

ERICKSON INC.  
Form 10-Q  
August 07, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2014.**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission File Number 001-35482**

**ERICKSON INCORPORATED**

**(Exact name of registrant as specified in its charter)**

|   |  |
|---|--|
| <b>Delaware</b><br><b>(State or other jurisdiction of<br/>incorporation or organization)</b>                            | <b>93-1307561</b><br><b>(I.R.S. Employer<br/>Identification No.)</b> |
| <b>5550 SW Macadam Avenue, Suite 200,</b><br><b>Portland, Oregon</b><br><b>(Address of principal executive offices)</b> | <b>97239</b><br><b>(Zip Code)</b>                                    |
| <b>(503) 505-5800</b>   |  |

**(Registrant's telephone number, including area code)**

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

| <b>Title of each class</b>              | <b>Name of each exchange on which registered</b> |
|---|--|
| <b>Common Stock, \$0.0001 par value</b> | <b>The NASDAQ Stock Market LLC</b>               |

**Securities registered pursuant to Section 12(g) of the Act:**

N/A

**(Title of each class)**

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

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

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

|  |   |
|--|---|
| Large accelerated filer <input type="checkbox"/>   | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/>    |

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

On July 28, 2014, 13,802,212 shares of common stock, par value \$0.0001, were outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ERICKSON INCORPORATED AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

(Unaudited)

|  | <b>June 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|--|--------------------------|------------------------------|
| <b>Assets</b>  |                          |                              |
| Current assets:  |                          |                              |
| Cash and cash equivalents  | \$ 2,444                 | \$ 1,881                     |
| Restricted cash  | 1,067                    | 2,883                        |
| Accounts receivable, net of allowances for doubtful accounts of \$673 and \$991 in 2014 and 2013, respectively | 63,851                   | 65,987                       |
| Prepaid expenses and other current assets  | 4,286                    | 3,360                        |
| Income tax receivable  | 164                      | 135                          |
| Deferred tax assets  | 2,116                    | 3,715                        |
| <b>Total current assets</b>  | <b>73,928</b>            | <b>77,961</b>                |
| Aircraft support parts, net  | 139,420                  | 126,696                      |
| Aircraft, net  | 127,482                  | 127,179                      |
| Property, plant and equipment, net   | 117,550                  | 109,382                      |
| Goodwill   | 214,681                  | 234,978                      |
| Other intangible assets, net   | 21,263                   | 22,484                       |
| Deferred tax assets, non-current   | 1,579                    |                              |
| Other non-current assets   | 25,621                   | 28,625                       |
| <b>Total assets</b>  | <b>\$ 721,524</b>        | <b>\$ 727,305</b>            |
| <b>Liabilities and stockholders equity</b>   |                          |                              |
| Current liabilities:   |                          |                              |
| Accounts payable   | \$ 29,762                | \$ 29,035                    |
| Accrued and other current liabilities  | 29,115                   | 41,233                       |
| Income tax payable   | 548                      | 621                          |
| <b>Total current liabilities</b>   | <b>59,425</b>            | <b>70,889</b>                |
| Long-term debt   | 16,684                   | 16,160                       |

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|  |                   |                   |
|--|-------------------|-------------------|
| Long-term revolving credit facilities  | 102,094           | 68,086            |
| Long-term notes payable  | 355,000           | 355,000           |
| Other long-term liabilities  | 13,055            | 1,819             |
| Uncertain tax positions  | 5,669             | 5,669             |
| Deferred tax liabilities   |                   | 16,775            |
| <b>Total liabilities</b>   | <b>551,927</b>    | <b>534,398</b>    |
| <b>Stockholders' equity:</b>   |                   |                   |
| Common stock; \$0.0001 par value; 110,000,000 shares authorized; 13,802,212 and 13,787,914 issued and outstanding at June 30, 2014 and December 31, 2013, respectively | 1                 | 1                 |
| Additional paid-in capital   | 180,598           | 179,954           |
| Retained earnings (deficit)  | (12,599)          | 12,104            |
| Accumulated other comprehensive income (loss), net of tax  | 777               | (42)              |
| <b>Total stockholders' equity attributable to Erickson Incorporated</b>  | <b>168,777</b>    | <b>192,017</b>    |
| <b>Noncontrolling interest</b>   | <b>820</b>        | <b>890</b>        |
| <b>Total stockholders' equity</b>  | <b>169,597</b>    | <b>192,907</b>    |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 721,524</b> | <b>\$ 727,305</b> |

*The accompanying notes are an integral part of these consolidated financial statements*

Table of Contents**ERICKSON INCORPORATED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(in thousands, except share and per share data)****(Unaudited)**

|  | <b>Three<br/>Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Six<br/>Months<br/>Ended<br/>June 30,<br/>2013</b> |
|--|---|---|---|---|
| Net revenues:  | \$ 80,885   | \$ 68,590   | \$ 155,069  | \$ 105,530  |
| Cost of revenues   | 67,156  | 51,100  | 133,060   | 78,767  |
| Gross profit   | 13,729  | 17,490  | 22,009  | 26,763  |
| Operating expenses:  |   |   |   |   |
| General and administrative                                 | 6,994   | 10,112  | 13,791  | 16,423  |
| Research and development                                   | 738   | 1,005   | 2,056   | 1,918   |
| Selling and marketing                                      | 2,155   | 1,476   | 5,143   | 3,865   |
| Impairment of goodwill                                     | 21,272  |   | 21,272  |   |
| Total operating expenses                                   | 31,159  | 12,593  | 42,262  | 22,206  |
| Operating income (loss)                                    | (17,430)  | 4,897   | (20,253)  | 4,557   |
| Other income (expense):                                    |   |   |   |   |
| Interest expense, net                                      | (9,111)   | (6,495)   | (17,864)  | (7,851)   |
| Interest expense related to tax contingencies              |   | (311)   |   | (311)   |
| Amortization of debt issuance costs                        | (593)   | (465)   | (1,214)   | (787)   |
| Unrealized foreign exchange gain (loss)                    | 27  | (66)  | 244   | 140   |
| Loss on early extinguishment of debt                       |   | (215)   |   | (215)   |
| Realized foreign exchange gain (loss)                      | 15  | (113)   | (42)  | (150)   |
| Gain on disposal of equipment                              | 61  | 21  | 191   | 21  |
| Other expense, net   | (353)   | (81)  | (541)   | (362)   |
| Total other income (expense)                               | (9,954)   | (7,725)   | (19,226)  | (9,515)   |
| Net loss before income taxes and noncontrolling interest   | (27,384)  | (2,828)   | (39,479)  | (4,958)   |
| Income tax benefit   | (10,222)  | (1,031)   | (14,792)  | (2,167)   |
| Net loss   | (17,162)  | (1,797)   | (24,687)  | (2,791)   |
| Less: Net (income) loss related to noncontrolling interest | 53  | (155)   | (16)  | (378)   |

