space situated on approximately four acres which we lease from a related party pursuant to an April 2003 lease. The lease expires in 2013 and provides us with a right of first refusal to purchase the land and buildings at fair market value during the term of the lease. In addition, in March 2005 we executed a new lease with the same related party for approximately three additional acres adjacent to our Iowa facility. The lease expires in 2013. (See "Item 12. Certain Relationships and Related Transactions - Related Party Transactions.")

Our California location consists of a disposal and production facility and office space located in approximately 45,000 square feet of a building which we lease from an unrelated third party pursuant to an April 2002 lease. The lease expires in April 2007 but can be terminated by either party with 30 days prior notice and provides for an additional 5-year extension.

We lease approximately 3,380 square feet of office space from an unrelated third party for our corporate headquarters pursuant to a five-year lease that expires in May 2008. In June 2004, we amended this lease to include an additional 1,125 square feet of office space for an additional monthly rent of $1,500.

In June 2005 we sold our Wisconsin facility for approximately $483,000 and consolidated those operations into our Minnesota location, recording a gain of approximately $123,608. We continued to lease the property through September 30, 2005 while we completed the consolidation with Minnesota.

In September 2005, we ceased operations at our Tennessee facility and substantially curtailed operations at our Georgia location during the quarter ended December 31, 2005. The Tennessee location consisted of production and office space which we leased from an unrelated third party pursuant to a September 2002 lease which expired in 2005. The Georgia location consists of production facilities and office space which we lease pursuant to an April 2001 sale/leaseback arrangement which originally expired in 2021. In February 2006, we renegotiated the lease to permit us to terminate the lease with 180 days notice. Despite early termination, we will be obligated to continue to pay rent until the earlier to occur of (1) the sale of the premises by the landlord; (2) the date on which the landlord begins leasing the premises to a new tenant; or (3) three years from the date on which we vacate the property. (See "Item 12. Certain Relationships and Related Transactions - Related Party Transactions.")

During the period of February 16, 2006 to March 1, 2006, we completed the sale of substantially all GreenMan of Georgia operating assets to two companies, one which is co-owned by a former employee. In addition, we entered into a sublease agreement with each party with respect to part of the premises located in Georgia with a rolling six month commitment from each party.

We consider our properties in good condition, well maintained and generally suitable to carry on our business activities for the foreseeable future.

Item 3. Legal Proceedings

As of March 31, 2006, approximately 16 vendors of our GreenMan Technologies of Georgia, Inc. and GreenMan Technologies of Tennessee, Inc. subsidiaries had commenced legal action, primarily in the state courts of Georgia, in attempts to collect approximately $1.6 million of past due amounts included in liabilities related to discontinued operations on the consolidated balance sheet, plus accruing interest, attorneys' fees, and costs, all relating to various services rendered to these subsidiaries. The largest individual claim is for approximately $650,000. As of March 31, 2006, 3 of these vendors had secured judgments in their favor for an aggregate amount of approximately $250,000. As previously noted, all of GreenMan Technologies of Tennessee, Inc.'s assets were sold in September 2005 and substantially all of GreenMan Technologies of Georgia, Inc.'s assets were sold as of March 1, 2006. All proceeds from these sales were retained by our secured lender and these subsidiaries have substantially no assets. We are therefore currently evaluating the alternatives available to these subsidiaries.

GreenMan Technologies, Inc. was not a party to any of these vendor relationships but several of the plaintiffs have filed suit against GreenMan Technologies, Inc. While there can be no assurance that GreenMan Technologies, Inc will not be named as a defendant in future proceedings, we believe that GreenMan Technologies, Inc has valid defenses to any potential claims that may be made against us, and we intend to defend against any such claims vigorously.

In addition to the foregoing, we are subject to routine claims from time to time in the ordinary course of our business. We do not believe that the resolution of any of the claims that are currently known to us will have a material adverse effect on our company or on our financial statements.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of our shareholders during the fourth quarter of the fiscal year ended September 30, 2005.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer's Purchases of Equity Securities

Our common stock is traded on the American Stock Exchange ("the Exchange") under the symbol "GRN".

On January 5, 2006 we were notified by the Exchange indicating we were not in compliance with the Exchange's requirements for continued listing as set forth in Sections 134 and 1101 of the Exchange's Company Guide with respect to our failure to file our Annual Report on Form 10-KSB for the year ended September 30, 2005 with the Securities and Exchange Commission.

In order to maintain our listing on the Exchange, we were required to, and did, submit a plan by January 19, 2006 advising the Exchange of action we have taken, or will take, that would bring our company into compliance with Sections 134 and 1101 of the Company Guide by no later than March 20, 2006. On February 2, 2006, we were notified that the Exchange had accepted our compliance plan and had granted us an extension of time through March 20, 2006 to regain compliance with the continued listing standards. Although we had made progress toward compliance by March 20, 2006, we did not file our Annual Report by that date. Although we remain subject to continued periodic review by the Exchange, the Exchange has not notified us of its intention to initiate delisting proceedings and, to our knowledge, the Exchange has not initiated such proceedings.

On February 14, 2006, we were notified by the Exchange that we are not in compliance with the Exchange's requirements for continued listing set forth in Section 1003(a)(i) of the Exchange's Company Guide because we did not meet the $2,000,000 shareholders' equity requirement and because we reported losses from continuing operations and/or net losses in two out of our three most recent fiscal years.

In order to maintain our listing on the Exchange, we were required to, and did, submit a plan by March 14, 2006 advising the Exchange of action we have taken, or will take, that would bring us into compliance no later than February 14, 2007. We will be subject to delisting proceedings if the plan we submitted is unacceptable to the Exchange or if we fail to make progress toward achieving an acceptable plan.

The following table sets forth the range of the reported high and low sales prices of our common stock for the years ended September 30, 2005 and 2004.

	Common Stock	
	High	Low
Fiscal 2004		

Quarter Ended December 31, 2003............	$1.80	$1.25
Quarter Ended March 31, 2004................	1.60	1.07
Quarter Ended June 30, 2004................	1.40	1.01
Quarter Ended September 30, 2004...........	1.54	1.14
Fiscal 2005		

Quarter Ended December 31, 2004............	$1.57	$1.11
Quarter Ended March 31, 2005................	1.55	0.79
Quarter Ended June 30, 2005................	0.94	0.44
Quarter Ending September 30, 2005..........	0.44	0.22

On March 31, 2006, the closing price of our common stock was $.30 per share.

As of September 30, 2005, we estimate the approximate number of stockholders of record of our common stock to be 2,500. This number excludes individual stockholders holding stock under nominee security position listings.

We have not paid any cash dividends on our common stock since inception and do not anticipate paying any cash dividends in the foreseeable future. In addition, our agreements with Laurus Master Fund, Ltd. prohibit the payment of cash dividends.

See "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources -Additional Steps to Increase Liquidity and "Refinancing of Our Credit Facility" for a description of certain convertible promissory notes and warrants issued to Laurus. These notes and warrants were exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of the Act.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

In September 2005, due to the magnitude of continued operating losses, our Board of Directors approved separate plans to divest the operations of our Georgia and Tennessee subsidiaries and dispose of their respective assets. Accordingly, we have classified their respective results of operations as discontinued operations for all periods presented in the accompanying consolidated financial statements.

Fiscal Year ended September 30, 2005 Compared to Fiscal Year ended September 30, 2004

Net sales from continuing operations for the fiscal year ended September 30, 2005 were $22,075,236, a 16% increase, compared to last year's net sales from continuing operations of $19,115,483. Our continuing operations processed approximately 18.3 million passenger tire equivalents during the fiscal year ended September 30, 2005, compared to approximately 17.5 million passenger tire equivalents during the fiscal year ended September 30, 2004. The increase in revenue was attributable to a 18% increase in overall product revenues, a 5% increase in inbound scrap tires volume and a 4% increase in overall tipping fees per passenger tire. Included in the fiscal 2005 results were approximately $827,000 of revenue and 875,000 passenger tire equivalents associated with an Iowa scrap tire cleanup project which was completed during fiscal 2005.

Overall end product sales increased 18% or $1,221,718 to $7,856,960 during the fiscal year ended September 30, 2005, compared to $6,635,242 for the same period last year. The increase in end product sales is attributable to stronger crumb rubber and tire-derived fuel sales during the fiscal year ended September 30, 2005. The overall quality of revenue (revenue per passenger tire equivalent) benefited from increased tire volumes and end product sales and a 4% increase in tipping fees per passenger tire equivalent.

Gross profit for the fiscal year ended September 30, 2005 was $3,603,629 or 16% of net sales, compared to $3,908,768 or 20% of net sales for year ended September 30, 2004. Our cost of sales increased $3,264,892 or 21% primarily due to increased collection costs, reduced processing capacity and equipment reliability issues at our California facility as well as unforeseen decreases in inbound tire volumes in California due to severe weather conditions during the first half of fiscal 2005.

Selling, general and administrative expenses for the fiscal year ended September 30, 2005 increased $286,585 to $3,459,470 or 16% of net sales, compared to $3,172,885 or 17% of net sales for the fiscal year ended September 30, 2004. The increase was primarily attributable to increased outside professional expenses and travel.

During June 2005 our Wisconsin subsidiary reached an agreement with the lessor of certain transportation equipment to buy-out the remaining term of the lease. Management determined that the carrying value of the purchased transportation equipment was impaired. We recorded an impairment loss amounting to $57,183 associated with writing down the assets to their estimated fair value based on replacement cost of similar equipment. In addition, due to the magnitude of the fiscal 2005 losses, management determined that the carrying value of corporate-wide goodwill to be impaired and accordingly wrote-off all remaining goodwill recording an additional non-cash impairment loss of $1,361,696.

As a result of the foregoing, we had and operating loss of $1,274,720 for the fiscal year ended September 30, 2005 as compared to an operating income of $735,883 for the fiscal year ended September 30, 2004.

Interest and financing costs for the fiscal year ended September 30, 2005 increased $1,000,353 to $2,408,896 (including $1,547,563 of non-cash deferred financing costs), compared to $1,408,543 (including $456,671 of non-cash deferred financing costs) during the fiscal year ended September 30, 2004. The increase is primarily attributable to increased non-cash deferred financing associated with the Laurus credit facility and an increase in borrowing rates.

During the fiscal year ended September 30, 2004 we also recorded other income of approximately $90,000 relating to a settlement for damaged product.

Based on the magnitude of our fiscal 2005 losses, we determined the near-term realizability of a $270,000 non-cash deferred tax asset to be uncertain and therefore have provided a valuation allowance on the entire amount during the fiscal year ended September 30, 2005.

As a result of the foregoing, our net loss from continuing operations for the fiscal year ended September 30, 2005 increased $3,476,140 to $4,053,534 or $.21 per basic share, compared to a net loss of $577,394 or $.03 per basic share for the fiscal year ended September 30, 2004. The estimated loss on disposal of discontinued operations includes $1,334,849 relating to our Tennessee operations and $4,631,102 in connection with our Georgia facility. Losses primarily relate to the write-off of property, equipment, goodwill, an acquisition deposit and costs of exit activities.

Loss from discontinued operations increased $3,085,977 to $5,153,224 for fiscal year ended September 30, 2005 as compared to a net loss from discontinued operations of $2,067,247 for last year.

Our net loss for the fiscal year ended September 30, 2005 increased $12,528,068 to $15,172,709 as compared to a net loss of $2,644,641 for the fiscal year ended September 30, 2004.

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Liquidity and Capital Resources

As of September 30, 2005, we had $256,492 in cash and cash equivalents and a working capital deficiency of $8,667,886. Our continued existence is dependent on our ability to reduce our operating costs, negotiate more favorable terms with existing secured creditors, refinance existing long term debt, secure additional financing and achieve profitable status on a sustained basis.

The Consolidated Statements of Cash Flows reflect events in 2005 and 2004 as they affect our liquidity. During the fiscal year ended September 30, 2005, net cash used for operating activities was $450,536. While our net loss was $15,172,709 our overall cash flow was positively impacted by the following non-cash expenses and changes to our working capital: $6,446,434 of depreciation and amortization, $3,605,345 of non-cash net loss on disposal of fixed assets (including capital leases), $3,591,077 of non-cash goodwill impairment, a decrease in accounts receivable, product inventory and other current assets of $1,243,190 in aggregate and an increase in accounts payable and accrued expenses of $1,938,606 in aggregate.

During the fiscal year ended September 30, 2004, net cash used by operating activities was $1,694,645. Our overall cash flow was negatively impacted by our net loss of $2,644,641 as well as the following changes to our working capital: a $1,015,500 increase to accounts receivable, a $555,420 increase in product inventory and an increase in accounts payable and accrued expenses of $351,348 in aggregate. These uses of cash were partially offset by the inclusion of $2,680,114 of depreciation and amortization (non-cash expenses) and the receipt of a $634,172 insurance receivable during fiscal 2004.

Net cash used for investing activities was $987,991 for the fiscal year ended September 30, 2005 reflecting the purchase of $1,596,093 of machinery and equipment with a majority associated with the completion of our Georgia waste wire processing equipment and new shredding capacity. This offset by $608,102 in proceeds received from the sale of our Wisconsin property and miscellaneous other equipment. The net cash used by investing activities for the fiscal year ended September 30, 2004 was $212,532 reflecting the $1,400,000 of proceeds received from the sale of our Minnesota real estate which offset the purchase of $1,649,264 of property and equipment to increase capacity and efficiencies at several of our operating locations.

Net cash provided by financing activities was $1,293,956 during the fiscal year ended September 30, 2005 and was positively impacted by additional availability under our Laurus and First American credit facilities. This increase was offset by repayment of notes payable and convertible notes payable of $2,002,404 in aggregate and capital leases of $538,848. Net cash provided by financing activities was $1,426,219 during the fiscal year ended September 30, 2004 and was positively impacted by the new Laurus credit facility and the completion of the April 2004 private placement of investment units which collectively generated approximately $6,833,000 of new cash flow before expenses. These increases were offset by repayment of notes payable of $4,726,894, including approximately $3,800,000 associated with the payoff of our Minnesota real estate loan, WAMCO Credit Facility and Cryopolymers Leasing note payable.

The financial statements have been prepared assuming we will continue as a going concern. We have incurred substantial losses from operations, and have a working capital deficiency of $8,667,886 at September 30, 2005. These factors raise substantial doubt about our ability to continue as a going concern.

In order to reduce our operating costs, address our liquidity needs and return to profitable status, we have implemented and/or are in the processing of implementing the following actions:

Divestiture of Unprofitable Operations

Due to the magnitude of the continuing operating losses incurred by our Georgia ($3.4 million) and Tennessee ($1.8 million) subsidiaries during fiscal 2005, our Board of Directors determined it to be in the best interest of our company to discontinue all Southeastern operations and dispose of their respective operating assets. A majority of the Tennessee operating losses were due to rapid market share growth within the state by an undercapitalized subsidiary, necessitating us to transport an increasing number of Tennessee scrap tires to our Georgia facility for processing at significant transportation and processing loss. A majority of the Georgia operating losses were due to (1) the negative impact of processing a significant number of Tennessee sourced tires; (2) a change in the specifications of our primary end market customers requiring a smaller product resulting in reduced processing capacity and significantly higher operating costs and (3) equipment reliability issues resulting from aging equipment processing an increasing number of scrap tires.

On September 6, 2005 we entered into an agreement under which all Tennessee scrap tire collection contracts and certain other contracts with suppliers of waste tires and contracts to supply whole tires to certain cement kilns in the southeastern region of the United States were assigned to a company owned by a former employee. We received no cash consideration for these assignments and recorded a $1,334,849 non-cash loss (including $918,450 associated with goodwill written off) on disposal of the operations in the year ended September 30, 2005. The aggregate net losses including the loss on disposal associated with the discontinued operations of our Tennessee subsidiary included in the results for the fiscal year ended September 30, 2005 were approximately $3.1 million.

On September 27, 2005, we adopted a plan to dispose of all Georgia operations and during the quarter ended December 31, 2005, we substantially curtailed operations at our Georgia subsidiary. As a result, we wrote down all Georgia operating assets to their estimated fair market value at September 30, 2005 and recorded a non-cash loss on disposal of $4,631,102 (including $1,253,748 associated with goodwill written off) net of a gain on settlement of our Georgia facility lease of $586,137. The aggregate net losses including the loss on disposal associated with the discontinued operations of our Georgia subsidiary included in the results for the fiscal year ended September 30, 2005 were approximately $8.0 million. We completed the divestiture of all Georgia operating assets as of March 1, 2006.

On February 17, 2006, we entered into an Asset Purchase Agreement with Tires Into Recycled Energy and Supplies, Inc. ("TIRES"). Under the agreement, we sold and assigned to TIRES certain assets, including (a) certain truck tire processing equipment located at our Georgia facility; (b) certain rights and interests in our contracts with suppliers of scrap truck tires; and (c) certain intangible assets. TIRES agreed to assume all of our rights and obligations under these contracts. We anticipate the transition of assigning the contracts to be completed within 60 to 90 days. In addition, TIRES entered into a sublease agreement with us with respect to part of the premises located in Georgia. We received $155,000 from TIRES for these assets. As additional consideration, TIRES agreed to terminate several material supply and equipment lease agreements as well as terminating a December 2005 letter of intent between GreenMan and TIRES containing an exclusive option to acquire certain operating assets of TIRES.

On March 1, 2006, we entered into an Asset Purchase Agreement with MTR of Georgia, Inc. ("MTR") a company co-owned by a former employee. Under the agreement, we sold and assigned to MTR certain assets, including (a) certain passenger tire processing equipment located at our Georgia facility; (b) certain rights and interests in our contracts with suppliers of scrap passenger tires; and certain intangible assets. MTR agreed to assume all of our rights and obligations under these contracts. We anticipate the transition of assigning the contracts to be completed within 60 to 90 days. In addition, MTR entered into a sublease agreement with us with respect to part of the premises located in Georgia. We received $250,000 from MTR for these assets. As additional consideration, MTR has agreed to assume financial responsibility for disposing of all scrap tires and scrap tire processing residual at the Georgia facility as of the close. (See "Item 12. Certain Relationships and Related Transactions - Related Party Transactions.")

We agreed with TIRES and MTR not to compete in the business of providing whole tire waste disposal services or selling crumb rubber material (except to existing GreenMan customers) within certain Southeastern states for a period of three years.

Credit Facility Refinancing

On June 30, 2004, we entered into a $9 million credit facility with Laurus Master Fund, Ltd., ("Laurus") consisting of a $5 million convertible, revolving working capital line of credit and a $4 million convertible term note loan. At closing, we borrowed $4 million under the term loan and $2 million under the line of credit, and used approximately $1,860,000 of the proceeds to repay the outstanding indebtedness under our prior credit facility and approximately $1,070,000 to repay in full the indebtedness due Cryopolymers Leasing. Additional proceeds of the financing were used to increase working capital and to pay certain costs and fees associated with this transaction including a $425,000 placement fee paid to our investment bank. On March 22, 2005, the credit facility was amended to permit us to maintain overadvances of up to $2,000,000 under the line of credit through December 31, 2005 (subsequently extended to April 30, 2006). In addition, the price at which the minimum borrowing note and term loan are convertible into our common stock were adjusted (See Note 7 of the consolidated financial statements). As of September 30, 2005, our overadvance was $1,980,250.

On July 20, 2005, we entered into a $1 million convertible term note with a maturity date of June 30, 2007 and bearing interest at the prime rate published in The Wall Street Journal from time to time plus 1.75% (8.5% at September 30, 2005). Interest on the loan is payable monthly commencing August 1, 2005. Principal will be amortized over the term of the loan, commencing on February 1, 2006 extended to May 1, 2006, with minimum monthly payments of principal of $58,823.53. Laurus has the option to convert some or all of the principal and interest payments into common stock at a price of $.33 (the average closing price of our common stock on the American Stock Exchange for the 3-day period ending July 18, 2005) (the "Fixed Conversion Price"). In connection with the Term Note, we also issued to the Laurus Funds an option to purchase up to an aggregate of 2,413,571 shares of our common stock at an exercise price equal to $0.01 per share.

On February 10, 2005, First American Bank renewed our Iowa subsidiary's working capital line until February 10, 2006 (subsequently extended to May 1, 2006) and increased our maximum availability under the line of credit to $800,000. In addition, First American agreed to increase our overall maximum availability by an additional $350,000 to $1,150,000 through June 10, 2005 to coincide with the performance of a significant scrap tire cleanup project which was completed in April 2005.

Additional Steps to Increase Liquidity

Over the last several years, we have funded portions of our operating cash flow from sales of equity securities, loans from officers and related parties, increased borrowings and extending payments to our vendors.

In December 2003, we issued a 10% convertible note due December 2004 in the aggregate principal amount of $375,000 to an investor. The note was convertible at the option of the holder at any time prior to maturity into investment units at a price equal to $1.07 per unit with each unit consisting of one share of common stock and a warrant to purchase 1.5 shares of common stock at an exercise price of $1.07 per share, exercisable nine months after issuance for a period of five years from date of issuance. The note was converted on June 24, 2004 into 369,331 shares of common stock and we issued warrants to purchase 553,997 shares of our common stock. When originally issued, this note reflected a beneficial conversion feature amounting to $154,226 and, upon conversion, the remaining unamortized beneficial conversion discount of approximately $77,000 was charged to interest expense.

In April 2004, we commenced a private offering of investment units to accredited investors, each unit consisting of one share of our common stock and a warrant to purchase 0.5 shares of our common stock. As of June 30, 2004, when the offering terminated, we had sold 1,594,211 units (1,594,211 shares of our common stock and warrants to purchase 797,105 additional shares of our common stock at prices ranging from $1.56 to $2.06 per share) to investors, including our directors and existing shareholders, for gross proceeds of $1,547,800. We used the net proceeds of this offering to commence re-establishing our Georgia waste wire processing capacity and for general working capital purposes.

From June 2003 through March 2004, several of our officers and members of their families loaned us an aggregate of $1,345,000. These advances bear interest at 12% and mature at various times through March 2006. In April 2004, several of these individuals agreed to invest approximately $550,000 of the amounts due them under the terms of their loans into the private placement described above. In April 2004, one of our officers applied approximately $187,000 of amounts due him to pay off notes receivable due our company and in June 2004 applied approximately $114,000 of amounts due him, plus $21,000 of accrued interest to exercise options to purchase 185,000 shares of our common stock. At September 30, 2005, the remaining balance on these advances amounted to $699,320.

Operating Performance Enhancements

Historically, our tire shredding operations were able to recover and sell approximately 60% of a processed tire with the balance disposed of as waste wire residual (cross-contaminated rubber and steel) at an annual cost exceeding $1,000,000 in prior years. In the last several years we have purchased secondary equipment for our Georgia (damaged in the March 2003 fire; reestablished in November 2004), Iowa and Minnesota facilities to further process the waste wire residual into saleable components of rubber and steel that not only provide new sources of revenue but also significantly reduced our residual disposal costs.

On March 31, 2003, a portion of our Georgia facility and several pieces of waste wire processing equipment were damaged by a fire. As of September 30, 2003, damaged equipment and parts with a net book value of approximately $179,000 have been written off and we have incurred $225,000 of expenses associated with the fire, including $211,000 of excess waste wire disposal. In December 2003 we reached a $1.03 million settlement with our insurance carrier in connection with the claims associated with the fire and have received all amounts due under this insurance claim. During the quarter ended December 31, 2003, we recognized $207,873 of casualty income associated with the insurance settlement before related costs of approximately the quarter. We estimate that during the year ended September 30, 2004, reduced end product revenue and excess waste disposal costs of over $1 million were associated with the impact of the March 31, 2003 fire. In November 2004, all previously damaged equipment was re-installed and became operational.

In August 2004, we executed a non-binding letter of intent and escrow agreement with Tires Into Recycled Energy and Supplies, Inc. ("TIRES"), a leading crumb rubber processor in the United States. Pursuant to the escrow agreement, we made a "good faith" payment amounting to $350,000, which was to be applied toward the purchase price upon completion of the transaction. On December 8, 2004, we executed a new letter of intent which superseded the August letter of intent in which we (1) leased, with an option to buy, certain pieces of tire processing equipment owned by TIRES (the "Equipment Leases"), (2) entered a material supply agreement (the "MSA") and (3) were granted an exclusive purchase option to acquire additional operating assets of TIRES. The operating leases were executed in January 2005 but became effective in February and March 2005 and provide for aggregate monthly payments of $25,300 over terms ranging from 48 to 60 months.

We also agreed to allow TIRES to retain $101,378 of the "good faith" payment to upgrade it's existing crumb rubber production capacity and used the remaining $248,622 to prepare and move the leased equipment for our use. Accordingly, during the quarter ended March 31, 2005, the $101,378 was expensed when it was released from escrow and approximately $243,597 has been capitalized and was being amortized over the lease terms which ranged from 48 to 60 months. The remaining balance of $205,106 was written off as a cost of disposal of discontinued operations.

Pursuant to the terms of the MSA, we were to supply agreed upon minimum amounts of crumb rubber material to TIRES on a weekly basis. If we do not meet the minimum weekly requirements, we are assessed a shortfall fee equal to 150% of the purchase price for any shortfall tonnage. Due to unexpected equipment downtime and delays in installing the additional rasper which was being leased from TIRES, we were unable to meet the minimum material requirements during various periods during fiscal 2005 and as a result, we recorded a shortfall expense of approximately $382,000 during the fiscal year ended September 30, 2005. TIRES would purchase material was increased 15% for a period of 10 weeks. In return for this short term consideration, we agreed to reduce our original pricing by 8% on the first 30,000 tons of material purchased by TIRES subsequent to the 10 week amendment period.

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The exclusive purchase option to acquire additional operating assets of TIRES was exercisable if predetermined financial performance criteria are met by TIRES during the subsequent fifteen to twenty four month period after December 8, 2004. The ultimate purchase price was to be determined based on those results. In return for the exclusive purchase option, we issued 127,389 shares of our common stock (valued at $200,000) to TIRES. Had we exercised our exclusive purchase option and closed a transaction, the value of the shares would have been applied against the purchase price of the assets. If the exclusive purchase option expired or we decided not to exercise the option, TIRES would retain a sufficient number of our shares to equal $200,000 (as of the date that the purchase option expires) and return the balance of such shares of common stock to us. If at the time the purchase option expired, the value of the shares was less than $200,000, we would have been required to issue a sufficient number of additional shares to equal $200,000. If at the time the purchase option expired, TIRES had not achieved the predetermined financial performance criteria, TIRES would have had to return to us a sufficient number of our shares to equal $200,000 at the time.

In February 2006 in conjunction with the discontinuance of our Georgia operations, we agreed to sell and assign to TIRES (a) certain truck tire processing equipment located at our Georgia facility; (b) certain rights and interests in our contracts with suppliers of scrap truck tires; (c) certain intangible assets; and (d) allowed TIRES to retain the 127,389 shares of our common stock and in return received $155,000 in cash proceeds; agreed to terminate the MSA, Equipment Leases and several other agreements previously executed between the parties in addition to terminating a December 2004 letter of intent and exclusive option. Accordingly, at September 30, 2005, included in loss on disposal of discontinued operations is the $200,000 assigned to the shares of common stock retained by TIRES.

Effects of Inflation and Changing Prices

Generally, we are exposed to the effects of inflation and changing prices. Primarily because the largest component of our collection and disposal costs is transportation, we have been adversely affected by the significant increases in the cost of fuel. Additionally, because we rely on floating-rate debt for certain financing arrangements, rising interest rates have had a negative effect on our performance.

Based on our fiscal 2006 operating plan our available working capital and our revenues from operations, we believe that borrowings from affiliated and unaffiliated lenders including additional funding from Laurus will be necessary to satisfy our cash requirements for the foreseeable future. If we are unable to obtain additional financing, our ability to maintain our current level of operations could be materially and adversely affected and we may be required to adjust our operating plans accordingly or to discontinue our operations altogether.

Off-Balance Sheet Arrangements

We lease various facilities and equipment under cancelable and non-cancelable short and long term operating leases which are described in Note 10 to the Consolidated Financial Statements.

Cautionary Statement

Information contained or incorporated by reference in this document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which statements can be identified by the use of forward-looking terminology such as "may," "will," "would," "can," "could," "intend," "plan," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The following matters constitute cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements.

Factors That May Affect Future Results

Risks Related to our Business

We have lost money in the past twelve consecutive quarters and will need additional working capital, which if not received, may force us to curtail operations.

We have incurred substantial losses from operations, and as of September 30, 2005, the Company had $256,492 in cash and cash equivalents and a working capital deficiency of $8,667,886. These factors raise substantial doubt about our ability to continue as a going concern. We understand our continued existence is dependent on our ability to generate positive operating cash, negotiate more favorable terms with existing secured and unsecured creditors, refinance existing long term debt, secure additional financing and achieve profitable status on a sustained basis. As more fully described below we have discontinued our unprofitable Southeastern operations and have revaluated our marketing and operating plans of our remaining operations. We are also presently evaluating several financing alternatives which would allow us to refinance a substantial amount of our short-term secured debt into long-term secured debt to better align debt maturities with our long-term business plan. There can be no assurance however, that we will be successful in refinancing at favorable terms, if at all. Additionally, we must also be successful in completing our plan to meet the minimum exchange listing requirements of the American Stock Exchange. If we are unable to re-establish those requirements, our shares will be subject to delisting which will substantially limit our stock's liquidity and impair our ability to raise capital. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Our liquidity has been significantly and adversely affected by continued operating losses at our Southeastern operations. The divestiture of our Tennessee operation in September 2005 will eliminate continued operating losses which aggregated approximately $1.8 million during the fiscal year ended September 30, 2005. In addition, during the quarter ended December 31, 2005, we substantially curtailed operations at our Georgia subsidiary which during the fiscal year ended September 30, 2005 incurred an operating loss of approximately $3.4 million. During the quarter ended March 31, 2006 under a plan approved in September 2005, we completed the sale of substantially all Georgia operating assets to two separate parties and received $405,000 in aggregate cash. The aggregate net losses (including losses from operations and losses on disposal) associated with the discontinued operations of our Tennessee and Georgia subsidiaries included in the results for the fiscal year ended September 30, 2005 were approximately $11.1 million or 73% of our total loss for the 2005 fiscal year.

We have invested substantial amounts of capital during the past several years in new equipment to increase processing capacity at our Iowa, Minnesota and Georgia locations, as well as consolidating our Wisconsin location into our Minnesota operations during fiscal 2005 to substantially reduce operating costs and maximize our return on assets. Our future operating plan focuses on maximizing the performance of these three operations through our continuing efforts to increase overall quality of revenue (revenue per passenger tire equivalent) while remaining diligent with our ongoing cost reduction initiatives. We will continue to evaluate each operation on its merits and contribution to the corporation and we will continue to make the necessary decisions to ensure the continued viability of GreenMan. During fiscal 2005, we completed an evaluation of our corporate-wide inbound collection infrastructure and determined that we would no longer provide certain levels of service and products at existing rates in certain markets and therefore implemented price increases where warranted and terminated service in situations where price increases were not an alternative. As a result, we experienced a 4% increase in overall tipping fees (fees we are paid to collect and dispose of scrap tires) during fiscal 2005 as compared to fiscal 2004. While these initiatives reduced our overall inbound tire volume growth rate during fiscal 2005, we believe they have and will continue to improve our performance through lower labor, parts and maintenance costs. In addition, we continue to identify, and are currently selling product into several new, higher-value markets as evidenced by an 18% increase in end product revenue during fiscal 2005. We continue to experience strong demand for our end products.

We have substantial indebtedness to Laurus Master Fund secured by substantially all of our assets. If an event of default occurs under the secured notes issued to Laurus, Laurus may foreclose on our assets and we may be forced to curtail or cease our operations or sell some of our assets to repay the notes.

On June 30, 2004, we entered into a $9 million credit facility with Laurus pursuant to secured promissory notes and related agreements which were amended on March 22, 2005 to provide, among other things, the ability for us to maintain overadvances of up to $2,000,000. On July 20, 2005, we borrowed an additional $1 million from Laurus pursuant to a convertible term note and related agreements. Subject to certain grace periods, the notes and agreements provide for the following events of default (among others):

- failure to pay interest and principal when due;
- an uncured breach by us of any material covenant, term or condition in any of the notes or related agreements;
- a breach by us of any material representation or warranty made in any of the notes or in any related agreement;
- any money judgment or similar final process is filed against us for more than $50,000 that remains unvacated, unbonded or unstayed for a period of 30 business days;
- any form of bankruptcy or insolvency proceeding is instituted by or against us;
- suspension of our common stock from our principal trading market for five consecutive days or five days during any ten consecutive days; and
- the occurrence of a change in control of our ownership.

As of September 30, 2005, we were in default of several covenants of the notes and agreements. These defaults have been waived by Laurus. In the event of a future default under our agreements with Laurus, Laurus may enforce its rights as a secured party and we may lose all or a portion of our assets, be forced to materially reduce our business activities or cease operations.

We will require additional funding to sustain and grow our business, which funding may not be available to us on favorable terms or at all. If we do not obtain funding when we need it, our business will be adversely affected. In addition, if we have to sell securities in order to obtain financing, the rights of our current holders may be adversely affected.

We will have to seek additional outside funding sources to satisfy our future financing demands if our operations do not produce the level of revenue we require to maintain and grow our business. We cannot assure you that outside funding will be available to us at the time that we need it and in the amount necessary to satisfy our needs, or, that if such funds are available, they will be available on terms that are favorable to us. If we are unable to secure financing when we need it, our business will be adversely affected and we may need to discontinue some or all of our operations. If we have to issue additional shares of common stock or securities convertible into common stock in order to secure additional funding, our current stockholders will experience dilution of their ownership of our shares. In the event that we issue securities or instruments other than common stock, we may be required to issue such instruments with greater rights than those currently possessed by holders of our common stock.

Improvement in our business depends on our ability to increase demand for our products and services.

Adverse events or economic or other conditions affecting markets for our products and services, potential delays in product development, product and service flaws, changes in technology, changes in the regulatory environment and the availability of competitive products and services are among a number of factors that could limit demand for our products and services.

Our business is subject to extensive and rigorous government regulation; failure to comply with applicable regulatory requirements could substantially harm our business.

Our tire recycling activities are subject to extensive and rigorous government regulation designed to protect the environment. The establishment and operation of plants for tire recycling are subject to obtaining numerous permits and compliance with environmental and other government regulations. The process of obtaining required regulatory approvals can be lengthy and expensive. The Environmental Protection Agency and comparable state and local regulatory agencies actively enforce environmental regulations and conduct periodic inspections to determine compliance with government regulations. Failure to comply with applicable regulatory requirements can result in, among other things, fines, suspensions of approvals, seizure or recall of products, operating restrictions, and criminal prosecutions. Furthermore, changes in existing regulations or adoption of new regulations could impose costly new procedures for compliance, or prevent us from obtaining, or affect the timing of, regulatory approvals.

The market in which we operate is highly competitive, fragmented and decentralized and our competitors may have greater technical and financial resources.

The market for our services is highly competitive, fragmented and decentralized. Many of our competitors are small regional or local businesses. Some of our larger competitors may have greater financial and technical resources than we do. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their services. Competition could increase if new companies enter the markets in which we operate or our existing competitors expand their service lines. These factors may limit or prevent any further development of our business.

Our success depends on the retention of our senior management and other key personnel.

Our success depends largely on the skills, experience and performance of our senior management, The loss of any key member of senior management could have a material adverse effect on our business, financial condition and results of operations.

Seasonal factors may affect our quarterly operating results.

Seasonality may cause our total revenues to fluctuate. We typically process fewer tires during the winter and experience a more pronounced volume reduction in severe weather conditions. In addition, a majority of our crumb rubber is used for playground and athletic surfaces, running tracks and landscaping/groundcover applications which are typically installed during the warmer portions of the year. Similar seasonal or other patterns may develop in our business.

Inflation and Changing Prices may hurt our business.

Generally, we are exposed to the effects of inflation and changing prices. Primarily because the largest component of our collection and disposal costs is transportation, we are adversely affected by significant increases in the cost of fuel. Additionally, because we rely on floating-rate debt for certain financing arrangements, rising interest rates would have a negative effect on our financial performance.

If we acquire other companies or businesses, we will be subject to risks that could hurt our business.

A significant part of our business strategy entails future acquisitions, or significant investments in, businesses that offer complementary products and services. Promising acquisitions are difficult to identify and complete for a number of reasons. Any acquisitions completed by our company may be made at substantial premiums over the fair value of the net assets of the acquired companies, and competition may cause us to pay more for an acquired business than its long-term fair market value. There can be no assurance that we will be able to complete future acquisitions on terms favorable to us or at all. In addition, we may not be able to integrate future acquired businesses, at all or without significant distraction of management from our ongoing business. In order to finance acquisitions, it may be necessary for us to issue shares of our capital stock to the sellers of the acquired businesses and/or to seek additional funds through public or private financings. Any equity or debt financing, if available at all, may be on terms which are not favorable to us and, in the case of an equity financing or the use of our stock to pay for an acquisition, may result in dilution to our existing stockholders.

As we grow, we are subject to growth related risks.

We are subject to growth-related risks, including capacity constraints and pressure on our internal systems and personnel. In order to manage current operations and any future growth effectively, we will need to continue to implement and improve our operational, financial and management information systems and to hire, train, motivate, manage and retain employees. We may be unable to manage such growth effectively. Our management, personnel or systems may be inadequate to support our operations, and we may be unable to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth. Any such failure could have a material adverse impact on our business, operations and prospects. In addition, the cost of opening new facilities and the hiring of new personnel for those facilities could significantly decrease our profitability, if the new facilities do not generate sufficient additional revenue.

Risks Related to the Securities Market

Our stock price may be volatile, which could result in substantial losses for our shareholders.

Our common stock is thinly traded and an active public market for our stock may not develop. Consequently, the market price of our common stock may be highly volatile. Additionally, the market price of our common stock could fluctuate significantly in response to the following factors, some of which are beyond our control:

- changes in market valuations of similar companies;
- announcements by us or by our competitors of new or enhanced products, technologies or services or significant contracts, acquisitions, strategic relationships, joint ventures or capital commitments;
- regulatory developments;
- additions or departures of senior management and other key personnel;
- deviations in our results of operations from the estimates of securities analysts; and
- future issuances of our common stock or other securities.

Notice of Non-Compliance with Certain American Stock Exchange Continued Listing Standards

We have been notified by the American Stock Exchange (the "Exchange") of non-compliance with several continued listing standards and maybe subject delisting if we do not regain compliance within a timeframe agreed to by the Exchange. We have submitted our plans to attain future compliance to the Exchange and remain subject to continued periodic review and have not been notified us of the Exchange's intention to initiate delisting proceedings and, to our knowledge, the Exchange has not initiated such proceedings. If we are unable to re-establish those requirements, our shares will be subject to delisting which will substantially limit our stock's liquidity and impair our ability to raise capital.