|  |             |            |             |            |
|--|-------------|------------|-------------|------------|
| Net loss attributable to Erickson Incorporated and common stockholders | \$ (17,109) | \$ (1,952) | \$ (24,703) | \$ (3,169) |
| Net loss   | \$ (17,162) | \$ (1,797) | \$ (24,687) | \$ (2,791) |
| Other comprehensive income (loss):                                     |             |            |             |            |
| Foreign currency translation adjustment                                | 476         | (56)       | 806         | (185)      |
| Comprehensive loss   | (16,686)    | (1,853)    | (23,881)    | (2,976)    |
| Comprehensive (income) loss attributable to noncontrolling interest    | 66          | (181)      | (3)         | (361)      |
| Comprehensive loss attributable to Erickson Incorporated               | \$ (16,620) | \$ (2,034) | \$ (23,884) | \$ (3,337) |
| Net loss per share attributable to common stockholders                 |             |            |             |            |
| Basic  | \$ (1.24)   | \$ (0.20)  | \$ (1.79)   | \$ (0.33)  |
| Diluted  | \$ (1.24)   | \$ (0.20)  | \$ (1.79)   | \$ (0.33)  |
| Weighted average shares outstanding                                    |             |            |             |            |
| Basic  | 13,799,501  | 9,759,758  | 13,794,491  | 9,743,532  |
| Diluted  | 13,799,501  | 9,759,758  | 13,794,491  | 9,743.532  |

*The accompanying notes are an integral part of these consolidated financial statements*

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## ERICKSON INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS EQUITY

(In thousands, except share and per share data)

(Unaudited)

|  | Preferred Stock |          | Common Stock |        | Additional Paid-in Capital | Retained Earnings (Accumulated Deficit) | Other Comprehensive Income (Loss) | Total Stockholders Equity (Deficit) |                            | Total Stockholders Equity |
|--|-----------------|----------|--------------|--------|----------------------------|---|-----------------------------------|-------------------------------------|----------------------------|---------------------------|
|  | Shares          | Amount   | Shares       | Amount |                            |   |                                   | Of Erickson Incorporated            | Of Noncontrolling Interest |                           |
| <b>Balance at December 31, 2012</b>                    |                 |          | 9,726,785    | 1      | 101,833                    | 2,447                                   | 71                                | 104,352                             | 1,016                      | 105,368                   |
| Issuance of Series A Preferred Stock                   | 4,008,439       | 78,044   |              |        |                            |   |                                   |                                     |                            |                           |
| Noncontrolling interest dividend                       |                 |          |              |        |                            |   |                                   |                                     | (341)                      | (341)                     |
| Issuance of Restricted Stock Units                     |                 |          | 87,634       |        |                            |   |                                   |                                     |                            |                           |
| Stock-based compensation                               |                 |          |              |        | 792                        |   |                                   | 792                                 |                            | 792                       |
| Conversion of Series A Preferred Stock to Common Stock | (4,008,439)     | (78,044) | 4,008,439    |        | 78,044                     |   |                                   | 78,044                              |                            | 78,044                    |
| Shares withheld for payment of taxes                   |                 |          | (34,944)     |        | (715)                      |   |                                   | (715)                               |                            | (715)                     |
| Components of comprehensive income (loss):             |                 |          |              |        |                            |   |                                   |                                     |                            |                           |
| Net income (loss)                                      |                 |          |              |        |                            | 9,657                                   | (113)                             | 9,657                               | 209                        | 9,866                     |
|  |                 |          |              |        |                            |   | (113)                             | (113)                               | 6                          | (107)                     |

|  |    |            |      |            |             |         |            |        |            |
|--|----|------------|------|------------|-------------|---------|------------|--------|------------|
| Foreign<br>currency<br>translation               |    |            |      |            |             |         |            |        |            |
| Comprehensive<br>income (loss)                   |    |            |      |            |             |         |            |        | 9,759      |
| <b>Balance at<br/>December 31,<br/>2013</b>      | \$ | 13,787,914 | \$ 1 | \$ 179,954 | \$ 12,104   | \$ (42) | \$ 192,017 | \$ 890 | \$ 192,907 |
| Issuance of<br>Restricted<br>Stock Units         |    | 23,022     |      |            |             |         |            |        |            |
| Noncontrolling<br>interest<br>dividend           |    |            |      |            |             |         |            | (73)   | (73)       |
| Stock-based<br>compensation                      |    |            |      | 396        |             |         | 396        |        | 396        |
| Shares<br>withheld for<br>payment of<br>taxes    |    | (8,724)    |      | (166)      |             |         | (166)      |        | (166)      |
| Proceeds from<br>shareholder, net                |    |            |      | 414        |             |         | 414        |        | 414        |
| Components of<br>comprehensive<br>income (loss): |    |            |      |            |             |         |            |        |            |
| Net income<br>(loss)                             |    |            |      |            | (24,703)    |         | (24,703)   | 16     | (24,687)   |
| Foreign<br>currency<br>translation               |    |            |      |            |             | 819     | 819        | (13)   | 806        |
| Comprehensive<br>loss                            |    |            |      |            |             |         |            |        | (23,881)   |
| <b>Balance at<br/>June 30, 2014</b>              | \$ | 13,802,212 | \$ 1 | \$ 180,598 | \$ (12,599) | \$ 777  | \$ 168,777 | \$ 820 | \$ 169,597 |

*The accompanying notes are an integral part of these consolidated financial statements*

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**ERICKSON INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(Unaudited)