We have options, warrants and convertible promissory notes currently outstanding. Exercise of these options and warrants, and conversions of these promissory notes will cause dilution to existing and new shareholders. Future sales of common stock by Laurus and our existing stockholders could result in a decline in the market price of our stock.

As of September 30, 2005, we have options and warrants to purchase approximately 8,703,930 shares of common stock outstanding in addition to $8,767,990 of convertible promissory notes. The principal amounts of these notes are convertible into approximately 11,800,000 shares of common stock. The exercise of our options and warrants, and the conversion of these promissory notes, will cause additional shares of common stock to be issued, resulting in dilution to investors and our existing stockholders. As of September 30, 2005, approximately 13 million shares of our common stock were eligible for sale in the public market. This represents approximately 68 percent of our outstanding shares of common stock. After the effective date of the additional registration statement we are required to file with respect to the Laurus credit facility approximately 24,800,000 shares of our common stock will be eligible for resale in the public market. Sales of a significant number of shares of our common stock in the public market could result in a decline in the market price of our common stock, particularly in light of the illiquidity and low trading volume in our common stock.

Our directors, executive officers and principal stockholders own a significant percentage of our shares, which will limit your ability to influence corporate matters.

Our directors, executive officers and other principal stockholders owned approximately 31 percent of our outstanding common stock as of September 30, 2005. Accordingly, these stockholders could have a significant influence over the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets and also could prevent or cause a change in control. The interests of these stockholders may differ from the interests of our other stockholders. In addition, limited number of shares held in public float effect the liquidity of our common stock. Third parties may be discouraged from making a tender offer or bid to acquire us because of this concentration of ownership.

We have never paid dividends on our capital stock, and we do not anticipate paying any cash dividends in the foreseeable future.

We have paid no cash dividends on our capital stock to date and we currently intend to retain our future earnings, if any, to fund the development and growth of our businesses. In addition, our agreements with Laurus prohibit the payment of cash dividends. As a result, capital appreciation, if any, of our common stock will be shareholders' sole source of gain for the foreseeable future.

Anti-takeover provisions in our charter documents and Delaware law could discourage potential acquisition proposals and could prevent, deter or delay a change in control of our company.

Certain provisions of our Restated Certificate of Incorporation and By-Laws could have the effect, either alone or in combination with each other, of preventing, deterring or delaying a change in control of our company, even if a change in control would be beneficial to our stockholders. Delaware law may also discourage, delay or prevent someone from acquiring or merging with us.

Environmental Liability

There are no known material environmental violations or assessments.

Recent Accounting Pronouncements

SFAS No. 123R, Share Based Payment - An Amendment to SFAS Nos. 123 and 95 - This standard includes the following changes to current accounting for share based payments:

- All companies would be required to recognize compensation expense for share-based payment arrangements including stock options.

- All companies must recognize the expense in operations and cannot bury the effects in the financial statement footnotes as currently allowed. The cost would be recognized over the requisite service period (generally the vesting period).

- All companies would be required to estimate how many options will actually vest. The ability under the current rules to assume 100%

vesting and record forfeitures as they occur will not be permitted.

- The ED still requires public companies (including Small Business filers) to value employee stock awards at fair value on the date of grant. However, the ED prefers a "lattice model" in lieu of what most companies use today, the Black-Scholes model, a "closed-form model."

- Private companies would be required to follow either (a) the fair value method at grant date consistent with public company accounting, or (b) the intrinsic value method (the excess, if any, of the fair value of the stock over the exercise price) at each reporting date until the option is settled or exercised. The so-called "minimum value" method (essentially a simplified version of the Black-Scholes model) currently permitted would no longer be an acceptable valuation model.

- Stock option awards with graded vesting would be treated as separate awards for each vesting date. The ability to treat such awards as a single award, as currently permitted, would longer be allowed. This would lead to more expense up-front and less in later years.

In April 2005, the Securities and Exchange Commission released Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment " the adoption of a new rule that amended the compliance date for Statement of Financial Accounting Standard ("SFAS") No. 123 (R), " Share-Based Payment", which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123 (R) was to be effective for the interim or annual reporting periods beginning on or after June 15, 2005, but SAB No. 107 amended the effective date for implementing SFAS No. 123 (R) to the beginning of the next fiscal year that begins after December 15, 2006, for small business issuers. We will continue to provide the pro forma disclosure provisions of SFAS No. 123, " Accounting for Stock-Based Compensation ," as amended by SFAS No. 148 " Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment to FASB Statement No. 123" in the Notes to the Consolidated Financial Statements. Management has not yet determined what effect adoption of this standard will have on our financial condition and results of operations.

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In May 2005, the Financial Accounting Standards Board issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154). SFAS 154 is a replacement of Accounting Principles Board No. 20, "Accounting Changes" and FASB Statement No. 3 "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle. SFAS 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS 154. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 31, 2005. This pronouncement is not expected to have a material effect on our financial statements.

Item 7. Financial Statements

For information required with respect to this Item 7, see "Consolidated Financial Statements" on pages F-1 through F-58 of this report.

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None

Item 8A. Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2005. In designing and evaluating our disclosure controls and procedures, we recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applied its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our chief executive officer and chief financial officer concluded that as of September 30, 2005, our disclosure controls and procedures were (1) designed to ensure that material information relating to the company, including our consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 9. Directors, Executive Officers and Key Employees

Our directors and executive officers are as follows:

Name	Age	Position
Maurice E. Needham	65	Chairman of the Board of Directors
Robert H. Davis	63	Chief Executive Officer; President; Director
Charles E. Coppa	42	Chief Financial Officer; Treasurer; Secretary
Dr. Allen Kahn..............	84	Director
Lew F. Boyd	59	Director
Lyle Jensen.................	54	Director
Nicholas DeBenedictis.......	46	Director

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Each director is elected for a period of one year at the annual meeting of stockholders and serves until his or her successor is duly elected by the stockholders. The officers are appointed by and serve at the discretion of the Board of Directors. Each outside director receives a fee of $2,500 per board meeting. Each outside director also participates in the Non-Employee Director Stock Option Plan.

We have established an Audit Committee consisting of Messrs. Jensen (Chair) and Boyd and Dr. Kahn, and a Compensation Committee consisting of

Messrs. Boyd (Chair) and Jensen. Our Board of Directors has determined that Mr. Jensen is an "audit committee financial expert" within the meaning given that term by Item 401(e) of Regulation S-B and that Mr. Jensen is "independent" within the meaning given to that term by Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act. On April 12, 2006, Mr. Jensen resigned as Chairman of the Audit Committee and as a member of the Compensation Committee and Mr. DeBenedictis became the interim Chairman of the Audit Committee and joined the Compensation Committee.

MAURICE E. NEEDHAM has been Chairman since June 1993. From June 1993 to July 21, 1997, Mr. Needham also served as Chief Executive Officer. He also serves as a Director of Comtel Holdings, an electronics contract manufacturer since April 1999. He previously served as Chairman of Dynaco Corporation, a manufacturer of electronic components which he founded in 1987. Prior to 1987, Mr. Needham spent 17 years at Hadco Corporation, a manufacturer of electronic components, where he served as President, Chief Operating Officer and Director.

ROBERT H. DAVIS has been Chief Executive Officer and a Director since July 1997. On April 12, 2006, Mr. Davis resigned as Chief Executive Officer and Director of GreenMan. Prior to joining us, Mr. Davis served as Vice President of Recycling for Browning-Ferris Industries, Inc. of Houston, Texas ("BFI") since 1990. As an early leader of BFI's recycling division, Mr. Davis grew that operation from startup to $650 million per year in profitable revenues. A 25-year veteran of the recycling industry, Mr. Davis has also held executive positions with Fibres International, Garden State Paper Company, and SCS Engineers, Inc. Mr. Davis currently serves as a Director and Audit Committee member of Waste Connections, Inc., the fourth largest solid waste management company in the United States.

CHARLES E. COPPA has served as Chief Financial Officer, Treasurer and Secretary since March 1998. From October 1995 to March 1998, he served as Corporate Controller. Mr. Coppa was Chief Financial Officer and Treasurer of Food Integrated Technologies, a publicly-traded development stage company from July 1994 to October 1995. Prior to joining Food Integrated Technologies, Inc., Mr. Coppa served as Corporate Controller for Boston Pacific Medical, Inc., a manufacturer and distributor of disposable medical products, and Corporate Controller for Avatar Technologies, Inc., a computer networking company.

ALLEN KAHN, M.D., has been a Director since March 2000. Dr. Kahn operated a private medical practice in Chicago, Illinois, which he founded in 1953 until his retirement in October 2002. Dr. Kahn has been actively involved as an investor in "concept companies" since 1960. From 1965 through 1995 Dr. Kahn served as a member of the Board of Directors of Nease Chemical Company (currently German Chemical Company), Hollymatic Corporation and Pay Fone Systems (currently Pay Chex, Inc.).

LEW F. BOYD has been a Director since August 1994. Mr. Boyd is the founder and since 1985 has been the Chief Executive Officer of Coastal International, Inc., an international business development and executive search firm, specializing in the energy and environmental sectors. Previously, Mr. Boyd had been Vice President/General Manager of the Renewable Energy Division of Butler Manufacturing Corporation and had served in academic administration at Harvard and Massachusetts Institute of Technology.

LYLE JENSEN has been a Director since May 2002. On April 12, 2006, Mr. Jensen became GreenMan's Chief Executive Officer. Mr. Jensen was previously Executive Vice President/Chief Operations Officer of Auto Life Acquisition Corporation, an automotive aftermarket leader of fluid maintenance equipment. Prior to that he was a Business Development and Operations consultant after holding executive roles as Chief Executive Officer and minority owner of Comtel and Corlund Electronics, Inc. He served as President of Dynaco Corporation from 1988 to 1997; General Manager of Interconics from 1984 to 1988 and various financial and general management roles within Rockwell International from 1973 to 1984.

NICHOLAS DEBENEDICTIS has been a Director since September 2005. Mr. DeBenedictis has been an Independent Investment Advisor for the past nine years and has over 16 years of experience in the financial markets and securities business including positions with E.W. Smith Securities, Smith Barney, and Janney Montgomery Scott

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than 10% of our common stock, to file with the Securities and Exchange Commission initial reports of ownership of our common stock and other equity securities on Form 3 and reports of changes in such ownership on Form 4 and Form 5. Officers, directors and 10% stockholders are required by the Securities and Exchange Commission regulations to furnish us with copies of all Section 16(a) forms they file.

To the best of management's knowledge, based solely on review of the copies of such reports furnished to us during and with respect to, our most recent fiscal year, and written representation that no other reports were required, all Section 16(a) filing requirements applicable to our officers and directors have been complied with.

Code of Ethics

On May 28, 2005, we adopted a code of ethics which applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We have posted our code of ethics on our corporate website, www.greenman.biz.

Item 10. Executive Compensation

The following table summarizes the compensation paid or accrued for services rendered during the fiscal years ended September 30, 2005, 2004 and 2003, to our Chief Executive Officer and our Chief Financial Officer. We did not grant any restricted stock awards or stock appreciation rights or make any long-term plan payouts during the periods indicated.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-T Compens
Name and Principal Position	Fiscal Year	Salary	Bonus	Other Annual Compensation (1)	Securi Underl Option
Robert H. Davis	2005	$ 230,000	$ --	$ 23,802	--
Chief Executive Officer	2004	230,000	--	21,468	--
	2003	230,000	--	19,900	--
Charles E. Coppa	2005	$ 130,000	$ --	$ 8,396	--
Chief Financial Officer	2004	130,000	--	22,906	60,000
	2003	130,000	--	9,343	--

(1) Represents payments made to or on behalf of Messrs. Davis and Coppa for health, life and disability insurance and auto allowances.
(2) The fiscal 2005 grant represents options granted to Mr. Coppa in August 2004 and were subsequently cancelled in March 2005.

Options/SAR Grants Table

There were no stock options granted during the year ended September 30, 2005 to the executives named in the Summary Compensation Table above.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table sets forth information concerning the value of unexercised options as of September 30, 2005 held by the executives named in the Summary Compensation Table above.

Name	Shares Acquired on Exercise (1)	Value Realized (2)	Number of Securities Underlying Unexercised Options at September 30, 2005 (3)	
			Exercisable	Unexercisable
Robert H. Davis	--	$ --	696,500	63,000
Charles E. Coppa	--	--	354,500	13,000

(1) There were no options exercised during the fiscal year ended September 30, 2005.
(2) Assumes that the value of shares of common stock is equal to $.23 per share, which was the closing bid price on the American Stock Exchange on September 30, 2005.

(3) The options granted to the executive officers became exercisable commencing July 17, 1998 in the case of Mr. Davis, December 30, 1997 and in the case of Mr. Coppa at an annual rate of 20% of the underlying shares of our common stock. The options granted to Mr. Davis pursuant to his April 1999 employment agreement vest over a seven-year period.

Employment Agreements

In April 1999, we entered into a three-year employment agreement with Mr. Davis pursuant to which Mr. Davis receives a salary of $230,000 per annum. The agreement automatically renews for three additional years upon each anniversary, unless notice of non-renewal is given by either party, and provides for payment of twelve months salary as a severance payment for termination without cause. Any increases will be made at the discretion of our Board of Directors upon the recommendation of the Compensation Committee. The agreement also provides for Mr. Davis to receive incentive compensation based on the following formula:

Consolidated Net Income Before Income Taxes	Incentive Compensation Rate	Cumulative Maximum
$0 - $1,000,000	5%	$ 50,000

$1,000,001 - $2,000,000	7.5%	125,000
$2,000,001+	2.5%	125,000+

No bonus was payable for fiscal 2005, 2004 or 2003.

In June 1999, we entered into a two-year employment agreement with Mr. Coppa pursuant to which Mr. Coppa currently receives a salary of $130,000 per annum. The agreement automatically renews for two additional years upon each anniversary, unless notice of non-renewal is given by either party. Any increases or bonuses will be made at the discretion of our Board of Directors upon the recommendation of the Compensation Committee. The agreement provides for payment of twelve months salary as a severance payment for termination without cause.

In June 2003, we entered into a three-year employment agreement with Mr. Needham pursuant to which Mr. Needham receives a salary of $90,000 per annum. The agreement automatically renews for three additional years upon each anniversary, unless notice of non-renewal is given by either party. Any increases or bonuses will be made at the discretion of our Board of Directors upon the recommendation of the Compensation Committee. The agreement provides for payment of twelve months salary as a severance payment for termination without cause.

Stock Option Plan

Our 1993 Stock Option Plan (the "2003 Plan") was established to provide options to purchase shares of common stock to our employees, officers, directors and consultants. In March 2001, our stockholders approved an increase to the number of shares authorized under the 1993 Plan to 3,000,000 shares. The 1993 Plan expired on June 10, 2004.

On March 18, 2005, our Board of Directors adopted the 2005 Stock Option Plan (the "2005 Plan"), which was subsequently approved by our stockholders on June 16, 2005. The 2005 Plan replaced the 1993 Plan. In April 2004, our Board adopted a replacement stock option plan (the "2004 Plan") but did not submit it for ratification by our stockholders. The 2004 Plan was terminated by our Board on March 18, 2005, and all options granted under that plan have been terminated. Options granted under the 2005 Plan may be either options intended to qualify as "incentive stock options" under Section 422 of the Internal Revenue Code of 1986, as amended; or non-qualified stock options.

Incentive stock options may be granted under the 2005 Plan to employees, including officers and directors who are employees. Non-qualified options may be granted to our employees, directors and consultants. The 2005 Plan is administered by our Board of Directors, which has the authority to determine:

- the persons to whom options will be granted;
- the number of shares to be covered by each option;
- whether the options granted are intended to be incentive stock options;
- the manner of exercise; and
- the time, manner and form of payment upon exercise of an option.

Incentive stock options granted under the 2005 Plan may not be granted at a price less than the fair market value of our common stock on the date of grant (or less than 110% of fair market value in the case of persons holding 10% or more of our voting stock). Non-qualified stock options may be granted at an exercise price established by our Board which may not be less than 85% of fair market value of our shares on the date of grant. Because current tax laws adversely impact recipients of non-qualified stock options granted at less than fair market value, however, we do not expect to make such grants. Incentive stock options granted under the 2005 Plan must expire no more than ten years from the date of grant, and no more than five years from the date of grant in the case of incentive stock options granted to an employee holding 10% or more of our voting stock.

As of September 30, 2005, there were 1,660,356 options granted and outstanding under the 1993 Plan of which 1,578,156 options were exercisable at prices ranging from $0.38 to $1.80. No options have been granted under the 2005 Plan as of September 30, 2005.

Non-Employee Director Stock Option Plan

Our 1996 Non-Employee Director Stock Option Plan is intended to promote our interests by providing an inducement to obtain and retain the services of qualified persons who are not officers or employees to serve as members of our Board of Directors. The Board of Directors has reserved 60,000 shares of common stock for issuance under Non-Employee Director Stock Option Plan.

Each person who was a member of the Board of Directors on January 24, 1996, and who was not an officer or employee, was automatically granted an option to purchase 2,000 shares of common stock. In addition, after an individual's initial election to the Board of Directors, any director who is not an officer or employee and who continues to serve as a director will automatically be granted on the date of the Annual Meeting of Stockholders an additional option to purchase 2,000 shares of common stock. The exercise price per share of options granted under the Non-Employee Director Stock Option Plan is 100% of the fair-market value of the common stock on the business day immediately prior to the date of the grant and each option is immediately exercisable for a period of ten years from the date of the grant.

As of September 30, 2005, options to purchase 38,000 shares of our common stock have been granted under the 1996 Non-Employee Director Stock Option Plan, of which 28,000 are outstanding and exercisable at prices ranging from $0.38 to $1.95.

Employee Benefit Plan

In August 1999, we implemented a Section 401(k) plan for all eligible employees. Employees are permitted to make elective deferrals of up to 15% of employee compensation and employee contributions to the 401(k) plan are fully vested at all times. We may make discretionary contributions to the 401(k) plan which become vested over a period of five years. We did not make any discretionary contributions to the 401(k) plan during the fiscal years ended September 30, 2005 and 2004.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following tables set forth certain information regarding beneficial ownership of our common stock as of September 30, 2005:

- by each of our directors and executive officers;
- by all of our directors and executive officers as a group; and
- by each person (including any "group" as used in Section 13(d) of the Securities Exchange Act of 1934) who is known by us to own

beneficially 5% or more of the outstanding shares of common stock.

Unless otherwise indicated below, to the best of our knowledge, all persons listed below have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under applicable law. As of September 30, 2005, 19,225,352 shares of our common stock were issued and outstanding.

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Security Ownership of Management and Directors

Name (1)	Number of Shares Beneficially Owned (2)	Per of C
Dr. Allen Kahn (3)................................	3,441,470	
Maurice E. Needham (4)............................	2,381,960	
Robert H. Davis (5)...............................	1,400,200	
Charles E. Coppa (6)..............................	670,710	
Lew F. Boyd (7)...................................	364,588	
Nicholas DeBenedictis (8).........................	74,000	
Lyle Jensen (9)...................................	22,800	
All officers and directors as a group (7 persons)..	8,355,728	

* Less than 1%

Security Ownership of Certain Beneficial Owners

Name (1)	Number of Shares Beneficially Owned	Per of
Laurus Master Fund, Ltd. (10).....................	1,001,727	4

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(1) Except as noted, each person's address is care of GreenMan Technologies, Inc., 7 Kimball Lane, Building A, Lynnfield, Massachusetts 01940.

(2) Pursuant to the rules of the Securities and Exchange Commission, shares of common stock that an individual or group has a right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

(3) Includes 180,533 shares of common stock issuable pursuant to immediately exercisable stock options and warrants.

(4) Includes 1,066,365 shares of common stock issuable pursuant to immediately exercisable stock options. Also includes 59,556 shares of common stock owned by Mr. Needham's wife.

(5) Includes 696,500 shares of common stock issuable pursuant to immediately exercisable stock options.

(6) Includes 354,500 shares of common stock issuable pursuant to immediately

exercisable stock options.

(7) Includes 124,394 shares of common stock issuable pursuant to immediately exercisable stock options.

(8) Includes 70,000 shares of common stock owned by Mr. DeBenedictis's wife

(9) Includes 22,500 shares of common stock issuable pursuant to immediately exercisable stock options.

(10) Laurus holds (i) warrants to purchase up to 1,380,000 shares of common stock that are exercisable at exercise prices ranging from $1.56 to $2.29 per share and options to purchase up to 2,413,571 shares of common stock that are exercisable within 60 days (subject to the following sentence) at $.01 per share, (ii) a $4 million convertible term note that is convertible into 3,954,000 shares of common stock at conversion prices ranging from $.79 to $.93 per share, (iii) a $4,268,000 convertible working capital note that is convertible into 4,776,000 shares of common stock at conversion prices ranging from $.79 to $.93 per share, and (iv) $1 million minimum borrowing note that is convertible into 3,030,000 shares of common stock at a conversion price of $.33 per share. These warrants are not exercisable, and these notes are not convertible, to the extent that (a) the number of shares of our common stock held by Laurus and (b) the number of shares of our common stock issuable upon exercise of the warrants and conversion of the notes would result in beneficial ownership by Laurus of more than 4.99% of our outstanding shares of common stock. Laurus may waive these provisions, or increase or decrease that percentage, with respect to the warrants and/or the notes on 90 days' prior notice to us, or without notice if we are in default under the notes. Laurus beneficially owns 1,001,727 shares of our common stock issuable pursuant to underlying warrants, options and the notes that are exercisable or convertible. Laurus' address is 825 Third Avenue, 14th Floor, New York, New York 10022.

Common Stock Authorized for Issuance Under Equity Compensation Plans

For descriptions of equity compensation plans under which our common stock is authorized for issuance as of September 30, 2005, see Note 12 ("Stockholders' Equity") of the Consolidated Financial Statements contained herein. For additional information concerning certain compensation arrangements, not approved by stockholders, under which options to purchase common stock may be issued, see "Executive Compensation - Employment Agreements', above, and "Certain Relationships and Transactions - Stock Issuances: Stock Options; Warrants", below.

Item 12. Certain Relationships and Related Transactions

Stock Issuances; Stock Options; Warrants

On May 18, 2004, Mr. Jensen was granted options to purchase 75,000 shares of our common stock under the 2004 Plan at an exercise price of $1.05 per share. This plan and the related options were subsequently terminated in March 2005.

On June 24, 2004, Messrs. Needham and Kahn collectively purchased 669,871 units (669,871 shares of our common stock and warrants to purchase 334,936 additional shares of our common stock at prices ranging from $1.56 to $1.86 per share) pursuant to the terms of our April 9, 2004 private placement of investment units. The warrants are exercisable at any time between the ninth month and the third year after the date of issuance at an exercise price equal to 150% of the closing bid price of our common stock on the day preceding such date. In addition, in accordance with American Stock Exchange rules, units purchased by officers, directors or affiliates were made at 100% of the closing bid price of our common stock on the day preceding the date such investor's subscription for units became a binding commitment

On August 4, 2004, Messrs. Needham, Coppa and Kahn were collectively granted options to purchase 180,000 shares of our common stock under the 2004 Plan at an exercise price of $1.24 per share. This plan and the related options were subsequently terminated in March 2005.

During fiscal 2004, Messrs. Needham, Davis and Coppa, collectively exercised options and warrants to purchase 223,538 shares of unregistered common stock at exercise prices ranging from $0.38 to $0.94 per share for gross proceeds of $150,435.

Loans; Personal Guarantees

In January 1998, we advanced Mr. Davis $104,000 under an 8.5% secured loan agreement with both principal and interest due January 2001. This note was amended on September 30, 2000 to extend the maturity of the note until April 15, 2002 (subsequently extended to April 15, 2004) and increase the interest rate to 9.5%. On April 30, 2004 the remaining balance of $163,000, including interest, was applied to offset obligations under our $400,000 September 30, 2003 note payable due to Mr. Davis.

In January 1999, we advanced Messrs. Davis and Coppa $55,000, in aggregate, under 8.5% secured promissory notes with both principal and interest due January 2002 (subsequently extended to January 2004). The proceeds were used to participate in a private placement of our common stock and the loans were secured by 191,637 shares of common stock owned by Messrs. Davis and Coppa. In June 2002, they repaid $5,000 each toward their respective then outstanding balances. On March 31, 2004, Mr. Davis's remaining balance of $24,000 including interest, was applied to offset obligations under our $400,000 September 30, 2003 note payable to him. On May 11, 2004, Mr. Coppa sold 36,717 shares of common stock valued at $44,248 back to us in full settlement of all amounts due under his note. We subsequently cancelled these shares, which reduced our total shares issued and outstanding.

Dr. Kahn was owed $300,000 under the terms of an October 1999 private offering of 10% convertible notes and warrants and $75,000 under the terms of a February 2000 offering of 11% convertible notes and warrants. The warrants were exercisable for a period of five years to purchase 125,000 shares of our common stock at exercise prices ranging from $.31 to $.50 per share. The convertible notes originally matured twelve months after issuance and were payable in cash or unregistered shares of our common stock at a conversion price of $1.00 per share. In September 2000 and June 2001, Dr. Kahn agreed to extend the maturity date of each note for an additional twelve months from their original maturity. In return for the June 2001 extension, we agreed to reduce the conversion price to $.75 per share. In September 2002, Dr. Kahn again agreed to extend the maturity of each note for an additional twenty-four months from their extended maturity dates which range from October 2005 to February 2005. On February 16, 2004, Dr. Kahn converted these two notes, including $375,000 of principal and $168,210 of accrued interest into 724,281 shares of our unregistered common stock pursuant to the amended terms noted above. The warrants were exercised by Dr. Kahn during fiscal 2003.

Dr. Kahn has also loaned us $200,000 under the terms of a November 2000 unsecured promissory note which bears interest at 12% per annum with interest due monthly and the principal due in November 2001. In June 2001, Dr. Kahn agreed to extend the maturity date of the note for an additional twelve months from its original maturity. In September 2002, Dr. Kahn again agreed to extend the maturity of the note until November 2004. In June 2004, Dr. Kahn agreed to extend the maturity of this note until the earlier of when all amounts due under the Laurus credit facility have been repaid or June 30, 2007.

During the period of June to August 2003, two immediate family members of Mr. Needham loaned us a total of $400,000 under the terms of two-year, unsecured promissory notes which bear interest at 12% per annum with interest due quarterly and the principal due upon maturity. In March 2004, these same individuals loaned us an additional $200,000 in aggregate, under similar terms with the principal due upon maturity March 2006. These individuals each agreed to invest the entire $100,000 principal balance of their June 2003 notes ($200,000 in aggregate) into the April 2004 private placement of investment units and each received 113,636 units (113,636 shares of our common stock and warrants to purchase 56,818 additional shares of our common stock at $1.80 per share) in these transactions. At September 30, 2005, the remaining balance due on these advances amounted to $400,000.In addition, the two individuals agreed to extend the maturity of the remaining balance of these notes until the earlier of when all amounts due under the Laurus credit facility have been repaid or June 30, 2007.

In September 2003, Mr. Davis loaned us $400,000 under the terms of a September 30, 2003 unsecured promissory note which bears interest at 12% per annum with interest due quarterly and the principal due March 31, 2005 (subsequently extended to September 30, 2004). In 2004, Mr. Davis applied approximately $114,000 of the balance due him plus $21,000 of accrued interest to exercise options to purchase 185,000 shares of common stock as noted above. In addition, he agreed to extend the maturity of the remaining balance of this note until the earlier of when all amounts due under the Laurus credit facility have been repaid or June 30, 2007. At September 30, 2005, the remaining balance due on this note amounted to $99,320.

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In October 2003, Mr. Needham loaned us $75,000 under the terms of an October 22, 2003 unsecured promissory note payable which bears interest at 12% per annum with interest due quarterly and the principal due June 30, 2004. During January and February 2004, Mr. Needham advanced us an additional $250,000 under substantially similar notes that were due in June 2004. Mr. Needham agreed to invest all unpaid principal and interest under these advances amounting to approximately $350,000 into the April 2004 private placement of units and received 339,806 units in this transaction (see above).

Related Party Transactions

We rent several pieces of equipment on a monthly basis from Valley View Farms, Inc. ("Valley View Farms") and Maust Asset Management, LLC, ("Maust Asset Management"), two companies co-owned by one of our employees. In January 2005, we entered into three equipment lease agreements with Maust Asset Management. Under the terms of the three new leases, we are required to pay between $1,500 and $2,683 per month rental and have the ability to purchase the equipment at the end of the lease for between $12,000 and $16,000. Rent expense associated with payments made to the two companies for the fiscal years ended September 30, 2005 and 2004 was $170,940 and $248,560, respectively.

In July 2002, our Minnesota subsidiary entered into a four-year equipment lease with Valley View Farms. Under the terms of the lease, the subsidiary is required to pay rent of $4,394 per month and has the ability to purchase the equipment at the end of the lease at approximately 40% of its original value. The lease is classified as a capital lease at September 30, 2005 with an equipment value of $146,670.

In April 2003, our Iowa subsidiary entered into a ten-year lease agreement with Maust Asset Management for our Iowa facility. Under the terms of the lease, monthly rent payments of $8,250 are required for the first five years, increasing to $9,000 per month for the remaining five years. The lease also provides us a right of first refusal to purchase the land and buildings at fair market value during the term of the lease. Maust Asset Management acquired the property from the former lessor. In April 2005, our Iowa subsidiary entered into an eight-year lease agreement with Maust Asset Management for approximately 3 acres adjacent to our existing Iowa facility. Under the terms of the lease, monthly rent payments of $3,500 are required. For the fiscal years ended September 30, 2005 and 2004, payments made in connection with these leases amounted to $123,000 and $111,483, respectively.

During March 2004, our Minnesota subsidiary sold all of its land and buildings to an entity co-owned by one of our employees for $1,400,000, realizing a gain of $437,337 which has been recorded as unearned income and classified as a non current liability in the accompanying financial statements. Simultaneous with the sale, we entered into an agreement to lease the property back for a term of 12 years at an annual rent of $195,000, increasing to $227,460 over the term of the lease. The gain is being recognized as income ratably over the term of the lease. The lease provides for two additional 4-year extensions. The lease is classified as a capital lease at September 30, 2005 with an equipment value of $1,400,000. For the fiscal years ended September 30, 2005 and 2004, payments made in connection with this lease amounted to $236,298 and $145,379.

On September 30, 2003, Mart Management, Inc., our Georgia subsidiary's landlord, loaned us $100,000 under the terms of a September 30, 2003 unsecured promissory note which bears interest at 12% per annum with interest due quarterly and the principal due September 30, 2005. In June 2004, Mart Management agreed to invest the entire $100,000 principal balance of the unsecured promissory note plus accrued interest of $7,300 into the April 2004 private placement of investment units and received 121,932 Units in this transaction.

All transactions, including loans, between us and our officers, directors, principal stockholders, and their affiliates are approved by a majority of the independent and disinterested outside directors on the Board of Directors. Management believes these transactions were consummated on terms no less favorable to us than could be obtained from unaffiliated third parties.

Item 13. Exhibits and Reports on Form 8-K

The following exhibits are filed with this document:

Item 13. Exhibits and Reports on Form 8-K

The following exhibits are filed with this document:

Exhibit No.	Description
2.1 (17)	Asset Purchase Agreement dated February 17, 2006 between GreenMan Technologies of Georgia, Inc., GreenMan Technologies, Inc. and Tires Into Recycled Energy and Supplies, Inc.
2.2 (17)	Asset Purchase Agreement dated March 1, 2006 between GreenMan Technologies of Georgia, Inc., GreenMan Technologies, Inc. and MTR of Georgia, Inc.

2.3 (17)		Amendment No. 1 to Lease Agreement dated February 28, 2006 between GreenMan Technologies of Georgia, Inc. and Mart Management, Inc.
3.1 (10)	--	Restated Certificate of Incorporation as filed with the Secretary of State of the State of Delaware on May 1, 2003, as amended
3.2 (2)	--	By-laws of GreenMan Technologies, Inc.
4.1 (2)	--	Specimen certificate for Common Stock of GreenMan Technologies, Inc.
4.2 (14)	--	Securities Purchase Agreement, dated June 30, 2004, by and between GreenMan Technologies, Inc. and Laurus Master Fund, Ltd.
4.3 (14)	--	Security Agreement, dated June 30, 2004, by and among GreenMan Technologies, Inc. and certain of its subsidiaries, in favor of Laurus Master Fund, Ltd.
4.4 (14)	--	Master Security Agreement, dated June 30, 2004, by and among GreenMan Technologies, Inc. and certain of its subsidiaries, in favor of Laurus Master Fund, Ltd.
4.5 (14)	--	Secured Convertible Minimum Borrowing Note, dated June 30, 2004, made by GreenMan Technologies, Inc. to Laurus Master Fund, Ltd.
4.6 (14)	--	Secured Revolving Note, dated June 30, 2004, made by GreenMan Technologies, Inc. to Laurus Master Fund, Ltd.
4.7 (14)	--	Secured Convertible Term Note, dated June 30, 2004, made by GreenMan Technologies, Inc. to Laurus Master Fund, Ltd.
4.8 (14)	--	Common Stock Purchase Warrant, dated June 30, 2004, issued to Laurus Master Fund, Ltd.
4.9 (14)	--	Common Stock Purchase Warrant, dated June 30, 2004, issued to Laurus Master Fund, Ltd.
4.10 (14)	--	Term Note Registration Rights Agreement, dated June 30, 2004, by and between GreenMan Technologies, Inc. and Laurus Master Fund, Ltd.
4.11 (14)	--	Minimum Borrowing Note Registration Rights Agreement, dated June 30, 2005, by and between GreenMan Technologies, Inc. and Laurus Master Fund, Ltd.
4.12 (14)	--	Subsidiary Guarantee, dated June 30, 2004, by and among GreenMan Technologies of Minnesota, Inc., GreenMan Technologies of Georgia, Inc., GreenMan Technologies of Iowa, Inc., GreenMan Technologies of Tennessee, Inc., GreenMan Technologies of Wisconsin, Inc. and GreenMan Technologies of California, Inc., in favor of Laurus Master Fund, Ltd.
4.13 (14)	--	Stock Pledge Agreement, dated June 30, 2004, by and among GreenMan Technologies, Inc. and Laurus Master Fund, Ltd.
4.14 (14)	--	Subordination Agreement, dated June 30, 2004, by and among Barbara Morey, Joyce Ritterhauss, Allen Kahn, Robert Davis and Nancy Davis, in favor of Laurus Master Fund, Ltd.
4.15 (14)	--	Escrow Agreement dated June 30, 2004, among GreenMan Technologies, Inc., Laurus Master Fund, Ltd., and Loeb & Loeb LLP, as Escrow Agent
4.16 (10)	--	Securities Purchase Agreement, dated July 20, 2005, by and between GreenMan Technologies, Inc. and Laurus Master Fund, Ltd.
4.17 (10)	--	Secured Convertible Term Note, dated July 20,

		2005, made by GreenMan Technologies, Inc. to Laurus Master Fund, Ltd.
4.18 (10)	--	Term Note Registration Rights Agreement, dated July 20, 2005 by and between GreenMan Technologies, Inc. and Laurus Master Fund, Ltd.
4.19 (10)	--	Option Agreement, dated July 20, 2005 by and between GreenMan Technologies, Inc. and Laurus Master Fund, Ltd.
4.20 (10)	--	Funds Escrow Agreement, dated July 20, 2005 by and between GreenMan Technologies, Inc., Laurus Master Fund, Ltd. And Loeb and Loeb, LLP, as Escrow Agent
4.21 (10)	--	Reaffirmation and Ratification Agreement, dated July 20, 2005 by and between GreenMan Technologies, Inc. and certain of its subsidiaries, in favor of Laurus Master Fund, Ltd
4.22 (10)	--	Waiver Agreement by Republic Services of Georgia, LP dated July 31, 2005

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10.1 (2)	--	1993 Stock Option Plan
10.2 (15)	--	2005 Stock Option Plan
10.3 (2)	--	Form of confidentiality and non-disclosure agreement for executive employees
10.4 (4)	--	Employment Agreement between GreenMan Technologies, Inc. and Robert H. Davis
10.5 (1)	--	Promissory Note issued by Robert H. Davis dated January 9, 1998 in favor of GreenMan Technologies, Inc.
10.6 (1)	--	Promissory Note issued by Robert H. Davis dated January 4, 1999 in favor of GreenMan Technologies, Inc.
10.7 (1)	--	Extension Agreement dated September 30, 2000 between GreenMan Technologies, Inc. and Robert H. Davis
10.8 (1)	--	Extension Agreement dated September 30, 2001 between GreenMan and Robert H. Davis
10.9 (4)	--	Employment Agreement between GreenMan Technologies, Inc. and Charles E. Coppa
10.10 (9)	--	Promissory Note issued by Charles E. Coppa dated January 4, 1999 in favor of GreenMan Technologies, Inc.
10.11 (1)	--	Convertible Note Payable issued October 27, 1999 by GreenMan Technologies, Inc. to Dr. Allen Kahn
10.12 (1)	--	Convertible Note Payable issued November 23, 1999 by GreenMan Technologies, Inc. to Dr. Allen Kahn
10.13 (1)	--	Convertible Note Payable issued February 18, 2000 by GreenMan Technologies, Inc. to Dr. Allen Kahn
10.14 (1)	--	Promissory note issued November 17, 2000 by GreenMan Technologies, Inc. to Dr. Allen Kahn
10.15 (1)	--	Extension Agreement dated September 30, 2000 between GreenMan Technologies, Inc. and Dr. Allen Kahn
10.16 (1)	--	Extension Agreement dated June 27, 2001 between GreenMan Technologies, Inc and Dr. Allen Kahn
10.17 (12)	--	$75,000 Promissory Note issued by GreenMan Technologies, Inc. to Maurice E. Needham dated October 22, 2003
10.18 (13)	--	$100,000 Promissory Note issued by GreenMan

		Technologies, Inc. to Maurice E. Needham dated January 13, 2004
10.19 (13)	--	$100,000 Promissory Note issued by GreenMan Technologies, Inc. to Maurice E. Needham dated January 26, 2004
10.20 (13)	--	$50,000 Promissory Note issued by GreenMan Technologies, Inc. to Maurice E. Needham dated February 6, 200
10.21 (13)	--	$100,000 Promissory Note issued by GreenMan Technologies, Inc. to Joyce Ritterhauss dated March 10, 2004
10.22 (13)	--	$50,000 Promissory Note issued by GreenMan Technologies, Inc. to Richard Ledet dated March 12, 2004
10.23 (13)	--	$100,000 Promissory Note issued by GreenMan Technologies, Inc. to Barbara Morey dated March 18, 2004
10.24 (13)	--	Purchase Agreement dated February 21, 2004 between GreenMan Technologies of Minnesota, Inc. and Earl Fisher
10.25 (13)	--	Commercial Lease Agreement dated March 25, 2004 between GreenMan Technologies of Minnesota, Inc. and Two Oaks, LLC.
10.26 (13)	--	Extension Agreement dated March 31, 2004 between GreenMan Technologies, Inc. and Robert H. Davis and Nancy Karfilis-Davis