|  | <b>Three Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Six<br/>Months<br/>Ended<br/>June 30,<br/>2013</b> |
|--|---|---|---|---|
| <b>Cash flows from operating activities:</b>                                   |   |   |   |   |
| Net loss   | \$ (17,162)   | \$ (1,797)  | \$ (24,687)                                       | \$ (2,791)  |
| <b>Adjustments to reconcile loss to net cash used in operating activities:</b> |   |   |   |   |
| Depreciation and amortization  | 8,981   | 8,474   | 16,934  | 13,874  |
| Impairment of goodwill   | 21,272  |   | 21,272  |   |
| Deferred income taxes  | (12,756)  | (2,262)   | (16,740)  | (3,795)   |
| Non-cash interest expense on debt  | 486   | 540   | 523   | 1,197   |
| Non-cash interest on tax contingencies   |   | 311   |   | 311   |
| Non-cash interest income on loans  |   | (41)  |   | (41)  |
| Write-off of debt issuance costs related to the early extinguishment of debt   |   | 215   |   | 215   |
| Stock-based compensation   | 236   | 232   | 396   | 411   |
| Amortization of debt issuance costs  | 593   | 465   | 1,214   | 787   |
| Gain on sale of equipment  | (61)  | (21)  | (191)   | (21)  |
| <b>Changes in operating assets and liabilities:</b>                            |   |   |   |   |
| Accounts receivable  | (12,306)  | (7,431)   | 1,570   | (13,683)  |
| Prepaid expenses and other current assets                                      | (307)   | 31  | (906)   | (1,638)   |
| Income tax receivable, net   | 788   | (452)   | 946   | (315)   |
| Aircraft support parts, net  | (4,851)   | (11,521)  | (12,715)  | (13,194)  |
| Other non-current assets   | 1,581   | (2,681)   | 3,126   | (2,681)   |
| Accounts payable   | (1,264)   | (25,160)  | 731   | (25,476)  |
| Accrued and other current liabilities  | (12,298)  | 1,337   | (16,341)  | 6,010   |
| Income tax payable   | 717   | 841   | 717   | 1,231   |
| Other long-term liabilities  | 264   | 1,552   | 558   | 1,552   |
| Net cash used in operating activities  | (26,087)  | (37,368)  | (23,593)  | (38,047)  |
| <b>Cash flows from investing activities:</b>                                   |   |   |   |   |
| Acquisition of businesses, net of cash acquired (see Note 6)                   |   | (208,870)   |   | (208,870)   |
| Purchases of aircraft and property, plant and equipment                        | (19,655)  | (16,100)  | (37,138)  | (24,633)  |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Proceeds from sale-leaseback of aircraft                               | 24,660    |           | 24,660    |           |
| Restricted cash  | 1,567     | (44,960)  | 1,767     | (45,011)  |
| Decrease in other assets   |           |           |           | (35)      |
| Dividends paid to non-controlling interest                             | (73)      | (341)     | (73)      | (341)     |
| Net cash provided by (used in) investing activities                    | 6,499     | (270,271) | (10,784)  | (278,890) |
| Cash flows from financing activities:                                  |           |           |           |           |
| Proceeds from shareholders, net  |           |           | 414       |           |
| Repayments of subordinated notes                                       |           | (27,572)  |           | (27,572)  |
| Repayments of credit facilities  | (54,723)  | (125,147) | (79,123)  | (184,417) |
| Borrowings from credit facilities                                      | 73,264    | 79,263    | 113,131   | 147,853   |
| Borrowing of notes   |           | 400,000   |           | 400,000   |
| Debt issuance costs  | (37)      | (13,777)  | (267)     | (13,976)  |
| Shares withheld for payment of taxes                                   | (166)     | (613)     | (166)     | (613)     |
| Net cash provided by financing activities                              | 18,338    | 312,154   | 33,989    | 321,275   |
| Effect of foreign currency exchange rates on cash and cash equivalents | 484       | (16)      | 951       | 15        |
| Net increase (decrease) in cash and cash equivalents                   | (766)     | 4,499     | 563       | 4,353     |
| Cash and cash equivalents at beginning of period                       | 3,210     | 1,322     | 1,881     | 1,468     |
| Cash and cash equivalents at end of period                             | \$ 2,444  | \$ 5,821  | \$ 2,444  | \$ 5,821  |
| Supplemental disclosure of cash flow information:                      |           |           |           |           |
| Cash paid for interest   | \$ 16,267 | \$ 9,090  | \$ 17,536 | \$ 9,848  |
| Cash paid for income taxes, net  | \$ 375    | \$ 550    | \$ 861    | \$ 445    |

*The accompanying notes are an integral part of these financial statements*

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The consolidated financial statements include the accounts of Erickson Incorporated ( EAC ) and its subsidiaries and affiliated companies: EAC Acquisition Corporation ( EAC Acq. ), Erickson Helicopters, Inc. and its subsidiaries ( EHI , formerly known as Evergreen Helicopters, Inc.), CAC Development Ltd. ( Canada ), Canadian Air-Crane Ltd. ( CAC ), Erickson Air-Crane Malaysia Sdn. Bhd. ( EACM ), European Air-Crane S.p.A. ( EuAC ), Air Amazonia Serviços Aeronáuticos Ltda. ( Air Amazonia ), Dutch Air-Crane B.V. ( DAC ), and Erickson Aviation Peru S.A.C. ( Peru ) (collectively referred to as the Company ). EuAC owns a 60% equity interest in Societa Italiana de Manutenzioni Aeroautiche S.p.A. ( SIMA ), which is an aircraft maintenance organization located in Lucca, Italy; and EACM owns a 49% equity interest in Layang-Layang Services Sdn. Bhd., which provides aircraft rental services in Malaysia.

As of June 30, 2014, the Company owned a fleet of 19 heavy lift helicopters, comprised of 13 S-64E and six S-64F model Aircranes, and 38 medium and light lift aircraft of varying model types, comprised of 30 rotor wing aircraft and eight fixed-wing aircraft. As of June 30, 2014, the Company leased a fleet of one heavy lift, 32 medium and light lift aircraft of varying types, comprised of 27 rotary wing aircraft and five fixed-wing aircraft. The Company's fleet operations span the globe with a presence on six continents. As of June 30, 2014, 22 of the owned aircraft and 20 of the leased aircraft were deployed outside of North America.

The Company owns the Type Certificate and Production Certificate for the S-64 Airplane which gives it the authorization to convert and remanufacture the S-64 Airplane for its own use or to sell to third parties. The Company holds a Type Certificate issued by the European Aviation Safety Agency ( EASA ) certifying the S-64F model which allows the Airplane to be sold to third parties in the European Union. The Company holds a Repair Station Certificate which allows the Company to repair and overhaul airframes and components for Airplanes and certain other aircraft, and the Company owns the Type Certificate for engines used in the S-64 Airplane.

*Fiscal 2014*

On April 1, 2014, the Company completed a rebranding initiative which included the following changes in legal names of entities: Erickson Air-Crane, Incorporated became Erickson Incorporated, Evergreen Helicopters, Inc. became Erickson Helicopters, Inc., and Evergreen Helicopters of Alaska, Inc. became Erickson Transport, Inc.

*Fiscal 2013*

On May 2, 2013, the Company closed its \$400.0 million aggregate principal note offering of 8.25% second priority senior secured obligations due 2020 (the 2020 Senior Notes ). Net proceeds from the offering were approximately \$386.4 million after deducting the initial purchasers' commissions and estimated transaction fees and expenses. The Company used the net proceeds of the offering to (i) finance a portion of the purchase price for the EHI acquisition (see Note 6 Acquisitions ), (ii) refinance its 2015 Subordinated Notes and 2016 Subordinated Notes, (iii) refinance its prior senior secured asset-based revolving credit facility, comprised of the Term Debt and Revolving Line of Credit, (iv) pay related fees and expenses and (v) record the remaining cash to the balance sheet. A total of \$46.0 million of the net proceeds were deposited in escrow on May 2, 2013, consisting of \$45.0 million of aggregate principal and \$1.0 million related to anticipated interest, to be used toward the acquisition of Air Amazonia, the aerial services business

of Brazil-based HRT Participações em Petróleo, S.A. ( HRT ). These proceeds of the offering were not released from escrow to consummate the Air Amazonia acquisition before July 31, 2013, and as a result, pursuant to the terms of the 2020 Senior Notes, an aggregate principal amount of Notes equal to \$45.0 million were redeemed, on a pro rata basis, on August 5, 2013 pursuant to a special mandatory redemption, at a price equal to 100% of the principal amount of the 2020 Senior Notes being redeemed, plus accrued and unpaid interest to, but not including, August 5, 2013. The Company completed the acquisition of Air Amazonia on September 3, 2013, funding the purchase price with borrowings from its senior secured asset-based credit facility also entered into on May 2, 2013 (the Revolving Credit Facility ). See Note 6 Acquisitions for further information.