10.27 (13)	--	Waiver agreement by Republic Services of Georgia, LP
10.28 (5)	--	Loan and Security Agreement dated January 31, 2001 by and among Coast Business Credit, GreenMan Technologies of Minnesota, Inc. and GreenMan Technologies of Georgia, Inc.
10.29 (5)	--	Secured Promissory Note dated January 31, 2001 in the amount of $2,044,000 executed by GreenMan Technologies of Minnesota, Inc. and GreenMan Technologies of Georgia, Inc. payable to Coast Business Credit
10.30 (5)	--	Secured Promissory Note dated January 31, 2001 in the amount of $822,250 executed by GreenMan

Three Months Ended June 30,

Six Months Ended June 30,

2015

2014

2015

2014

OPERATING REVENUES:

Passenger

$

773,107

$

800,548

$

1,515,605

$

1,556,187

Ground handling and other

15,310

16,026

33,210

32,773

Total operating revenues

788,417

816,574

1,548,815

1,588,960

OPERATING EXPENSES:

Salaries, wages and benefits

298,573

310,844

601,418

628,486

Aircraft maintenance, materials and repairs

156,319

171,722

314,576

349,984

Aircraft rentals

68,442

79,449

138,854

159,783

Depreciation and amortization

64,659

64,252

130,350

126,567

Aircraft fuel

31,192

58,018

58,492

105,243

Ground handling services

20,117

32,314

44,089

69,332

Special charges

4,713

4,713

Other operating expenses

79,183

82,018

157,028

159,382

Total operating expenses

718,485

803,330

1,444,807

1,603,490

OPERATING INCOME (LOSS)

69,932

13,244

104,008

(14,530

)

OTHER INCOME (EXPENSE):

Interest income

697

511

1,336

1,060

Interest expense

(18,081

)

(16,138

)

(36,546

)

(31,814

)

Other, net

(2,618

)

(2,891

)

Total other expense, net

(17,384

)

(18,245

)

(35,210

)

(33,645

)

INCOME (LOSS) BEFORE INCOME TAXES

52,548

(5,001

)

68,798

(48,175

)

PROVISION (BENEFIT) FOR INCOME TAXES

21,073

9,736

27,703

(10,551

)

NET INCOME (LOSS)

$

31,475

$

(14,737

)

$

41,095

$

(37,624

)

BASIC EARNINGS (LOSS) PER SHARE

$

0.61

$

(0.29

)

$

0.80

$

(0.73

)

DILUTED EARNINGS (LOSS) PER SHARE

$

0.61

$

(0.29

)

$

0.79

$

(0.73

)

Weighted average common shares:

Basic

51,357

51,183

51,407

51,310

Diluted

51,971

51,183

52,182

51,310

Dividends declared per share

$

0.04

$

0.04

$

0.08

$

0.08

COMPREHENSIVE INCOME (LOSS):

Net income (Loss)

$

31,475

$

(14,737

)

$

41,095

$

(37,624

)

Net unrealized appreciation (depreciation) on marketable securities, net of taxes

(223

)

42

78

65

TOTAL COMPREHENSIVE INCOME (LOSS)

$

31,252

$

(14,695

)

$

41,173

$

(37,559

)

See accompanying notes to condensed consolidated financial statements

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SKYWEST, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In Thousands)

	Six Months Ended June 30 2015	Six Months Ended June 30 2014
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 168,807	$ 32,489
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(337,375)	(112,664)
Sales of marketable securities	430,688	215,005
Proceeds from the sale of equipment	5,719	3
Acquisition of property and equipment:		
Aircraft and rotable spare parts	(503,317)	(297,758)
Buildings and ground equipment	(16,842)	(11,644)
Return of deposits on aircraft	2,300	
Increase in other assets	(8,325)	(13,563)
NET CASH USED IN INVESTING ACTIVITIES	(427,152)	(220,621)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	432,568	187,389
Principal payments on long-term debt	(114,202)	(88,236)
Tax deficiency from exercise of common stock options	(2,012)	(1,266)
Net proceeds from issuance of common stock	3,721	1,933
Purchase of treasury stock	(18,726)	(8,414)
Payment of cash dividends	(4,114)	(4,119)
NET CASH PROVIDED BY FINANCING ACTIVITIES	297,235	87,287
Increase (decrease) in cash and cash equivalents	38,890	(100,845)
Cash and cash equivalents at beginning of period	132,275	170,636
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 171,165	$ 69,791
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest, net of capitalized amounts	$ 37,530	$ 33,103
Income taxes	$ 613	$ 382

See accompanying notes to condensed consolidated financial statements.

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SKYWEST, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note A Condensed Consolidated Financial Statements

Basis of Presentation

The condensed consolidated financial statements of SkyWest, Inc. (SkyWest or the Company) and its operating subsidiaries, SkyWest Airlines, Inc. (SkyWest Airlines) and ExpressJet Airlines Inc. (ExpressJet) 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 (GAAP) 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, unless otherwise disclosed. 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 Annual Report on Form 10-K for the year ended December 31, 2014. The results of operations for the three and six-month periods ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The preparation of financial statements in conformity with GAAP 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 will likely differ and may differ materially from those estimates and assumptions.

Note B Passenger and Ground Handling Revenue

The Company recognizes passenger and ground handling revenues when the service is provided under its code-share agreements. Ground handling revenue primarily consists of customer service functions such as gate and ramp agent services at applicable airports where the Company provides such services to other airlines. Under the Company s fixed-fee arrangements (referred to as fixed-fee arrangements, contract flying or capacity purchase agreements) with Delta Airlines Inc. (Delta), United Airlines Inc. (United), US Airways Group, Inc. (US Airways) American Airlines, Inc. (American) and Alaska Airlines, Inc. (Alaska), the major airline 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 revenue-sharing arrangements (referred to as revenue-sharing or pro-rate arrangements), the major airline and the Company negotiate a passenger fare proration formula when a passenger has a connecting flight operated by both the Company and the major airline partner, pursuant to which the Company receives a percentage of the ticket revenues for those passengers traveling for the portion of their trip operated by the Company, and the major airline retains the ticket revenues for the other portion of their trip on the major airline. Revenue is recognized under the Company s pro-rate flying agreements when each flight is completed based upon the portion of the pro-rate 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.

In the event that the contractual rates under the Company s flying agreements have not been finalized at quarterly or annual financial statement dates, the Company records revenues based on the lower of the 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 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 to receive incentive compensation upon the achievement of certain performance criteria. The incentives are defined in the agreements and are measured and determined on a monthly, quarterly or

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semi-annual basis. At the end of each period during the term of an agreement, the Company calculates the incentives achieved during that period and recognizes revenue attributable to that agreement accordingly.

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

Delta Connection Agreements

Agreement	Number of aircraft under contract	Term / Termination Dates
SkyWest Airlines Delta Connection Agreement (fixed-fee arrangement)	• CRJ 200 48 • CRJ 700 19 • CRJ 900 32	• The contract expires on an individual aircraft basis with expirations commencing in 2015 • The final aircraft expires in 2022 • The average remaining term of the aircraft under contract is 4.3 years • Upon expiration, aircraft may be renewed or extended
ExpressJet Delta Connection Agreement (fixed-fee arrangement)	• CRJ 200 59 • CRJ 700 41 • CRJ 900 28	• The contract expires on an individual aircraft basis with expirations commencing in 2015 • The final aircraft expires in 2022 • The average remaining term of the aircraft under contract is 3.7 years • Upon expiration, aircraft may be renewed or extended
SkyWest Airlines Pro-rate Agreement (revenue-sharing arrangement)	• CRJ 200 13	• Terminates with 30-day notice

United Express Agreements

Agreement	Number of aircraft under contract	Term / Termination Dates
SkyWest Airlines United Express Agreements	• CRJ 200 49	

(fixed-fee arrangement)	• CRJ 700 70 • E175 35	• The contract expires on an individual aircraft basis with expirations commencing in 2015 • The final aircraft expires in 2026 • The average remaining term of the aircraft under contract is 3.8 years • Upon expiration, aircraft may be renewed or extended
ExpressJet United ERJ Agreement (fixed-fee arrangement)	• ERJ 135 5 • ERJ 145 180	• The contract expires on an individual aircraft basis with expirations commencing in 2015 • The final aircraft expires in 2017 • The average remaining term of the aircraft under contract is 1.5 years • Upon expiration, aircraft may be renewed or extended
SkyWest Airlines United Express Pro-rate Agreement (revenue-sharing arrangement)	• CRJ 200 23	• Terminates with 120-day notice

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Alaska Capacity Purchase Agreement

Agreement	Number of aircraft under contract	Term / Termination Dates
SkyWest Airlines Alaska Agreement (fixed-fee arrangement)	• CRJ 700 9 • E175 3	• CRJ 700 Terminates 2018 E175 Terminates 2027 • Upon expiration, aircraft may be renewed or extended

US Airways Agreements

Agreement	Number of aircraft under contract	Term / Termination Dates
SkyWest Airlines US Airways Agreement (fixed-fee arrangement)	• CRJ 200 10 • CRJ 900 4	• Terminates by the end of 2015 • Upon expiration, aircraft may be renewed or extended
SkyWest Airlines US Airways Pro-rate Agreement (revenue-sharing arrangement)	• CRJ 200 1	• Terminates with 120- day notice

American Agreements

Agreement	Number of aircraft under contract	Term / Termination Dates
SkyWest Airlines American Agreement (fixed-fee arrangement)	• CRJ 200 12	• Terminates 2016 • Upon expiration, aircraft may be renewed or extended
SkyWest Airlines American Pro-rate Agreement (revenue-sharing arrangement)	• CRJ 200 5	• Terminates with 120- day notice
ExpressJet American Agreement (fixed-fee arrangement)	• CRJ 200 11 • ERJ 145 16	• Terminates 2017 • Upon expiration, aircraft may be renewed or extended

ExpressJet American Pro-rate Agreement (revenue-sharing arrangement)	• CRJ 200 3	• Terminates with 120- day notice

In June 2015, SkyWest Airlines reached an agreement with Alaska to place eight additional E175 aircraft into service pursuant to the SkyWest Airlines Alaska Agreement, which would result in a total of 15 E175 aircraft under contract with Alaska.

Other Revenue Items

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 its major partners, 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 partners.

Note C Share-Based Compensation and Stock Repurchases

The fair value of stock options granted by the Company 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

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traded stock and other factors. During the six months ended June 30, 2015, the Company granted options to purchase 261,473 shares of common stock under the SkyWest, Inc. 2010 Long-Term Incentive Plan (the 2010 Incentive Plan). The following table shows the assumptions used and weighted average fair value for stock option grants during the six months ended June 30, 2015.

Expected annual dividend rate		1.18%
Risk-free interest rate		1.62%
Average expected life (years)		5.7
Expected volatility of common stock		0.401
Forfeiture rate		0.0%
Weighted average fair value of option grants	$	4.75

During the six months ended June 30, 2015, the Company granted 403,917 restricted stock units and 218,493 performance restricted stock units to employees of the Company and its subsidiaries under the 2010 Incentive Plan. Both the restricted stock and performance restricted stock units have a three-year vesting period, during which the recipient must remain employed with the Company or one of the Company s subsidiaries. In addition to the three-year vesting period, certain profit metrics of the Company must be met before the recipient will receive any shares of stock attributable to the performance restricted stock units. Upon vesting, a restricted stock unit and a performance restricted stock unit will be replaced with a share of common stock. Additionally, during the six months ended June 30, 2015, the Company granted 36,950 fully-vested shares of common stock to the Company s directors. The fair value of the shares of restricted stock on the date of grant was $13.51 per share.

The Company records share-based compensation expense only for those options and restricted and performance restricted stock units that are expected to vest. The estimated fair value of the stock options and restricted stock units is amortized over the applicable vesting periods. During the three months ended June 30, 2015 and 2014, the Company recorded pre-tax share-based compensation expense of $1.3 million and $1.1 million, respectively. During the six months ended June 30, 2015 and 2014, the Company recorded pre-tax share-based compensation expense of $2.8 million and $2.8 million, respectively.

The Company repurchased 1.25 million shares of its common stock for $18.7 million during the six months ended June 30, 2015. The Company repurchased 670,000 shares of its common stock for $8.4 million during the six months ended June 30, 2014.

Note D Net Income (Loss) Per Common Share

Basic net income per common share (Basic EPS) excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share (Diluted EPS) reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net income per common share. During the three and six months ended June 30, 2015, options to acquire 459,000 and 2,019,000 shares, respectively, were excluded from the computation of Diluted EPS as their impact was anti-dilutive. During the three and six months ended June 30, 2014, options to acquire 3,279,000 and 3,112,000 shares, respectively, were excluded from the computation of Diluted EPS as their impact was anti-dilutive.

The calculation of the weighted average number of common shares outstanding for Basic EPS and Diluted EPS for the periods indicated (in thousands, except per share data) is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Numerator				
Net Income (loss)	$ 31,475	$ (14,737)	$ 41,095	$ (37,624)
Denominator				
Weighted average number of common shares outstanding	51,357	51,183	51,407	51,310
Effect of outstanding share-based awards	614		775	
Weighted average number of shares for diluted net income per common share	51,971	51,183	52,182	51,310
Basic earnings (loss) per share	$ 0.61	$ (0.29)	$ 0.80	$ (0.73)
Diluted earnings (loss) per share	$ 0.61	$ (0.29)	$ 0.79	$ (0.73)

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Note E 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 (CODM) when deciding how to allocate resources and in assessing performance.

The Company s two operating segments consist of the operations of its two operating subsidiaries, SkyWest Airlines and ExpressJet. The following represents the Company s segment data for the three months ended June 30, 2015 and 2014 (in thousands).

	Three months ended June 30, 2015			
	SkyWest Airlines	**ExpressJet**	**Corporate / Consolidating**	**Consolidated**
Operating revenues	$ 478,121	$ 305,092	$ 5,204	$ 788,417
Operating expense	412,244	305,590	651	718,485
Depreciation and amortization expense	42,716	21,681	262	64,659
Interest expense	15,440	2,641		18,081
Segment profit (loss)(1)	50,437	(3,139)	4,553	51,851
Identifiable intangible assets, other than goodwill		11,623		11,623
Total assets	3,406,620	1,431,934		4,838,554
Capital expenditures (including non-cash)	246,322	7,478		253,800

	Three months ended June 30, 2014			
	SkyWest Airlines	**ExpressJet**	**Corporate / Consolidating**	**Consolidated**
Operating revenues	$ 475,501	$ 340,599	$ 74	$ 816,574
Operating expense	433,551	369,891	(112)	803,330
Depreciation and amortization expense	41,958	22,294		64,252
Interest expense	10,661	4,743	734	16,138
Segment profit (loss)(1)	31,289	(34,035)	(148)	(2,894)
Identifiable intangible assets, other than goodwill		13,873		13,873
Total assets	2,688,143	1,591,698		4,279,841
Capital expenditures (including non-cash)	234,986	7,374		242,360

(1) Segment profit (loss) is equal to operating income less interest expense

The following represents the Company s segment data for the six-month periods ended June 30, 2015 and 2014 (in thousands).

	Six months ended June 30, 2015			
	SkyWest Airlines	**ExpressJet**	**Corporate / Consolidating**	**Consolidated**

Operating revenues	$	926,191	$	613,649	$	8,975	$	1,548,815
Operating expense		818,263		624,841		1,703		1,444,807
Depreciation and amortization expense		86,484		43,342		524		130,350
Interest expense		29,466		7,080				36,546
Segment profit (loss)(1)		78,462		(18,272)		7,272		67,462
Identifiable intangible assets, excluding goodwill				11,623				11,623
Total assets		3,406,620		1,431,934				4,838,554
Capital expenditures (including non-cash)		508,347		14,723				523,070

	Six months ended June 30, 2014							
		SkyWest Airlines		ExpressJet		Corporate / Consolidating		Consolidated
Operating revenues	$	922,543	$	665,469	$	948	$	1,588,960
Operating expense		859,193		744,317		(20)		1,603,490
Depreciation and amortization expense		81,958		44,609				126,567
Interest expense		20,687		9,618		1,509		31,814
Segment profit (loss)(1)		42,663		(88,466)		(541)		(46,344)
Identifiable intangible assets, other than goodwill				13,873				13,873
Total assets		2,688,143		1,591,698				4,279,841
Capital expenditures (including non-cash)		282,842		14,666				297,508

(1) Segment profit (loss) is equal to operating income less interest expense

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Note F Commitments and Contingencies

As of June 30, 2015, the Company leased 510 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 Company expects that, in the normal course of business, such operating leases that expire will be renewed or replaced by other leases. The following table summarizes future minimum rental payments required under operating leases that had initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2015 (in thousands):

July through December 2015	$	131,544
2016		268,307
2017		201,693
2018		157,203
2019		120,257
Thereafter		453,812
	$	1,332,816

During the three months ended June 30, 2015, the Company took delivery of nine Embraer E175 dual-class jet aircraft (E175s) and financed the aircraft through the issuance of $204.5 million of long-term debt. During the six months ended June 30, 2015, the Company took delivery of 18 E175s and financed the aircraft through the issuance of $407.6 million of long-term debt. The debt associated with the E175 aircraft delivered during the six months ended June 30, 2015 has a twelve-year term with a fixed annual interest rate ranging from 3.4% to 3.9% and is secured by the 18 E175 aircraft.

As of June 30, 2015 and December 31, 2014, the Company had accrued future lease obligations of $2.9 million and $3.8 million, respectively, associated with Embraer Brasilia EMB120 aircraft (EMB120s) removed from service. The lease payments for the EMB120s are scheduled to continue through June 2016.

As of June 30, 2015, the Company had a firm purchase commitment for 17 Embraer E175 aircraft with scheduled delivery dates from July 2015 to October 2016.

During the three months ended June 30, 2015, the Company borrowed $25 million in debt from a bank. The debt has a four year term with a fixed annual interest rate of 3.3% with monthly payments and is secured by spare engines.

Note G 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 June 30, 2015 and December 31, 2014, 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 June 30, 2015			
	Total	**Level 1**	**Level 2**	**Level 3**
Marketable Securities				
Bonds and bond funds	$ 313,961	$	$ 313,961	$
Asset backed securities	8,089		8,089	
	322,050		322,050	
Cash, Cash Equivalents and Restricted Cash	182,749	182,749		
Other Assets	2,295(a)			2,295
Total Assets Measured at Fair Value	$ 507,094	$ 182,749	$ 322,050	$ 2,295

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	Fair Value Measurements as of December 31, 2014			
	Total	Level 1	Level 2	Level 3
Marketable Securities				
Bonds and bond funds	$ 410,163	$	$ 410,163	$
Asset backed securities	5,110		5,110	
	415,273		415,273	
Cash, Cash Equivalents and Restricted Cash	143,857	143,857		
Other Assets	2,309(a)			2,309
Total Assets Measured at Fair Value	$ 561,439	$ 143,857	$ 415,273	$ 2,309

(a) Comprised of auction rate securities which is reflected in Other assets in the Company s unaudited condensed consolidated balance sheets

Based on market conditions, the Company uses a discounted cash flow valuation methodology for auction rate securities. Accordingly, for purposes of the foregoing condensed 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.