On May 2, 2013, the Company completed its acquisition of EHI, based in McMinnville, Oregon, and prior to the acquisition, a wholly owned subsidiary of Evergreen International Aviation, Inc. ( EIA ). EHI operated a fleet that consisted of 63 aircraft as of May 2, 2013, which included varying rotary-wing and fixed-wing types for a wide range of passenger transport and light, medium and heavy load-carrying missions. This diverse fleet serves both government and commercial customers, including programs with the U.S. military in support of overseas operations. EHI maintains a global presence with operations in North America, the Middle East, Africa, and Asia-Pacific (see Note 6 Acquisitions ).

On September 3, 2013, the Company completed its acquisition of Air Amazonia, which included a fleet of six rotor wing aircraft and ground facilities. This fleet serves oil and gas activities in the Solimoes region of Brazil. In addition to the acquired fleet, the Company also has the right of first refusal to purchase any or all of HRT's remaining 8 aircraft over the 12 months from the closing date of the acquisition and the right of first refusal on all helicopter services in the Solimoes region of Brazil from HRT as operator, as well as on all helicopter services in all of Brazil (including offshore) from HRT (see Note 6 Acquisitions ).

## **Note 2. Basis of Presentation**

The accompanying unaudited consolidated financial statements include the accounts and transactions of all majority owned subsidiaries and variable interest entities in which the Company is the primary beneficiary. In presenting these unaudited consolidated financial statements, management makes estimates and assumptions that affect reported amounts of assets and liabilities and related disclosures, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting periods. Estimates, by their nature, are based on judgments and available information at a point in time. As such, actual results could differ from those estimates. In management's opinion, the unaudited consolidated financial statements contain all normal recurring adjustments necessary for a fair presentation of interim results reported.

All intercompany accounts and transactions have been eliminated in consolidation.

The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and following the guidance of Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the U.S. Securities and Exchange Commission (the SEC ). As permitted under such rules, certain notes and other financial information normally required by accounting principles generally accepted in the United States of America ( U.S. GAAP )

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have been condensed or omitted; however, the unaudited consolidated financial statements do include such notes and financial information sufficient so as to make the interim information presented not misleading. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes as of December 31, 2013 included in the Company's annual report on Form 10-K filed with the SEC on March 14, 2014.

The balance sheet at December 31, 2013 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

***Recent Accounting Pronouncements***

In July 2013, the Financial Accounting Standards Board (FASB) issued accounting standards update ( ASU ) No. 2013-11 Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, to resolve the diversity in practice in the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Although permitted by the ASU, the Company did not elect early adoption or retrospective application. As such, the ASU became effective prospectively for the Company as of its first quarter of 2014. As of June 30, 2014, the Company did not have any unrecognized tax benefits that meet the conditions described by the ASU; accordingly, the ASU did not have any impact on the Company's results of operations or financial position.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) , which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition . This ASU requires revenue to be recognized to reflect the consideration an entity expects to be entitled to in exchange for the transfer of goods or services to customers in the appropriate period. This ASU also requires disclosures enabling users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract are required. The Company will be required to implement this guidance in the first quarter of fiscal year 2017, using one of two prescribed retrospective methods. No early adoption is permitted. The Company has not yet determined the effect of adoption on the consolidated financial statements.

There have been no other recent accounting pronouncements or changes in accounting pronouncements during the quarter ended June 30, 2014 that are of significance, or potential significance, to the Company.

**Note 3. Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable consisted of the following (in thousands):

|                                       | <b>June 30, 2014</b> | <b>December 31, 2013</b> |
|---------------------------------------|----------------------|--------------------------|
| Trade accounts receivable             | \$ 58,931            | \$ 60,190                |
| Other receivables                     | 5,593                | 6,788                    |
| Less: allowance for doubtful accounts | (673)                | (991)                    |
|                                       | <b>\$ 63,851</b>     | <b>\$ 65,987</b>         |

The Company had no bad debt expense in the three months ended June 30, 2014 and 2013. During the six months ended June 30, 2014, the Company had bad debt recoveries of \$0.3 million. During the six months ended June 30, 2013, the Company had bad debt expense of \$0.3 million.

The Company performs ongoing credit evaluations of its customers and believes it has made adequate provisions for potential credit losses. The Company does not generally require collateral on accounts receivable; however, under certain circumstances, the Company may require from its customers a letter of credit, a parent corporation guarantee, or full or partial prepayment prior to performing services. The Company estimates its allowance for doubtful accounts using a specific identification method based on an evaluation of payment history, the customer's credit situation, and other factors.

The following is a summary of customers that accounted for at least 10% of the total current and non-current trade receivables for the Company as of June 30, 2014 or December 31, 2013:

|                                      | <b>June 30, 2014</b> | <b>December 31, 2013</b> |
|--------------------------------------|----------------------|--------------------------|
| Fluor                                | 14.2%                | \$ 19.4%                 |
| Army Contracting Command Rock Island | 7.7%                 | 13.8%                    |
|                                      | \$ 21.9%             | \$ 33.2%                 |

The following is a summary of customers that accounted for at least 10% of the Company's net revenues in the three or six months ended June 30, 2014 or June 30, 2013:

|                      | <b>Three Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>Six Months<br/>Ended<br/>June 30, 2014</b> | <b>Six Months<br/>Ended<br/>June 30, 2013</b> |
|----------------------|---|---|---|---|
| Fluor                | 18.6%   | 15.0%   | 19.4%   | 9.8%  |
| US Forest Service    | 7.3%  | 12.4%   | 3.8%  | 8.1%  |
| Helicorp (Australia) | %   | 0.1%  | %   | 13.8%   |

The Company operates in portions of Europe that have been significantly affected by the global recession, such as Greece and Italy, and the Company bears risk that existing or future accounts receivable may be uncollectible if these customers experience curtailed government spending.

#### **Note 4. Aircraft Support Parts, net**

Aircraft support parts, net consists of aircraft parts and work-in-process which are valued at the lower of cost or market utilizing the first-in first-out method. Costs capitalized in aircraft support parts include materials, labor, and operating overhead. Work-in-process consists of remanufactured aircraft in various stages of production and in-process aircraft support parts. Upon completion of an aircraft remanufacture, based on the demand for the Company's services, the Company may transfer an aircraft into its fleet. As of June 30, 2014 and December 31, 2013, there were no aircraft being remanufactured.

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Aircraft support parts consisted of the following (in thousands):

|                                   | <b>June 30, 2014</b> | <b>December 31, 2013</b> |
|-----------------------------------|----------------------|--------------------------|
| Aircraft parts                    | \$ 126,189           | \$ 115,400               |
| Work-in-process                   | 19,121               | 17,296                   |
| Less: Excess and obsolete reserve | (5,890)              | (6,000)                  |
|                                   | \$ 139,420           | \$ 126,696               |

**Note 5. Aircraft and Property, Plant and Equipment**

Aircraft, net consisted of the following (in thousands):

|                                | <b>June 30, 2014</b> | <b>December 31, 2013</b> |
|--------------------------------|----------------------|--------------------------|
| Aircraft                       | \$ 154,837           | \$ 151,044               |
| Less: Accumulated depreciation | (27,355)             | (23,865)                 |
|                                | \$ 127,482           | \$ 127,179               |

Property, plant, and equipment, net consisted of the following (in thousands):

|   | <b>June 30, 2014</b> | <b>December 31, 2013</b> |
|---|----------------------|--------------------------|
| Land and land improvements                      | \$ 308               | \$ 308                   |
| Buildings                                       | 7,869                | 7,597                    |
| Vehicles and equipment                          | 37,546               | 29,598                   |
| Deferred overhauls, net                         | 77,023               | 68,773                   |
| Construction-in-progress                        | 14,194               | 19,923                   |
|   | 136,940              | 126,199                  |
| Less: Accumulated depreciation and amortization | (19,390)             | (16,817)                 |
|   | \$ 117,550           | \$ 109,382               |

During the three months ended June 30, 2014 and 2013, depreciation expense was \$4.8 million and \$3.1 million, respectively. During the six months ended June 30, 2014 and 2013, depreciation expense was \$8.9 million and \$5.7 million, respectively. During the three months ended June 30, 2014 and 2013, amortization expense associated with deferred overhauls was \$3.6 million and \$4.9 million, respectively. During the six months ended June 30, 2014 and 2013, amortization expense associated with deferred overhauls was \$6.8 million and \$7.6 million, respectively.

During the second quarter of 2014, the Company completed a sale-leaseback transaction pursuant to which the Company sold one

S-64 Airplane for a total purchase price of \$24.7 million. The net book value of the Airplane at the date of the transaction was \$12.2 million. The lease has an initial term of seven years commencing on June 30, 2014, and base lease payments of approximately \$264 thousand per month. The Company has the right to purchase the aircraft back from the lessor at the end of the fourth year of the lease term at a purchase price based upon the fair market value at that time. At the end of the term of the lease, the lessor has a put right to sell the aircraft back at a purchase price based on the fair market value at that time. The Company has accounted for the transaction as a sale-leaseback under ASC 840-40 Sale-Leaseback Transactions. The profit on the sale was deferred and will be recognized ratably over the term of the lease as a reduction to rent expense. The current portion of the deferred gain of \$1.8 million is included in other current liabilities, and the non-current portion of deferred gain of \$10.7 million is included in other non-current liabilities in the consolidated balance sheet as of June 30, 2014.

## Note 6. Acquisitions

### *Evergreen Helicopters, Inc.*

On May 2, 2013, the Company completed its acquisition of EHI, based in McMinnville Oregon, and prior to the acquisition, a wholly owned subsidiary of Evergreen International Aviation ( EIA ). EHI operates a fleet of aircraft of varying rotary-wing and fixed-wing types for a wide range of passenger transport and light, medium and heavy load-carrying missions. The assets purchased and liabilities assumed for EHI have been reflected in the Company's consolidated balance sheet as of June 30, 2014 and December 31, 2013, and the results of operations of EHI are included in the Company's consolidated statements of comprehensive income (loss) since the closing date of the acquisition. Intangible assets included goodwill of \$231.6 million, customer relationships of \$19.3 million amortized over a period of nine years, and trade names of \$0.4 million amortized over a period of 6 months. The goodwill and other intangible assets totaling \$251.3 million are amortized over a 15-year period for tax purposes.

### *Pro Forma Results of Operations (Unaudited)*

The following pro forma information presents a summary of the Company's results of operations assuming the EHI acquisition had occurred at the beginning of the period presented. The pro forma results include the straight-line amortization associated with acquired intangible assets consisting of customer relationships of \$19.3 million amortized over a period of nine years and trade names of \$0.4 million amortized over a period of six months, fair value adjustments to depreciable property, plant, and equipment assets, and interest expense associated with debt used to fund the acquisition. The following pro forma information assumes the shares of Series A Preferred Stock had converted into the same number of shares of common stock at the beginning of the period presented. To better reflect the combined operating results, significant nonrecurring acquisition-related expenses directly attributable to the transaction have been excluded. In addition, the pro forma results do not include any anticipated synergies or other expected benefits of the acquisition. Accordingly, the unaudited pro forma information is not necessarily indicative of the results that would have occurred if the acquisition had been completed at the beginning of the period presented, nor is it necessarily indicative of future results.

|  | <b>Three Months Ended<br/>June 30, 2013</b> | <b>Six Months Ended<br/>June 30, 2013</b> |
|--|---|---|
| Net revenues   | \$ 84,337                                   | \$ 166,005                                |
| Net income (loss) attributable to common stockholders            | (679)                                       | 5,727                                     |
| Net income (loss) per share attributable to common stockholders: |   |   |
| Basic  | (0.05)                                      | 0.42                                      |
| Diluted  | (0.05)                                      | 0.42                                      |

Weighted average shares  
outstanding<sup>(1)</sup>:

|         |            |            |
|---------|------------|------------|
| Basic   | 13,768,197 | 13,751,971 |
| Diluted | 13,768,197 | 13,787,990 |

- (1) Weighted average shares outstanding for the purposes of the above pro forma calculation assume the Convertible Redeemable Preferred Stock of 4,008,439 shares converted to the same number of shares of common stock at the beginning of the period presented.

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During three months ended June 30, 2014 and June 30, 2013, the Company incurred approximately \$0.4 million and \$3.6 million in EHI acquisition and integration-related expenses, respectively, which are included in general and administrative expenses. During six months ended June 30, 2014 and June 30, 2013, the Company incurred approximately \$1.1 million and \$5.6 million in EHI acquisition and integration-related expenses, respectively, which are included in general and administrative expenses.

*Air Amazonia*

On September 3, 2013, the Company completed its acquisition of Air Amazonia, the aerial services business of HRT, based in Brazil, including a fleet of six rotor wing aircraft and ground facilities. This fleet serves oil and gas activities in the Solimoes region of Brazil. In addition to the acquired fleet, the Company also has the right of first refusal to purchase any or all of HRT's remaining eight aircraft over the 12 months from the closing date of the acquisition and the right of first refusal on all helicopter services in the Solimoes region of Brazil from HRT as operator, as well as on all helicopter services in all of Brazil (including offshore) from HRT.