The Company did not make any significant transfers of securities between Level 1, Level 2 and Level 3 during the six months ended June 30, 2015. The Company s policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

As of June 30, 2015 and December 31, 2014, the Company classified $322.1 million and $415.3 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. As of June 30, 2015 and December 31, 2014, the amortized cost in the Company s total cash and cash equivalents and available for sale securities (excluding restricted cash and auction rate securities recorded as other assets) was $493.4 million and $548.0 million, respectively. As of June 30, 2015 and December 31, 2014, the fair value of the Company s total cash and cash equivalents and available for sale securities (excluding restricted cash and auction rate securities recorded as other assets), was $493.2 million and $547.5 million, respectively.

The following table presents the Company s assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at June 30, 2015 (in thousands):

Fair Value Measurements Using Significant Unobservable Inputs

(Level 3)

	Auction Rate Securities

Balance at January 1, 2015	$	2,309
Total realized and unrealized gains or (losses)		
Included in earnings		
Included in other comprehensive income		(14)
Transferred out		
Settlements		
Balance at June 30, 2015	$	2,295

The fair value of the Company s long-term debt classified as Level 2 was estimated using discounted cash flow analyses, based on the Company s current estimated incremental borrowing rates for similar types of borrowing arrangements. 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 estimated to be $2,087.1 million as of June 30, 2015, as compared to the carrying amount of $2,064.2 million as of June 30, 2015. The fair value of

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the Company s long-term debt is estimated based on current rates offered to the Company for similar debt and approximated $1,813.1 million as of December 31, 2014, as compared to the carrying amount of $1,745.8 million as of December 31, 2014.

Note H Income Taxes

The Company s estimated annual effective tax rate for the three and six months ended June 30, 2015 varied from the federal statutory rate of 35% primarily due to the provision for state income taxes and the impact of non-deductible crew per diem meal expenses.

Note I Legal Matters

The Company is subject to certain legal actions which it considers routine to its business activities. As of June 30, 2015, 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.

Note J Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU No. 2015-03). This update amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of as a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. The Company s management is currently evaluating the impact the adoption of ASU No. 2015-03 is anticipated to have on the Company s consolidated financial statements.

In May 2014, 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 to January 1, 2018. The FASB also proposed permitting early adoption of the standard, but not before January 1, 2017. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. The Company s management is currently evaluating the impact the adoption of ASU No. 2014-09 is anticipated to have on the Company s consolidated financial statements.

ITEM 2: 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 the results of operations of SkyWest, Inc. (SkyWest we or us) during the three and six month periods ended June 30, 2015 and 2014. Also discussed is our financial position as of June 30, 2015 and

December 31, 2014. You should read this discussion in conjunction with our condensed consolidated financial statements for the three and six months ended June 30, 2015, including the notes thereto, appearing elsewhere in this Report. This discussion and analysis contains forward-looking statements. Please refer to the section of this Report entitled Cautionary Statement Concerning Forward-Looking Statements for discussion of the uncertainties, risks and assumptions associated with these statements.

Cautionary Statement Concerning Forward-Looking Statements

Certain of the statements contained in this Report should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by words such as may, will, expect, intend, anticipate, believe, estimate, plan, project, could, should, hope, likely, and continue and similar terms used in connection with statements re outlook, the revenue environment, our contract relationships and our expected 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. 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 likely vary, and may vary materially, from those anticipated, estimated, projected, or intended.

There may be other factors not identified above of which we are not currently aware that may affect matters discussed in the forward-looking statements, and 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 law.

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Overview

Through SkyWest Airlines and ExpressJet, we operate the largest regional airline in the United States. As of June 30, 2015, SkyWest Airlines and ExpressJet offered scheduled passenger service with approximately 3,500 total daily departures to destinations in the United States, Canada, Mexico and the Caribbean. As of June 30, 2015, SkyWest Airlines and ExpressJet had a total fleet of 737 aircraft, of which 676 were in scheduled service summarized as follows:

	CRJ200	ERJ145	ERJ135	CRJ700	CRJ900	E175	EMB120	Total
United	72	180	5	70		35		362
Delta	120			60	60			240
American	31	16						47
US Airways	11				4			15
Alaska				9		3		12
Aircraft in scheduled service	234	196	5	139	64	38		676
Subleased to an un-affiliated entity	2							2
Unassigned (a)	11	12	4				32	53
Total	247	208	9	139	64	38	32	737

(a) As of June 30, 2015, these aircraft have been removed from service and are in the process for lease returns or are transitioning between flying code share agreements with our major airline partners.

For the six months ended June 30, 2015, approximately 58.0% of our aggregate capacity was operated for United, approximately 33.4% was operated for Delta, approximately 4.3% was operated for American, approximately 2.3% was operated for Alaska and approximately 2.0% was operated for US Airways.

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 contract flying arrangements and our pro-rate flying arrangements. For the six months ended June 30, 2015, contract flying revenue and pro-rate revenue represented approximately 89% and 11%, 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, flight departures and other operating measures.

Second Quarter Summary

We had total operating revenues of $788.4 million for the three months ended June 30, 2015, a 3.4% decrease, compared to total operating revenues of $816.6 million for the three months ended June 30, 2014. We had net income of $31.5 million, or $0.61 per diluted share, for the three months ended June 30, 2015, compared to a net loss of $14.7 million or $0.29 per diluted share, for the three months ended June 30, 2014.

The significant items affecting our financial performance during the three months ended June 30, 2015 are outlined below:

Revenue

The number of aircraft we have under contract and the number of actual block hours we incur on completed flights are significant revenue drivers under our fixed-fee arrangements. We are currently in the process of a fleet transition that involves increasing the number of large dual-class regional jets we operate, including the E175 aircraft, while reducing the number of less-profitable 50-seat regional jets we operate, including a portion of our ERJ145/ERJ135 and CRJ200 aircraft. Additionally, during the three months ended June 30, 2015, we completed the removal of all EMB120 turboprop aircraft from our scheduled service. We anticipate our fleet transition will result in net decreases in our total fleet size, block hour production, and total revenue in quarterly year-over-year comparisons at least through 2015. Our objective in the fleet transition is to improve our profitability through the additional new dual class aircraft placed into service, including the E175 aircraft, while removing aircraft from service that have been operating under less profitable fixed-fee flying contracts.

The reduction in our fleet size and the related reduction in our block hour production were the primary drivers for the reduction in our total revenue of $28.2 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. However, the revenue reduction was partially offset by revenue improvements of approximately $32 million from our

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additional E175 operations, improved contract rates from flying contract renewals and extensions, achieving higher operating performance incentives, and earning approximately $11 million from higher flight completion rates.

Operating Income and Operating Expenses

Our operating income increased $56.7 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. The increase in our operating income was primarily due to placement of 30 E175 aircraft into service subsequent to June 30, 2014, higher operational performance incentives earned under our flying contracts and rate increases received under new and extended flying contracts subsequent to June 30, 2014. Our total operating expenses decreased $84.8 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. This decrease was primarily due to the reduction in our fleet size and a reduction in the related number of departures and completed block hours, improved operating efficiencies, and cost reduction initiatives in maintenance for the comparable period. Additional details regarding the reduction to our operating expenses are described in more detail in the section of this Report entitled Results of Operations in this Report.

Fleet activity

The following table summarizes our fleet scheduled for service as of December 31, 2014, March 31, 2015 and June 30, 2015:

Aircraft in Service	**December 31, 2014**	**March 31, 2015**	**June 30, 2015**
CRJ200s	242	234	234
CRJ700s	139	139	139
CRJ900s	64	64	64
ERJ145/135s	225	215	201
E175s	20	29	38
EMB120s	27	12	
Total	717	693	676

Our fleet activity during the six months ended June 30, 2015 is summarized as follows:

- SkyWest Airlines placed 15 E175 aircraft into service with United
- SkyWest Airlines placed three E175 aircraft into service with Alaska
- SkyWest Airlines placed five used CRJ200 aircraft into service with Delta (aircraft are leased from Delta)
- ExpressJet placed 16 used ERJ145 aircraft into service with American (aircraft are leased from American)
- SkyWest Airlines removed 27 EMB120 aircraft from service

- ExpressJet removed 40 ERJ145/135 aircraft from service with United
- SkyWest Airlines and ExpressJet removed 13 CRJ200 aircraft from service previously operated with various partners.

Anticipated significant fleet changes for period between June 30, 2015 and December 31, 2015 is summarized as follows:

- SkyWest Airlines is scheduled to take delivery of five E175 aircraft for United between July 2015 and August 2015.
- SkyWest Airlines is scheduled to take delivery of two E175 aircraft for Alaska between October 2015 and December 2015.
- ExpressJet is scheduled to remove 23 ERJ145s/ERJ135s from service with United reducing its ERJ145s/ERJ135s fleet with United to a total of 162 aircraft by December 31, 2015.
- ExpressJet is scheduled to remove 6 CRJ200 aircraft from service with Delta by December 31, 2015.

Critical Accounting Policies

Our significant accounting policies are summarized in Note 1 to our consolidated financial statements for the year ended December 31, 2014, which are presented in our Annual Report on Form 10-K for the year ended December 31, 2014. 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, maintenance, aircraft leases, impairment of long-lived assets and intangibles, stock-based compensation expense and fair value. 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 differ, and could differ materially, from such estimates.

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Other Accounting Items

Directly reimbursed expenses under our fixed-fee arrangements. Under our fixed-fee arrangements, our major airline partners directly reimburse us for certain operating expenses such as fuel, station rents and landing fees. When we incur directly-reimbursed expenses under our fixed-fee arrangements, we record the reimbursement as passenger revenue. Thus, the price and volume volatility of directly-reimbursed expenses may impact the comparability of revenue to previous periods and may impact the comparability of operating expenses to previous periods, without impacting the comparability of our operating income to the same periods. Over the past few years, some of our major airline partners have paid for fuel, landing fees and station rents directly to vendors on flights we operated under our fixed-fee arrangements, which has decreased both revenue and operating expenses as compared to previous periods presented in this Report.

Reimbursement for engine overhaul expenses under our fixed-fee arrangements. Under certain of our fixed fee arrangements, we are directly reimbursed for engine overhaul costs when incurred (Directly-Reimbursed Engine Contracts). Under our other fixed-fee flying arrangements, we are paid fixed hourly rates intended to cover certain operating expenses, including engine overhaul costs (Fixed-Rate Engine Contracts). Under our Fixed-Rate Engine Contracts, the timing and amount of our engine overhaul expenses may impact the comparability of our operating expenses and operating income as compared to previous periods presented in this Report.

Engine maintenance expense. We use the direct-expense method of accounting for our regional jet aircraft engine overhaul costs. Under this method, the maintenance liability is recorded when the maintenance services are performed. For a portion of our engines, a third-party vendor provides our long-term engine maintenance services covering scheduled and unscheduled repairs for covered engines. 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 (Power-by-the-Hour Contracts). Under our Power-by-the-Hour Contracts, we expense the engine maintenance cost as flight hours are incurred on the engines using the contractual rate set forth in the applicable Power-by-the-Hour Contract.

We used the deferral method of accounting for our EMB120 engine overhauls, which provides for engine overhaul costs to be capitalized and depreciated to the next estimated overhaul event or to the remaining useful life. We ceased operating the EMB120 aircraft during the quarter ended June 30, 2015.

The table below summarizes how we are compensated by our major partners under our flying contracts for engine expense and the method we use to recognize the corresponding expense.

Fixed-fee flying contract	**Compensation of Engine Expense**	**Expense Recognition**
SkyWest Delta Connection	Directly-Reimbursed Engine Contracts	Direct Expense Method

ExpressJet Delta Connection	Directly-Reimbursed Engine Contracts	Direct Expense Method
SkyWest United Express (CRJ200)	Fixed-Rate Engine Contracts	Direct Expense Method
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 (CRJ700s)	Fixed-Rate Engine Contracts	Power by the Hour Agreement
SkyWest American Agreement (CRJ200)	Fixed-Rate Engine Contracts	Direct Expense Method
ExpressJet American Agreement (CRJ200)	Fixed-Rate Engine Contracts	Direct Expense Method
ExpressJet American Agreement (ERJ145)	Partner pays directly to vendor	Not applicable
US Airways Agreement (CRJ200 / CRJ900)	Fixed-Rate Engine Contracts	Direct Expense Method

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU No. 2015-03). This update amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of as a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. Our management is currently evaluating the impact the adoption of ASU No. 2015-03 is anticipated to have on our consolidated financial statements.

In May 2014, 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 to January 2, 2018. The FASB also proposed permitting early adoption of the standard, but not before January 2, 2017. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. Our management is currently evaluating the impact the adoption of ASU No. 2014-09 is anticipated to have on our consolidated financial statements.

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Results of Operations

Three Months Ended June 30, 2015 and 2014

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

	For the three months ended June 30,		
	2015	2014	% Change
Revenue passenger miles (000)	7,718,342	8,165,616	(5.5)%
Available seat miles (ASMs) (000)	9,176,581	9,736,819	(5.8)%
Block hours	531,373	579,072	(8.2)%
Departures	314,086	349,022	(10.0)%
Passengers carried	14,665,756	15,358,722	(4.5)%
Passenger load factor	84.1%	83.9%	0.20Pts
Revenue per available seat mile	8.6¢	8.4¢	2.4%
Cost per available seat mile	8.0¢	8.4¢	(4.8)%
Cost per available seat mile excluding fuel	7.7¢	7.8¢	(1.3)%
Fuel cost per available seat mile	0.3¢	0.6¢	(50.0)%
Average passenger trip length (miles)	526	532	(1.1)%

Revenues. Total operating revenues decreased $28.2 million, or 3.4%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014, primarily due to the reduction in our fleet size and the related reduction in our block hour production. Our total operating revenue includes passenger revenues, which primarily consist of revenue earned on flights we operate under our fixed-fee and pro-rate arrangements, and airport customer service revenue, including airport counter, gate, and ramp services, on flights we operate under our flying arrangements. Our total operating revenue also includes ground handling and other revenues, which primarily consist of revenue earned from providing airport counter, gate and ramp services to other airlines on flights operated by other airlines, and government subsidy revenue we receive for providing flight service to certain locations.

Passenger revenues. Under our fixed-fee flying contracts, we are directly-reimbursed for certain expenses from our major partners and we record such reimbursements as passenger revenue. The price and volume volatility of directly-reimbursed expenses may impact the comparability of revenue to previous periods without impacting the comparability of our operating income to the same periods. The following table summarizes our passenger revenues less certain directly-reimbursed expenses that impact the comparability for the periods indicated (dollar amounts in thousands).

	For the three months ended June 30,			
	2015	2014	$ Change	% Change
Passenger revenues	$ 773,107	$ 800,548	(27,441)	(3.4)%

Less: Fuel reimbursement from major partners		10,526		24,621	(14,095)	(57.2)%
Less: Landing fee and station rent reimbursements from major partners		1,310		6,359	(5,049)	(79.4)%
Less: Engine overhaul reimbursement from major partners		27,098		29,381	(2,283)	(7.8)%
Passenger revenue excluding fuel, landing fee, station rent and engine overhaul reimbursements	$	734,173	$	740,187	(6,014)	(0.8)%

Passenger revenues (excluding fuel, landing fee, station rent and engine overhaul directly-reimbursed expenses from our major partners) decreased $6.0 million, or 0.8%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The decrease in passenger revenues (excluding fuel, landing fees, station rents and engine overhaul reimbursements) was primarily related to the anticipated revenue decrease from the reduced fleet size, including an 8.2% reduction in block hours. However, the expected reduction in revenue from a reduced fleet size was partially offset by approximately $32 million from the additional E175 operations, improved contract rates from flying contract renewals and extensions, higher operating performance incentives earned under our fixed-fee arrangements, and approximately $11 million earned from higher flight completion rates.

Our directly reimbursed fuel expense, landing fee, station rent and engine overhaul expenses decreased by $21.4 million, or 35.5%, during the three months ended June 30, 2015, from the three months ended June 30, 2014, due primarily to our major airline partners paying for such expenses directly to third party vendors.

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Ground handling and other. Total ground handling and other revenues decreased $0.7 million, or 4.5%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The decrease was primarily related to decreases in flight activity at locations that provide government subsidies.

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

	For the three months ended June 30,						
		2015 Amount	2014 Amount	$ Change Amount	% Change Percent	2015 Cents Per ASM	2014 Cents Per ASM
Salaries, wages and benefits	$	298,573	310,844	(12,271)	(3.9)%	3.3	3.2
Aircraft maintenance, materials and repairs		156,319	171,722	(15,403)	(9.0)%	1.7	1.8
Aircraft rentals		68,442	79,449	(11,007)	(13.9)%	0.7	0.8
Depreciation and amortization		64,659	64,252	407	0.6%	0.7	0.7
Aircraft fuel		31,192	58,018	(26,826)	(46.2)%	0.3	0.6
Ground handling services		20,117	32,314	(12,197)	(37.7)%	0.2	0.3
Special charges			4,713	(4,713)	(100.0)%		
Other operating expenses		79,183	82,018	(2,835)	(3.5)%	0.9	0.8
Total operating expenses		718,485	803,330	(84,845)	(10.6)%	7.8	8.2
Interest		18,081	16,138	1,943	12.0%	0.2	0.2
Total airline expenses	$	736,566	819,468	(82,902)	(10.1)%	8.0	8.4

Salaries wages and employee benefits. Salaries, wages and employee benefits decreased $12.3 million, or 3.9%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The decrease in salaries, wages and employee benefits was primarily due to the decrease in our fleet size and related level of departures and block hours compared to the June 30, 2014, which was partially offset by additional training costs for the E175 aircraft deliveries.

Aircraft maintenance, materials and repairs. Aircraft maintenance expense decreased $15.4 million, or 9.0%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. Under our Directly-Reimbursed Engine Contracts, we are reimbursed for engine overhaul costs by our applicable major partner at the time the maintenance event occurs. Such reimbursements are reflected as passenger revenue in the same amount and during the same period we recognized the expense in our consolidated statements of comprehensive income (loss).The following table summarizes our aircraft maintenance, materials and repairs less the directly-reimbursed engine overhaul costs under our fixed-fee arrangements for the periods indicated (dollar amounts in thousands).

	For the three months ended June 30,						
		2015		2014		$ Change	% Change
Aircraft maintenance, materials and repairs	$	156,319	$	171,722	$	(15,403)	(9.0)%
Less: Directly-reimbursed engine overhaul costs from major partners		27,098		29,381		(2,283)	(7.8)%

Aircraft maintenance, materials and repairs excluding directly reimbursed engine overhaul costs from major partners	$	129,221	$	142,341	$	(13,120)	(9.2)%

Other aircraft maintenance, materials and repairs, excluding our directly-reimbursed engine overhaul costs, decreased $13.1 million, or 9.2%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The decrease in aircraft maintenance expense (excluding directly reimbursed engine overhaul costs) was primarily due to a decrease in our fleet size and related level of scheduled maintenance events. Additionally, our expense associated with engine overhauls not subject to direct-reimbursement under our Directly-Reimbursed Engine Contracts, decreased $3.5 million during the three months ended June 30, 2015 compared to the three months engine June 30, 2014, primarily due to a decrease in the number of engine overhaul events incurred under our Fixed-rate Engine Contracts.