In connection with the acquisition of Air Amazonia, consideration transferred included cash of \$23.1 million at closing for the business, which includes a fully-operational fleet of six rotary-wing aircraft of varying types and mission capabilities, and an additional \$3.0 million due within 12 months of closing.

During the three months ended June 30, 2014 and June 30, 2013, the Company incurred approximately \$0.2 million and \$0.4 million in Air Amazonia acquisition and integration-related expenses, respectively, which are included in general and administrative expenses. During the six months ended June 30, 2014 and June 30, 2013, the Company incurred approximately \$0.3 million and \$0.7 million in Air Amazonia acquisition and integration-related expenses, respectively, which are included in general and administrative expenses.

The assets purchased and liabilities assumed for Air Amazonia have been reflected in the Company's consolidated balance sheet as of June 30, 2014 and December 31, 2013, and the results of operations of Air Amazonia are included in the Company's consolidated statements of comprehensive income (loss) since the closing date of the acquisition. The preliminary assessment included aircraft of \$20.0 million and goodwill and other intangible assets of \$7 million. The Company is in the process of finalizing the purchase accounting related to the acquisition, including the working capital adjustment under the purchase agreement, goodwill, other intangible assets, and certain tax assets and liabilities; thus, the estimated amounts presented herein are subject to change.

**Note 7. Other Intangible Assets, net**

Other intangible assets, net consisted of the following (in thousands):

|                                       | Useful<br>Life<br>(in<br>years) | June 30,<br>2014 | December 31,<br>2013 |
|---------------------------------------|---------------------------------|------------------|----------------------|
| Customer Relationships (EHI)          | 9                               | \$ 19,300        | \$ 19,300            |
| Customer Relationships (Air Amazonia) | 9                               | 2,500            | 2,500                |
| Type Certificate <sup>(1)</sup>       | Indefinite                      | 2,205            | 2,205                |
|                                       |                                 | 24,005           | 24,005               |

|                                |           |           |
|--------------------------------|-----------|-----------|
| Less: accumulated amortization | (2,742)   | (1,521)   |
|                                | \$ 21,263 | \$ 22,484 |

(1) The Type Certificate included in intangible assets is the Type Certificate for engines used in the Airplane, purchased individually during 2013.

During the three and six months ended June 30, 2014, amortization expense for intangible assets was \$0.6 million and \$1.2 million, respectively, and was recorded in cost of sales. Estimated amortization expense for intangible assets for future periods, including remaining amounts to be recorded in 2014 as of June 30, 2014, is as follows (in thousands):

|              | <b>Intangible Asset Amortization</b> |               |
|--------------|--------------------------------------|---------------|
| 2014         | \$                                   | 1,211         |
| 2015         |                                      | 2,421         |
| 2016         |                                      | 2,421         |
| 2017         |                                      | 2,421         |
| 2018         |                                      | 2,421         |
| Thereafter   |                                      | 8,163         |
| <b>Total</b> | <b>\$</b>                            | <b>19,058</b> |

#### **Note 8. Accrued and Other Current Liabilities**

Accrued and other current liabilities consisted of the following (in thousands):

|                                  | <b>June 30, 2014</b> | <b>December 31, 2013</b> |
|----------------------------------|----------------------|--------------------------|
| Payroll and related taxes        | \$ 9,511             | \$ 12,004                |
| Deferred maintenance on aircraft | 3,536                | 9,694                    |
| Interest                         | 5,533                | 5,142                    |
| Deferred revenue                 | 973                  | 1,210                    |
| Deferred gain on sale-leaseback  | 1,780                |                          |
| Other                            | 7,782                | 13,183                   |
|                                  | <b>\$ 29,115</b>     | <b>\$ 41,233</b>         |

**Table of Contents****Note 9. Debt**

Outstanding debt consisted of the following (in thousands):

|  | <b>June 30, 2014</b> | <b>December 31, 2013</b> |
|--|----------------------|--------------------------|
| 2020 Senior Notes                        | \$ 355,000           | \$ 355,000               |
| Revolving Credit Facility                | 102,094              | 68,086                   |
| 2020 subordinated notes, net of discount | 16,291               | 16,160                   |
| Fixtures financing                       | 393                  |                          |
| <b>Total</b>                             | <b>\$ 473,778</b>    | <b>\$ 439,246</b>        |

*2020 Senior Notes Offering*

On May 2, 2013, the Company closed its \$400.0 million aggregate principal note offering. The 2020 Senior Notes bear interest at 8.25%, are second priority senior secured obligations, and are due in 2020. The 2020 Senior Notes are guaranteed by certain of the Company's existing and future domestic subsidiaries.

The Company used the net proceeds of the offering to (i) finance a portion of the purchase price for the EHI acquisition, (ii) refinance its 2015 Subordinated Notes and 2016 Subordinated Notes, (iii) refinance its prior senior secured asset-based revolving credit facility, comprised of the Term Debt and Revolving Line of Credit, (iv) pay related fees and expenses, and (v) used the remaining cash to fund operations.

The indenture under which the 2020 Senior Notes were issued, among other things, limits the Company's ability and the ability of its restricted subsidiaries to: (i) pay dividends or distributions, repurchase equity, prepay subordinated debt or make certain investments; (ii) incur additional debt or issue certain disqualified stock and preferred stock; (iii) incur liens on assets; (iv) merge or consolidate with another company or sell all or substantially all assets; (v) enter into transactions with affiliates; and (vi) allow to exist certain restrictions on the ability of the guarantors to pay dividends or make other payments to the Company.

The 2020 Senior Notes are secured by second-position liens, subject to certain exceptions and permitted liens, on substantially all of the Company and the guarantors' existing and future assets that secure the Company's new Revolving Credit Facility.

The interest rate on the 2020 Senior Notes is fixed at 8.25%. The outstanding balance under the 2020 Senior Notes at June 30, 2014 and December 31, 2013 was \$355.0 million.

A total of \$46.0 million of the net proceeds were initially deposited in escrow, consisting of \$45.0 million of aggregate principal and \$1.0 million related to anticipated interest, to be used toward the acquisition of Air Amazonia. Pursuant to the terms of the 2020 Senior Notes, these proceeds of the offering were not released from escrow to consummate the Air Amazonia acquisition before July 31, 2013, and as a result, an aggregate principal amount of 2020 Senior Notes equal to \$45.0 million were redeemed, on a pro rata basis, on August 5, 2013 pursuant to a special mandatory redemption, at a price equal to 100% of the principal amount of the 2020 Senior Notes being redeemed, plus accrued and unpaid interest to, but not including, August 5, 2013. The Company funded the purchase price of the Air Amazonia acquisition with borrowings from its Revolving Credit Facility during 2013 (see Note 6 Acquisitions).