Aircraft rentals. Aircraft rentals decreased $11.0 million, or 13.9%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The decrease in aircraft rentals was primarily due to a reduction of our fleet subsequent to June 30, 2014 that were financed through leases.

Depreciation and amortization. Depreciation and amortization expense increased $0.4 million, or 0.6%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The increase in depreciation and amortization expense was primarily due to the purchase of 32 E175 aircraft and spare engines subsequent to June 30, 2014, which was partially offset by the removal of owned aircraft during the same period.

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Aircraft Fuel. Fuel costs decreased $26.8 million, or 46.2%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. Under our fixed-fee flying arrangements, fuel is a directly-reimbursed expense. The following table summarizes our aircraft fuel expenses (less directly-reimbursed fuel expense under our fixed-fee flying arrangements) for the periods indicated (dollar amounts in thousands).

	For the three months ended June 30,			
	2015	2014	$ Change	% Change
Aircraft fuel expenses	$ 31,192	$ 58,018	$ (26,826)	(46.2)%
Less: Directly-reimbursed fuel from major partners	10,526	24,621	(14,095)	(57.2)%
Aircraft fuel less fuel reimbursement from major partners	$ 20,666	$ 33,397	$ (12,731)	(38.1)%

The decrease in fuel cost was primarily due to the decrease in the average fuel cost per gallon and a decrease in the volume in gallons purchased. In the event one of our major airline partners purchases fuel directly from vendors on flights we operate pursuant to the fixed-fee arrangement, we do not incur the fuel expense. The average fuel cost per gallon was $2.35 and $3.47 for the three months ended June 30, 2015 and 2014, respectively. The following table summarizes the gallons of fuel we purchased directly from fuel vendors and our fuel expense, for the periods indicated:

	For the three months ended June 30,		
(in thousands, except per gallon amounts)	2015	2014	% Change
Fuel gallons purchased	13,283,875	16,715,892	(20.5)%
Fuel expense	$ 31,192	$ 58,018	(46.2)%

Ground handling service. Ground handling service expense decreased $12.2 million, or 37.7%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. Ground handling service expense includes airport related customer service costs, such as outsourced airport agent service, airport ramp services, airport security fees and passenger interruption costs. The decrease in ground handling service expense was primarily due to a reduction in the volume of departures and the reduction in the number of locations for which SkyWest Airlines provides ground handling services subsequent to June 30, 2014.

Special charges. During the three months ended June 30, 2014, we initiated the sale of a paint facility we owned in Saltillo, Mexico and we wrote down the value of assets to our estimated net realizable value of the facility. We subsequently sold the facility in 2014 for an amount that approximated our estimated net realizable value as of June 30, 2014.

Other operating expenses. Other operating expenses, primarily consisting of property taxes, hull and liability insurance, landing fees, station rents, crew simulator training, crew per diem, and crew hotel costs, decreased $2.8 million, or 3.5%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. Under our fixed-fee flying arrangements, landing fee and station rent expense are directly-reimbursed expenses. The following table summarizes our other operating expenses (less directly-reimbursed landing fees and station under our fixed-fee flying arrangements) for the periods indicated (dollar amounts in thousands).

	For the three months ended June 30,			
	2015	2014	$ Change	% Change
Other operating expenses	$ 79,183	$ 82,018	$ (2,835)	(3.5)%
Less: Landing fee and station rent reimbursements from major partners	1,310	6,359	(5,049)	(79.4)%
Other operating expenses less landing fee and station rent reimbursements from major partners	$ 77,873	$ 75,659	$ 2,214	2.9%

The increase in other operating expense (less directly reimbursed landing fee and station rent, expenses) was primarily related to the additional training costs associated with the E175 deliveries including the use of simulators, hotels and crew per diem costs.

Total airline expense. Total airline expense (consisting of total operating expense and interest expense) decreased $82.9 million, or 10.1%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The following table summarizes our total airline expense less the directly-reimbursed expenses with significant changes impacting comparability for the periods indicated (dollar amounts in thousands).

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	For the three months ended June 30,			
	2015	2014	$ Change	% Change
Total airline expense	$ 736,566	$ 819,468	$ (82,902)	(10.1)%
Less: Directly-reimbursed fuel	10,526	24,621	(14,095)	(57.2)%
Less: Directly-reimbursed engine overhauls	27,098	29,381	(2,283)	(7.8)%
Less: Directly-reimbursed landing fees and station rents	1,310	6,359	(5,049)	(79.4)%
Total airline expense excluding directly reimbursed fuel, landing fee, station rent and engine overhaul reimbursements	$ 697,632	$ 759,107	$ (61,475)	(8.1)%

Total airline expenses (excluding directly-reimbursed fuel, engine overhaul, landing fees and station rents) decreased $61.5 million, or 8.1%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The overall decrease was primarily related to the reduction in fleet size, including an 8.2% reduction in block hours during the three months ended June 30, 2015 compared to the three months ended June 30, 2014.

Income taxes, our estimated annual effective tax rate for the three months ended June 30, 2015 varied from the federal statutory rate of 35% primarily due to the provision for state income taxes and the impact of non-deductible crew per diem meal expenses. The income tax provision for the three months ended June 30, 2014 included a valuation allowance of $5.0 million for previously generated state net operating loss benefits specific to ExpressJet that are scheduled to expire before the benefits are expected to be utilized.

Net income (loss). Primarily due to factors described above, we generated net income of $31.5 million, or $0.61 per diluted share, for the three months ended June 30, 2015, compared to a net loss of $14.7 million, or $0.29 per diluted share, for the three months ended June 30, 2014.

Six Months Ended June 30, 2015 and 2014

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

	For the six months ended June 30,		
	2015	2014	% Change
Revenue passenger miles (000)	14,686,253	15,441,216	(4.9)%
Available seat miles (ASMs) (000)	17,868,698	18,729,769	(4.6)%
Block hours	1,048,147	1,125,885	(6.9)%
Departures	618,685	674,346	(8.3)%
Passengers carried	27,856,293	28,992,137	(3.9)%
Passenger load factor	82.2%	82.4%	(0.2)Pts
Revenue per available seat mile	8.7¢	8.5¢	2.4%
Cost per available seat mile	8.3¢	8.7¢	(4.6)%
Cost per available seat mile excluding fuel	8.0¢	8.1¢	(1.2)%
Fuel cost per available seat mile	0.3¢	0.6¢	(50.0)%

Average passenger trip length (miles)	527	533	(1.1)%

Revenues. Total operating revenues decreased $40.1 million, or 2.5%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. Our total operating revenue includes Passenger revenues, which primarily consists of revenue earned on flights we operate under our fixed-fee and pro-rate arrangements and airport customer service revenue, including airport counter, gate and ramp services, on flights we operate under our flying arrangements. Our total operating revenue also includes ground handling and other revenues, which primarily consists of revenue earned from providing airport counter, gate and ramp services to other airlines on flights operated by other airlines and government subsidy revenue we receive for providing flight service to certain locations.

Passenger revenues. Under our fixed-fee flying contracts, we are directly-reimbursed for certain expenses from our major partners and we record such reimbursements as passenger revenue. The price and volume volatility of directly-reimbursed expenses may impact the comparability of revenue to previous periods without impacting the comparability of our operating income to the same periods. The following table summarizes our passenger revenues less certain directly-reimbursed expenses that impact the comparability for the periods indicated (dollar amounts in thousands).

	For the six months ended June 30,			
	2015	**2014**	**$ Change**	**% Change**
Passenger revenues	1,515,605	$ 1,556,187	(40,582)	(2.6)%
Less: Fuel reimbursement from major partners	19,479	47,110	(27,631)	(58.7)%
Less: Landing fee and station rent reimbursements from major partners	7,063	13,166	(6,103)	(46.4)%
Less: Engine overhaul reimbursement from major partners	56,882	63,554	(6,672)	(10.5)%
Passenger revenue excluding fuel, landing fee, station rent and engine overhaul reimbursements	$ 1,432,181	$ 1,432,357	(176)	0.0%

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Passenger revenues (excluding fuel, landing fee, station rent, and engine overhaul directly-reimbursed expenses from our major partners), decreased $0.2 million during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. Although our passenger revenues (excluding fuel, landing fees, station rents, and engine overhaul reimbursements) were essentially consistent for the comparable periods, we had anticipated a decrease in passenger revenues due to a reduction in our fleet size, including a related 6.9% reduction in block hours incurred. This anticipated reduction in passenger revenue was significantly offset by $65 million from the additional E175 operations, improved contract rates from flying contract renewals and extensions, higher operating performance incentives earned under our fixed-fee arrangements, and approximately $32 million from higher flight completion rates.

Our directly reimbursed fuel expense, landing fee, station rent and engine overhaul expenses decreased by $40.4 million, or 32.6%, during the six months ended June 30, 2015, from the six months ended June 30, 2014, due primarily to our major airline partners paying for such expenses directly to third party vendors.

Ground handling and other. Total ground handling and other revenues increased $0.4 million, or 1.3%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The increase was primarily related to additional flight activity at locations that provide government subsidies.

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

	For the six months ended June 30,					
	2015 Amount	**2014 Amount**	**$ Change Amount**	**% Change Percent**	**2015 Cents Per ASM**	**2014 Cents Per ASM**
Salaries, wages and benefits	$ 601,418	$ 628,486	(27,068)	(4.3)%	3.4	3.4
Aircraft maintenance, materials and repairs	314,576	349,984	(35,408)	(10.1)%	1.8	1.9
Aircraft rentals	138,854	159,783	(20,929)	(13.1)%	0.8	0.9
Depreciation and amortization	130,350	126,567	3,783	3.0%	0.7	0.7
Aircraft fuel	58,492	105,243	(46,751)	(44.4)%	0.3	0.6
Ground handling services	44,089	69,332	(25,243)	(36.4)%	0.2	0.4
Special charges		4,713	(4,713)	(100.0%		
Other operating expenses	157,028	159,382	(2,354)	(1.5)%	0.9	0.6
Total operating expenses	1,444,807	1,603,490	(158,683)	(9.9)%	8.1	8.5
Interest	36,546	31,814	(4,732)	14.9%	0.2	0.2
Total airline expenses	$ 1,481,353	$ 1,635,304	(153,951)	(9.4)%	8.3	8.7

Salaries wages and employee benefits. Salaries, wages and employee benefits decreased $27.1 million, or 4.3%, during the six months ended June 30, 2015, compared to the six months ended June 30, 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 June 30, 2014, which was partially offset by additional training costs for the E175 aircraft deliveries.

Aircraft maintenance, materials and repairs. Aircraft maintenance expense decreased $35.4 million, or 10.1%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. Under our Directly-Reimbursed Engine Contracts, we are reimbursed for engine overhaul costs by our applicable major airline partner at the time the maintenance event occurs. Such reimbursements are reflected as passenger revenue in the same amount and during the same period we recognized the expense in our consolidated statements of comprehensive income (loss).The following table summarizes our aircraft maintenance, materials and repairs less the directly-reimbursed engine overhaul costs under our fixed-fee arrangements for the periods indicated (dollar amounts in thousands).

	For the six months ended June 30,			
	2015	**2014**	**$ Change**	**% Change**
Aircraft maintenance, materials and repairs	$ 314,576	$ 349,984	$ (35,408)	(10.1)%
Less: Directly-reimbursed engine overhaul costs from major partners	56,882	63,554	(6,672)	(10.5)%
Aircraft maintenance, materials and repairs excluding directly reimbursed engine overhaul costs from major partners	$ 257,694	$ 286,430	$ (28,736)	(10.0)%

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Other aircraft maintenance, materials, and repairs, excluding our directly-reimbursed engine overhaul costs, decreased $28.7 million, or 10.0%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The decrease in aircraft maintenance expense (excluding directly reimbursed engine overhaul costs) was primarily due to a decrease in our fleet size and a related decrease in the number of scheduled maintenance events. Additionally, our expense associated with engine overhauls not subject to direct-reimbursement under our Directly-Reimbursed Engine Contracts, decreased $6.1 million during the six months ended June 30, 2015 compared to the six months engine June 30, 2014, primarily due to a decrease in the number of engine overhaul events incurred under our Fixed-rate Engine Contracts.

Aircraft rentals. Aircraft rentals decreased $20.9 million, or 13.1%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The decrease in aircraft rentals was primarily due to a reduction in the number of aircraft that were financed through leases subsequent to June 30, 2014.

Depreciation and amortization. Depreciation and amortization expense increased $3.8 million, or 3.0%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The increase in depreciation and amortization expense was primarily due to the purchase of 30 E175 aircraft and spare engines subsequent to June 30, 2014, which was partially offset by the removal of owned aircraft during the same period.

Aircraft Fuel. Fuel costs decreased $46.8 million, or 44.4%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. Under our fixed-fee flying arrangements, fuel is a directly-reimbursed expense. The following table summarizes our aircraft fuel expenses (less directly-reimbursed fuel expense under our fixed-fee flying arrangements) for the periods indicated (dollar amounts in thousands).

	For the six months ended June 30,			
	2015	**2014**	**$ Change**	**% Change**
Aircraft fuel expenses	$ 58,492	$ 105,243	$ (46,751)	(44.4)%
Less: Directly-reimbursed fuel from major partners	19,479	47,111	(27,632)	(58.7)%
Aircraft fuel less fuel reimbursement from major partners	$ 39,013	$ 58,132	(19,119)	(32.9)%

The decrease in fuel cost was primarily due to the decrease in the average fuel cost per gallon in 2015 compared to 2014 and a decrease in the volume in gallons purchased. In the event the major airline partner purchases fuel directly from vendors on flights we operate pursuant to the fixed-fee arrangement, we do not incur the fuel expense. The average fuel cost per gallon was $2.29 and $3.48 for the six months ended June 30, 2015 and 2014, respectively. The following table summarizes the gallons of fuel we purchased directly from fuel vendors and our fuel expense, for the periods indicated:

	For the six months ended June 30,		
(in thousands, except per gallon amounts)	**2015**	**2014**	**% Change**
Fuel gallons purchased	25,524,251	30,239,334	(15.6)%
Fuel expense	$ 58,492	$ 105,243	(44.4)%

Ground handling service. Ground handling service expense decreased $25.2 million, or 36.4%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. Ground handling services includes airport related customer service costs, such as outsourced airport agent service, airport ramp services, airport security fees, and passenger interruption costs. The decrease in ground handling service expense was primarily due to a reduction in the volume of departures and the reduction in the number of locations at which SkyWest Airlines provides ground handling services subsequent to June 30, 2014.

Special charges. During the six months ended June 30, 2014, we initiated the sale of a paint facility we owned in Saltillo, Mexico and we wrote down the value of assets to our estimated net realizable value of the facility. We subsequently sold the facility in 2014 for an amount that approximated our estimated net realizable value as of June 30, 2014.

Other operating expenses. Other operating expenses, primarily consisting of property taxes, hull and liability insurance, crew simulator training, crew per diem, crew hotel costs, landing fees and station rents, decreased $2.4 million, or 1.5%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. Under our fixed-fee flying arrangements, landing fee and station rent expense are directly-reimbursed expenses. The following table summarizes our other operating expenses (less directly-reimbursed landing fees and station under our fixed-fee flying arrangements) for the periods indicated (dollar amounts in thousands).

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	For the six months ended June 30,			
	2015	2014	$ Change	% Change
Other operating expenses	$ 157,028	$ 159,382	$ (2,534)	(1.5)%
Less: Landing fee and station rent reimbursements from major partners	7,063	13,166	(6,103)	(46.4)%
Other operating expenses less landing fee and station rent reimbursements from major partners	$ 149,965	$ 146,216	$ 3,749	2.6%

The increase in other operating expense (less directly reimbursed landing fee and station rent expenses) was primarily related to the additional training costs associated with the 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 $154.0 million, or 9.4%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The following table summarizes our total airline expense less the directly-reimbursed expenses with significant changes impacting comparability for the periods indicated (dollar amounts in thousands).

	For the six months ended June 30,			
	2015	2014	$ Change	% Change
Total airline expense	$ 1,481,353	$ 1,635,304	$ (153,951)	(9.4)%
Less: Directly-reimbursed fuel	19,479	47,111	(27,632)	(58.7)%
Less: Directly-reimbursed engine overhauls	56,882	63,554	(6,672)	(10.5)%
Less: Directly-reimbursed landing fees and station rents	7,063	13,166	(6,103)	(46.4)%
Total airline expense excluding directly reimbursed fuel, landing fee, station rent and engine overhaul reimbursements	$ 1,397,929	$ 1,511,473	$ (113,544)	(7.5)%

Total airline expenses (excluding directly-reimbursed fuel, engine overhaul, landing fees and station rents) decreased $113.5 million, or 7.5%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The decrease was primarily related to the reduction in fleet size and related block hour production of 6.9% during the six months ended June 30, 2015 compared to the six months ended June 30, 2014.

Income taxes, our estimated annual effective tax rate for the six months ended June 30, 2015 varied from the federal statutory rate of 35% primarily due to the provision for state income taxes and the impact of non-deductible crew per diem meal expenses. The income tax provision for the six months ended June 30, 2014 included a valuation allowance of $5.5 million for previously generated state net operating loss benefits specific to ExpressJet that are scheduled to expire before the benefits are expected to be utilized.

Net income (loss). Primarily due to factors described above, we generated net income of $41.1 million, or $0.79 per diluted share, for the six months ended June 30, 2015, compared to a net loss of $37.6 million, or $0.73 per diluted share, for the six months ended June 30, 2014.

Our Business Segments

Three Months Ended June 30, 2015 and 2014

For the three months ended June 30, 2015 and 2014, we had two reportable segments which are the basis of our internal financial reporting: SkyWest Airlines and ExpressJet.

	For the three months ended June 30, (dollar amounts in thousands)			
	2015 Amount	2014 Amount	$ Change Amount	% Change Percent
Operating Revenues:				
SkyWest Airlines Operating Revenue	$ 478,121	$ 475,501	$ 2,620	0.6%
ExpressJet Operating Revenues	305,092	340,599	(35,507)	(10.4)%
Other Operating Revenues	5,204	474	4,730	997.9%
Total Operating Revenues	$ 788,417	$ 816,574	$ (28,157)	(3.4)%
Airline Expenses:				
SkyWest Airlines Airline Expense	$ 427,684	$ 444,212	$ (16,528)	(3.7)%
ExpressJet Airline Expense	308,231	374,634	(66,403)	(17.7)%
Other Airline Expense	651	622	29	4.7%
Total Airline Expense(1)	$ 736,566	$ 819,468	$ (82,902)	(10.1)%
Segment profit (loss):				
SkyWest Airlines segment profit	$ 50,437	$ 31,289	$ 19,148	61.2%
ExpressJet segment loss	(3,139)	(34,035)	30,896	(90.8)%
Other profit	4,553	(148)	4,701	(3,176.4)%
Total Segment profit (loss)	$ 51,851	$ (2,894)	$ 54,745	(1,891.7)%
Interest Income	697	511	186	36.4%
Other		(2,618)	2,618	(100)%
Consolidated Income (Loss) before taxes	$ 52,548	$ (5,001)	$ 57,549	(1150.7)%

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

SkyWest Airlines Segment Profit. SkyWest Airlines segment profit increased $19.1 million, or 61.2%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. SkyWest Airlines block hour production increased to 270,271, or 1.7% for the three months ended June 30, 2015, from 265,762 for the three months ended June 30, 2014 primarily due to the additional block hour production from the new E175 aircraft added subsequent to June 30, 2014, which was partially offset by a reduction in block hour production from removing the EMB120 aircraft type from service during the three months ended June 30, 2015. The increase in the SkyWest Airlines segment profit was due primarily to an increase in SkyWest Airlines Operating Revenues and a decrease in SkyWest Airlines Airline Expenses as set forth below.