On May 2, 2014, the Company commenced an offer (the Exchange Offer ) to exchange all \$355.0 aggregate principal amount of its outstanding 8.25% Second Priority Senior Secured Notes due 2020, which were not registered under the Securities Act of 1933 (the Old Notes ), for an equal principal amount of new 8.25% Second Priority Senior Secured Notes due 2020 which have been registered under the Securities Act of 1933 (the New Notes ). The Exchange Offer was completed on June 6, 2014.

#### *Revolving Credit Facility*

On May 2, 2013, the Company entered into the Revolving Credit Facility, providing a new \$100.0 million, five-year revolving credit facility with a group of financial institutions led by Wells Fargo Bank N.A. and including Bank of the West, Deutsche Bank Trust Company Americas, and HSBC Bank USA NA. On June 14, 2013, the Revolving Credit Facility was amended to increase the maximum aggregate amount that the Company may borrow from \$100.0 million to \$125.0 million, and on March 11, 2014 it was amended to increase the maximum amount that the Company may borrow to \$140.0 million. The interest rate under the Revolving Credit Facility is 225-450 basis points over LIBOR/Prime base rate depending on the Company's senior leverage ratio. The proceeds under the Revolving Credit Facility are primarily used for general corporate purposes and the Company used a portion of the proceeds to fund the purchase price of the Air Amazonia acquisition.

The Company and each of the Company's current and future, direct and indirect, material subsidiaries guarantee the indebtedness under the Revolving Credit Facility on a senior secured first lien basis.

The Revolving Credit Facility contains certain financial covenants including, without limitation, a minimum fixed charge coverage ratio of 1.20:1.00 if the Company's average excess availability, as calculated pursuant to the terms of the Revolving Credit Facility, is greater than \$16.8 million or 1.05:1.00 if the Company's average excess availability, as calculated pursuant to the terms of the Revolving Credit Facility, is less than or equal to \$16.8 million. The Revolving Credit Facility also imposes an annual growth capital expenditures limit of approximately \$25.0 million, subject to standard carry-over provisions. The Company was in compliance with the financial covenants as of June 30, 2014 and December 31, 2013.

The Revolving Credit Facility includes mandatory prepayment requirements for the certain types of transactions, including, without limitation, requiring prepayment from (a) proceeds that the Company receives as a result of certain asset sales, subject to re-investment provisions on terms to be determined, and (b) proceeds from extraordinary receipts.

The outstanding balance under the Revolving Credit Facility at June 30, 2014 and December 31, 2013 was \$102.1 million and \$68.1 million, respectively. The weighted average interest rate for borrowings under the Revolving Credit Facility for the three and six months period ended June 30, 2014 was 5.08% and 5.11%, respectively. The interest rate at June 30, 2014 and December 31, 2013 was 5.03% and 5.06%, respectively. As of June 30, 2014 and December 31, 2013 the Company had \$4.8 million and \$5.1 million in outstanding standby letters of credit under the Revolving Credit Facility, respectively, and maximum borrowing availability was \$33.1 million and \$51.8 million as of June 30, 2014 and December 31, 2013, respectively.

**Table of Contents***2020 Subordinated Notes*

Pursuant to the terms of the EHI stock purchase agreement, the consideration included \$17.5 million of the Company's subordinated notes. The subordinated notes accrue interest at a fixed rate of 6.0% per annum, mature on November 2, 2020, and may be prepaid at the Company's option. Upon an event of default under the subordinated notes, the interest rate will increase to 8.0% per annum until the event of default is cured. The Company has agreed to pay, in cash, quarterly installments of interest only (in arrears) until March 31, 2015, after which date the Company has agreed to pay, in addition to such interest, on a quarterly basis \$1.0 million in principal. Upon any refinancing of the 2020 Senior Notes or the Revolving Credit Facility the principal amount of the subordinated notes with all accrued interest thereon will become due and payable. Upon a change of control, the principal amount together with all accrued interest shall forthwith be due and payable. Until the principal amount of the subordinated notes together with all accrued interest thereon has been paid in full, the Company and its subsidiaries may not declare or pay any dividend, make any payment on account of, or take certain other actions in respect of any of the Company or its subsidiaries equity interests, subject to certain exceptions.

For purchase accounting of the EHI acquisition, the fair value of the subordinated notes was estimated at \$15.9 million, assuming a market level borrowing rate of 9.00%. As of June 30, 2014 and December 31, 2013, the carrying value of the 2020 Subordinated Notes was \$16.3 million, made up of the face value of \$17.5 million net of the unamortized discount of \$1.2 million. The weighted average interest rate for borrowings under the 2020 Subordinated Notes was 6.00% during the three and six months period ended June 30, 2014.

*Advance from Cambiano*

EuAC is party to an Amended Agreement with Banca Di Credito Cooperativo Di Cambiano (Cambiano) whereby EuAC may request advances up to 4.0 million. Advances are based on documentary proof of receivables due from the Italian government. The purpose of this Agreement is to provide short term liquidity needs. There were no advances outstanding as of June 30, 2014 and December 31, 2013. The agreement may be canceled by either party at any time.

On August 4, 2008, EuAC executed a bank guarantee and pledged 3.0 million as restricted cash in connection with a performance guarantee for a four-year leasing contract in Italy. Following receipt of the restricted cash, Cambiano issued a letter of credit for the performance bond. In the third quarter of 2012, the restricted cash amount was reduced to \$2.6 million (2.0 million), in conjunction with the reduction in the corresponding letter of credit. The restrictions renewed in June 2013 through the remainder of the 2013 fire season and the Company has classified the restricted cash related to the pledges as current assets based on the anticipated release date of the restriction. In the second quarter of 2014, the restricted cash amount was reduced to \$0.6 million (0.4 million), in conjunction with the reduction in the corresponding letter of credit.

**Note 10. Goodwill**

The changes in the carrying amount of goodwill for the six months period June 30, 2014, are as follows (in thousands):

|                                      | <b>Government Segment</b> | <b>Commercial Segment</b> | <b>Total</b> |
|--------------------------------------|---------------------------|---------------------------|--------------|
| <b>Balance as of January 1, 2014</b> |                           |                           |              |
| Goodwill                             | \$ 231,627                | \$ 3,351                  | \$ 234,978   |

|   |            |          |            |
|---|------------|----------|------------|
| <b>Activity during 2014</b>                         |            |          |            |
| Impairment losses                                   | (21,272)   |          | (21,272)   |
| Purchase accounting adjustments<br>for Air Amazonia |            | 975      | 975        |
| <b>Balance as of June 30, 2014</b>                  |            |          |            |
| Goodwill  | \$ 210,355 | \$ 4,326 | \$ 214,681 |

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Conditions that would trigger an impairment assessment, include, but are not limited to, a significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action.

The goodwill impairment test involves a two-step process pursuant to ASC 350-20-35. The first step compares the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, the second step of the impairment test is to measure the amount of impairment loss. In the second step, the reporting unit's fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than the carrying value, the difference is recorded as an impairment loss.