SkyWest Airlines Operating Revenues increased by $2.6 million, or 0.6%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The increase was primarily due to our additional E175 operations, improved contract performance incentives, partially offset by a reduction in the EMB120 operations and the loss of Essential Air Service (EAS) subsidy revenue associated with the elimination of our EMB120 pro-rate operations subsequent to June 30, 2014.

SkyWest Airlines Airline Expense decreased by $16.5 million, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The decrease in the SkyWest Airlines Airline Expense was primarily due to the following factors:

- SkyWest Airlines salaries, wages, and benefits increased by $9.3 million, or 6.2% for the three months ended June 30, 2015 compared to the same period of 2014, primarily due to the additional block hour production and crew related training associated with the new E175 aircraft deliveries.

- SkyWest Airlines ground handling service expense decreased $5.9 million, or 28.1%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The decrease in ground handling service expense was primarily due to a reduction in the locations for which SkyWest Airlines provides ground handling services subsequent to June 30, 2014.

- SkyWest Airlines fuel expense (excluding directly reimbursed fuel expense under its fixed-fee arrangements) decreased $11.2 million, or 35.3% compared to the three months ended June 30, 2014. The decrease in fuel cost was primarily due to a decrease in the average fuel cost per gallon in 2015 compared to 2014, partially offset by an increase in the volume of gallons purchased. The average fuel cost per gallon was $2.35 and $3.47 for the three months ended June 30, 2015 and 2014, respectively.

• SkyWest Airlines aircraft maintenance, materials and repairs expense, excluding directly-reimbursed engine overhauls under its fixed-fee arrangements, decreased by $4.4 million, or 6.0%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The decrease was primarily attributable to a decrease in scheduled maintenance events and the replacement and repair of aircraft parts and components.

ExpressJet Segment Loss. ExpressJet segment loss decreased $30.9 million, or 90.8%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. ExpressJet s block hour production decreased to 261,102, or 16.7% for the three months ended June 30, 2015, from 313,310 for the three months ended June 30, 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 Airlines subsequent to June 30, 2014. The reduction in ExpressJet segment loss was due primarily to a decrease in ExpressJet s Airline Expenses, as set forth below.

ExpressJet Operating Revenues decreased by $35.5 million, or 10.4% during the three months ended June 30, 2015 compared to the corresponding period of 2014. The decrease was primarily due to a reduction in scheduled departures in its 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.

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ExpressJet s Airline Expenses decreased $66.4 million, or 17.7%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The decrease in the ExpressJet Airlines Expense was primarily due to the following factors:

- ExpressJet s salaries, wages and benefits decreased $21.5 million, or 13.3%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The decrease was primarily due to a decrease in scheduled production subsequent to June 30, 2014 that resulted from the decrease number of ERJ145 aircraft and CRJ200 aircraft in operation under its United fixed-fee arrangements.

- ExpressJet s aircraft maintenance, materials and repairs expense, excluding directly-reimbursed engine overhauls under its fixed-fee arrangements decreased $9.0 million, or 13.1%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014. The decrease was primarily due to the reduced fleet size and a reduction in the related scheduled production subsequent to June 30, 2014.

- ExpressJet s aircraft rental expenses decreased $7.2 million, or 29.0%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014, primarily due to the termination aircraft leases on CRJ200 aircraft since June 30, 2014.

- ExpressJet s ground handling services expenses decreased $6.3 million, or 55.3%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014, primarily due to a decrease in scheduled production and reduced fleet size.

- ExpressJet s other airline expenses decreased $15.2 million, or 34.6%, during the three months ended June 30, 2015, compared to the three months ended June 30, 2014, primarily due to a decrease in scheduled production subsequent to June 30, 2014.

- The special charge of $4.7 million asset write-down during the three months ended June 30, 2014 associated with the paint facility ExpressJet owned in Saltillo, Mexico was reflected in the ExpressJet other airline expense segment.

Six Months Ended June 30, 2015 and 2014

For the six months ended June 30, 2015 and 2014, we had two reportable segments which are the basis of our internal financial reporting: SkyWest Airlines and ExpressJet.

	For the six months ended June 30, (dollar amounts in thousands)			
	2015 Amount	2014 Amount	$ Change Amount	% Change Percent
Operating Revenues:				
SkyWest Airlines Operating Revenue	$ 926,191	$ 922,543	$ 3,648	0.4%
ExpressJet Operating Revenues	613,649	665,469	(51,820)	(7.8)%
Other Operating Revenues	8,975	948	8,027	846.7%
Total Operating Revenues	$ 1,548,815	$ 1,588,960	$ (40,145)	(2.5)%
Airline Expenses:				
SkyWest Airlines Expense	$ 847,729	$ 879,880	$ (32,151)	(3.7)%
ExpressJet Expense	631,921	753,935	(122,014)	(16.2)%
Other Airline Expense	1,703	1,489	214	14.4%
Total Airline Expense(1)	$ 1,481,353	$ 1,635,304	$ (153,951)	(9.4)%
Segment profit (loss):				
SkyWest Airlines segment profit	$ 78,462	$ 42,663	$ 35,799	83.9%
ExpressJet segment loss	(18,272)	(88,466)	70,194	(79.3)%
Other profit	7,272	(541)	7,813	(1,444.2)%
Total Segment profit (loss)	$ 67,462	$ (46,344)	$ 113,806	(245.6)%
Interest Income	1,336	1,060	276	26.0%
Other		(2,891)	2,891	(100.0)%
Consolidated Income (Loss) before taxes	$ 68,798	$ (48,175)	$ 116,973	(242.8)%

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

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SkyWest Airlines Segment Profit. SkyWest Airlines segment profit increased $35.8 million, or 83.9%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. SkyWest Airlines block hour production increased to 525,667, or 1.4% for the six months ended June 30, 2015 from 518,184 for the six months ended June 30, 2014 primarily due to the additional block hour production from the new E175 aircraft added subsequent to June 30, 2014, partially offset by a reduction in block hour production from removing the EMB120 aircraft type from service. The increase in the SkyWest Airlines segment profit was primarily due to an increase in SkyWest Airlines Operating Revenues and a decrease in SkyWest Airlines Airline Expenses, as set forth below.

SkyWest Airlines Operating Revenues increased by $3.7 million, or 0.4%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The increase was primarily due to the additional E175 operations, improved contract performance incentives, which was partially offset by a reduction in EMB120 operations and EAS subsidy revenue from the reduction in EMB120 pro-rate operations subsequent to June 30, 2014.

SkyWest Airlines Airline Expense decreased by $32.2 million, or 3.7% during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The decrease in the SkyWest Airlines Airline Expense was primarily due to the following factors:

- SkyWest Airlines salaries, wages, and benefits increased by $13.8 million, or 4.6% for the six months ended June 30, 2015 compared to the corresponding period of 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 $12.5 million, or 26.6%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The decrease in ground handling service expense was primarily due to a reduction in the locations at which SkyWest Airlines provides ground handling services subsequent to June 30, 2014.

- SkyWest Airlines fuel expense (excluding directly reimbursed fuel expense under its fixed-fee arrangements) decreased $18.0 million, or 32.0% compared to the six months ended June 30, 2014. The decrease in fuel cost was primarily due to a decrease in the average fuel cost per gallon in 2015 compared to 2014, which was partially offset by an increase in the volume of gallons purchased. The average fuel cost per gallon was $2.29 and $3.48 for the six months ended June 30, 2015 and 2014, respectively.

- SkyWest Airlines aircraft maintenance, materials and repairs expense (excluding directly-reimbursed engine overhauls under its fixed-fee arrangements) decreased by $9.5 million, or 6.7%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The decrease was primarily attributable to a decrease in scheduled maintenance events and the replacement and repair of aircraft parts and components.

ExpressJet Segment Loss. ExpressJet segment loss decreased $70.2 million, or 79.3%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. ExpressJet s block hour production decreased to 522,480, or 14.0% for the six months ended June 30, 2015 from 607,701 for the six months ended June 30, 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 Airlines subsequent to June 30, 2014. The reduction in ExpressJet segment loss was primarily due to a decrease in ExpressJet s Airline Expense, as set forth below:

ExpressJet Operating Revenues decreased by $51.8 million during the six months ended June 30, 2015 compared to the same period of 2014. The decrease was primarily due to a reduction a decrease in scheduled departures in its 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 $122.0 million, or 16.2%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The decrease in the ExpressJet Airlines Expense was primarily due to the following factors:

- ExpressJet s salaries, wages and benefits decreased $40.9 million, or 12.3%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The decrease was primarily due to a decrease in scheduled production subsequent to June 30, 2014 that resulted from the decrease number of ERJ145 and CRJ200 aircraft in operation under its United fixed-fee arrangements.

- ExpressJet s aircraft maintenance, materials and repairs expense, excluding directly-reimbursed engine overhauls under its fixed-fee arrangements decreased $20.9 million, or 10.8%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The decrease was primarily due to the reduced fleet size and related production subsequent to June 30, 2014.

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• ExpressJet s other airline expenses decreased $21.4 million, or 26.9%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014, primarily due to a decrease in scheduled production subsequent to June 30, 2014.

• The special charge of $4.7 million asset write-down during the six months ended June 30, 2014 associated with the paint facility ExpressJet owned in Saltillo, Mexico was reflected in the ExpressJet other airline expense segment.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash Position and Liquidity. The following table provides a summary of the net cash provided by (used in) our operating, investing and financing activities for the six months ended June 30, 2015 and 2014, and our total cash and marketable securities positions as of June 30, 2015 and December 31, 2014 (in thousands).

	For the six months ended June 30,			
	2015	2014	$ Change	% Change
Net cash provided by operating activities	$ 168,807	$ 32,489	$ 136,318	419.6%
Net cash used in investing activities	(427,152)	(220,621)	(206,531)	93.6%
Net cash provided by financing activities	297,235	87,287	209,948	240.5%

	June 30, 2015	December 31, 2014	$ Change	% Change
Cash and cash equivalents	$ 171,165	$ 132,275	$ 38,890	29.4%
Restricted cash	11,584	11,582	2	0.0%
Marketable securities	322,050	415,273	(93,223)	(22.4)%
Total	$ 504,799	$ 559,130	$ (54,331)	(9.7)%

Cash Flows from Operating Activities.

Net cash provided by operating activities increased $136.3 million, or 419.6%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The increase was primarily due to our income before income taxes of $68.8 million for the six months ended June 30, 2015, compared to our loss before income taxes of $48.2 million for the six months ended June 30, 2014, representing a change in income before income taxes of $117.0 million for the comparable periods. The remaining increase was primarily due to changes in working capital account balances from December 31, 2014 to June 30, 2015 compared to the same periods in 2014.

Cash Flows used in Investing Activities.

Net cash used in investing activities increased $206.5 million, or 93.6%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The increase in cash used in investing activities was primarily due to the acquisition of eighteen E175 aircraft and related rotable spare assets, which represented an increase of $205.6 million during the six months ended June 30, 2015 compared to the acquisition of eight E175 aircraft during the six months ended June 30, 2014. However, during the six months ended June 30, 2015, net sales of marketable securities provided $9.0 million less compared to the six months ended June 30, 2014. The remaining increase in cash flows from investing activities was primarily related to cash used for purchases of additional ground equipment and other investing activities.

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Cash Flows provided by Financing Activities.

Net cash provided by financing activities increased $209.9 million or 240.5%, during the six months ended June 30, 2015, compared to the six months ended June 30, 2014. The increase was primarily related to proceeds from the issuance of long-term debt of $407.6 million associated with 18 E175 aircraft acquired and the issuance of $25.0 million in a term loan during the six months ended June 30, 2015, compared to the proceeds from issuance of debt of $187.4 million associated with eight E175 aircraft acquired during the six months ended June 30, 2014. During the six months ended June 30, 2015, we used an additional $26.0 million as principal payments on long-term debt due to the additional E175 aircraft acquired after June 30, 2014. Additionally, during the six months ended June 30, 2015, we used $18.7 million to purchase treasury shares compared to $8.4 million during the six months ended June 30, 2014.

Liquidity and Capital Resources

We believe that in the absence of unusual circumstances, the working capital currently available to us 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 June 30, 2015, our total capital mix was 44.1% equity and 55.9% long-term debt, compared to 47.7% equity and 52.3% long-term debt at December 31, 2014.

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	**July Dec 2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**
Operating lease payments for aircraft and facility obligations	$ 1,332,816	131,544	$ 268,307	$ 201,693	$ 157,203	$ 120,257	$ 453,812
Firm aircraft commitments	564,526	495,159	69,367				
Interest commitments(A)	411,981	39,649	72,539	63,222	54,420	46,227	135,924
Principal maturities on long term debt	2,064,177	131,245	266,407	242,355	222,219	213,142	988,809
Total commitments and obligations	$ 4,373,500	797,597	$ 676,620	$ 507,270	$ 433,842	$ 379,626	$ 1,578,545

(A) At June 30, 2015, we had variable rate notes representing 14.3% 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 100 new E175 aircraft. Of the 100 aircraft, 55 are considered firm deliveries and the remaining 45 aircraft are considered conditional until we enter into capacity purchase agreements with other major airlines to operate the aircraft. As of June 30, 2015, we had taken delivery of 38 E175s. We anticipate that we will take delivery of the remaining E175s covered by the firm order through October 2016.

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 a combination of operating leases and debt financing, consistent with our historical practices. 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, without materially reducing the amount of working capital available for our operating activities.

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Aircraft Lease and Facility Obligations

We also have significant long-term lease obligations primarily relating to our aircraft fleet. At June 30, 2015, we had 510 aircraft under lease with remaining terms ranging from one to 13 years. Future minimum lease payments due under all long-term operating leases were approximately $1.3 billion at June 30, 2015. Assuming a 4.8% 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 $1.1 billion at June 30, 2015.

Long-term Debt Obligations

As of June 30, 2015, we had $2.1 billion of long-term debt obligations related to the acquisition of CRJ200s, CRJ700s, Bombardier CRJ900 Regional Jets, E175 aircraft and spare engine financings. The average effective interest rate on the debt related to such aircraft and spare engine financings was approximately 3.9% at June 30, 2015.

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 ERJ Agreement.

Seasonality

Our results of operations for any interim period are not necessarily indicative of those for an entire year, since the airline industry is subject to seasonal fluctuations and general economic conditions. Our operations are somewhat favorably affected by increased travel on our pro-rate routes, historically occurring during the summer months, and unfavorably affected by decreased travel during the months November through February and by inclement weather, which may occasionally or frequently, depending on the severity of the inclement weather in any given winter, result in cancelled flights during the winter months.

ITEM 3: 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, Alaska, American and US Airways 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 pro-rate operations. For the six months ended June 30, 2015, approximately 3.7% of our ASMs were flown under pro-rate arrangements. For illustrative purposes only, we have estimated the impact of the market risk of fuel on our pro-rate 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 $9.8 million in fuel expense for the six months ended June 30, 2015.

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 receive 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 June 30, 2015, we had variable rate notes representing 14.3% of our total long-term debt compared to 41.3% of our long-term debt at December 31, 2014. 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 $0.8 million in interest expense and received $1.3 million in additional interest income for the three months ended June 30, 2015. For the six months ended June 30, 2015, we would have incurred an additional $2.2 million in interest expense and received $2.6 million in additional interest income. However, under our contractual arrangements with our major partners, the majority of the increase in interest expense would be passed through and recorded as passenger revenue in our consolidated statements of operations and comprehensive loss. Also for illustrative purposes only, we have estimated the impact of a hypothetical decrease in interest rates of one percentage point for both variable rate long-term debt and cash and securities. Based upon this hypothetical example, we would have recognized $0.8 million less in interest expense and received $1.3 million less in interest income for the three months ended June 30, 2015. For the six months ended June 30, 2015, we would have recognized $2.2 million less in interest expense and received $2.6 million less in interest income. If interest rates were to decline, our major partners would receive the principal benefit of the decline, since interest expense is

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generally passed through to our major partners, resulting in a reduction to passenger revenue in our consolidated statement of operations and comprehensive loss.

We currently intend to finance the acquisition of aircraft through manufacturer financing, third-party leases or long-term borrowings. Changes in interest rates may impact the actual cost to us to acquire these aircraft. To the extent we place these aircraft in service under our code-share agreements with Delta, United, or other carriers, our code-share agreements currently provide that reimbursement rates will be adjusted higher or lower to reflect changes in our aircraft rental rates.

Auction Rate Securities

We have investments in auction rate securities, which are classified as available for sale securities and reflected at fair value. As of June 30, 2015, we had investments in auction rate securities valued at a total of $2.3 million which were classified as Other Assets on our consolidated balance sheet.

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ITEM 4. 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 Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Our management, including our Chief Executive Officer and Chief Financial Officer, concluded that, as of June 30, 2015, 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 six months ended June 30, 2015, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to certain legal actions which we consider routine to our business activities. As of June 30, 2015, 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 1A. RISK FACTORS

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014 other than the following risk factor:

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 Delta, United and US Airways, we have a total of 66 CRJ700s and CRJ900s with various flying contract expirations through the end of 2016. Our underlying lease or debt financing obligations associated with these aircraft are scheduled to terminate between 2018 and 2024 on an aircraft-by-aircraft basis. We may not be successful in extending the flying contract terms on these aircraft with our major partners 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. In the event we are unable to extend the flying contract terms at similar or improved economics for these aircraft upon each respective contract s expiration, or if we pursue alternative uses for these aircraft that result in reduced economics than our current flying contracts, we may have non-cash and cash special charges, direct transition costs such as livery changes, and other related costs that could adversely affect our financial results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Our Board of Directors has adopted a stock repurchase program which authorizes us to repurchase shares of our common stock in the public market, from time to time, at prevailing prices. Our stock repurchase program currently authorizes the repurchase of up to 25,000,000 shares of our common stock. The following table summarizes our purchases under our stock repurchase program for the three months ended June 30, 2015.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program(1)	Maximum Number of Shares that May Yet Be Purchased Under the Program
May 1 - May 31, 2015	398,744	$ 15.82	398,744	6,679,926
June 1 June 30, 2015	851,256	14.56	851,256	5,828,670
Total	1,250,000	$ 14.96	1,250,000	5,828,670

(1) Under resolutions adopted at various dates between February 2007 and August 2012, our Board of Directors authorized the repurchase of up to 25,000,000 shares of our common stock. Purchases are made at management s discretion based on market conditions and our financial resources. As of June 30, 2015, we had spent approximately $347.1 million to repurchase approximately 19,171,330 shares of the 25,000,000 shares of common stock designated for repurchase by our Board of Directors. The authorization of our Board of Directors does not have an expiration date. Effective May 5, 2015, our Board of Directors authorized the repurchase of an additional 1,250,000 shares of common stock from time to time in open market or privately negotiated transactions, as contemplated by Rule 10b-18 under the Securities and Exchange Commission Act of 1934, as amended. As of June 30, 2015, we spent $18.7 million to repurchase the 1,250,000 common shares authorized by our Board of Directors in May 2015.

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ITEM 6: EXHIBITS

31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Certification of Chief Executive Officer
32.2	Certification of Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, to be signed on its behalf by the undersigned, thereunto duly authorized, on August 5, 2015

SKYWEST, INC.

By	/s/ Robert J. Simmons Robert J. Simmons Chief Financial Officer