During the second quarter of 2014, the Company performed the annual impairment review for EHI, which is considered a reporting unit for the purposes of that analysis. The Company compared business unit book value to its fair value, determined through the income approach, and concluded step two of the impairment test should be performed.

For the purposes of step two analysis, the Company estimated the fair value of EHI reporting unit using income approach. The income approach estimates fair value by discounting the future cash flows expected to be generated by the business unit to their present value. The Company believes this is the most reliable indicator of fair value and is consistent with the approach a market place participant would use. Based on the Company's step two analysis, the implied fair value of goodwill was lower than its carrying value. As a result, the Company recorded an impairment charge of \$21.3 million against the carrying amount of goodwill during the quarter ended June 30, 2014. The impairment charge is included in impairment of goodwill on the consolidated statements of comprehensive income (loss).

The estimation of fair value utilizing the above approach includes numerous uncertainties which require significant judgment when making assumptions of the cost of capital, expected growth rates, selection of discount rates, as well as assumptions regarding general economic and business conditions, among other factors. Key assumptions used in measuring the implied fair value of goodwill included a discount rate of 10%, effective tax rate of 38%, terminal EBITDA multiple of 7.0, and utilizing excess earnings method to value the customer relationship intangible.

**Table of Contents****Note 11. Consolidating Financial Information**

Certain of the Company's subsidiaries have guaranteed its obligations under the \$355.0 million outstanding principal amount of 8.25% notes due 2020. The following presents the condensed consolidating financial information for:

Erickson Incorporated (the Parent Company), the issuer of the guaranteed obligations;

Guarantor subsidiaries, on a combined basis, as specified in the indenture related to the Company's obligations under the 2020 Senior Notes;

Non-guarantor subsidiaries, on a combined basis;

Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among the Parent Company, the guarantor subsidiaries and the non-guarantor subsidiaries, (b) eliminate the investments in the Company's subsidiaries, and (c) record consolidating entries; and

Erickson Incorporated and Subsidiaries on a consolidated basis

Each guarantor subsidiary was 100% owned by the Parent Company as of the date of each condensed consolidating balance sheet presented. The 2020 Senior Notes are fully and unconditionally guaranteed on a joint and several basis by each guarantor subsidiary. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use by the Parent Company and guarantor subsidiaries of the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated upon consolidation. Changes in intercompany receivables and payables related to operations, such as intercompany sales or service charges, are included in cash flows from operating activities. All figures presented are in thousands. Figures presented as of June 30, 2014 and for the three and six months ended June 30, 2014 are unaudited.

**Condensed Consolidating Balance Sheet  
June 30, 2014**

|   | Parent Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
|---|----------------|---------------------------|-------------------------------|--|--------------|
| <b>Assets</b>                             |                |                           |                               |  |              |
| Current assets:                           |                |                           |                               |  |              |
| Cash and cash equivalents                 | \$ 483         | \$ 75                     | \$ 1,886                      | \$   | \$ 2,444     |
| Restricted cash                           | 149            | 364                       | 554                           |  | 1,067        |
| Accounts receivable, net                  | 18,649         | 34,654                    | 10,476                        | 72   | 63,851       |
| Prepaid expenses and other current assets | 3,037          | 646                       | 603                           |  | 4,286        |
| Income tax receivable                     | 70             |                           | 94                            |  | 164          |
| Deferred tax assets                       | 1,845          |                           | 271                           |  | 2,116        |

|  |                   |                   |                  |                     |                   |
|--|-------------------|-------------------|------------------|---------------------|-------------------|
| Total current assets   | 24,233            | 35,739            | 13,884           | 72                  | 73,928            |
| Aircraft support parts, net  | 101,477           | 37,505            | 483              | (45)                | 139,420           |
| Aircraft, net  | 88,250            | 35,392            | 3,840            |                     | 127,482           |
| Property, plant and equipment, net   | 66,026            | 50,023            | 1,501            |                     | 117,550           |
| Goodwill   |                   | 210,355           | 5,088            | (762)               | 214,681           |
| Other intangible assets, net   | 2,205             | 16,799            | 2,259            |                     | 21,263            |
| Deferred tax assets, non-current   | 1,579             |                   |                  |                     | 1,579             |
| Other non-current assets   | 324,623           | 5,506             | 585              | (305,093)           | 25,621            |
| <b>Total assets</b>  | <b>\$ 608,393</b> | <b>\$ 391,319</b> | <b>\$ 27,640</b> | <b>\$ (305,828)</b> | <b>\$ 721,524</b> |
| <b>Liabilities and stockholders equity (deficit)</b>                             |                   |                   |                  |                     |                   |
| Current liabilities:   |                   |                   |                  |                     |                   |
| Accounts payable   | 10,589            | 16,603            | 2,570            |                     | \$ 29,762         |
| Accrued and other current liabilities  | (63,052)          | 64,619            | 27,548           |                     | 29,115            |
| Income tax payable   | 33                | 2                 | 513              |                     | 548               |
| <b>Total current liabilities</b>   | <b>(52,430)</b>   | <b>81,224</b>     | <b>30,631</b>    |                     | <b>59,425</b>     |
| Long-term debt, less current portion   | 16,684            |                   |                  |                     | 16,684            |
| Long-term revolving credit facilities  | 102,094           |                   |                  |                     | 102,094           |
| Long-term notes payable  | 355,000           |                   |                  |                     | 355,000           |
| Other long-term liabilities  | 12,992            |                   | 63               |                     | 13,055            |
| Uncertain tax positions  | 5,669             |                   |                  |                     | 5,669             |
| <b>Total liabilities</b>   | <b>440,009</b>    | <b>81,224</b>     | <b>30,694</b>    |                     | <b>551,927</b>    |
| Stockholders equity (deficit):   |                   |                   |                  |                     |                   |
| Common stock   | 1                 |                   | 1,674            | (1,674)             | 1                 |
| Additional paid-in capital   | 180,598           | 297,994           | 33               | (298,027)           | 180,598           |
| Retained earnings (accumulated deficit)  | (13,087)          | 12,101            | (6,286)          | (5,327)             | (12,599)          |
| Accumulated other comprehensive income (loss)                                    | 872               |                   | 891              | (986)               | 777               |
| <b>Total stockholders equity (deficit) attributable to Erickson Incorporated</b> | <b>168,384</b>    | <b>310,095</b>    | <b>(3,688)</b>   | <b>(306,014)</b>    | <b>168,777</b>    |
| Noncontrolling interest  |                   |                   | 634              | 186                 | 820               |
| <b>Total stockholders equity (deficit)</b>                                       | <b>168,384</b>    | <b>310,095</b>    | <b>(3,054)</b>   | <b>(305,828)</b>    | <b>169,597</b>    |
| <b>Total liabilities and stockholders equity</b>                                 | <b>\$ 608,393</b> | <b>\$ 391,319</b> | <b>\$ 27,640</b> | <b>\$ (305,828)</b> | <b>\$ 721,524</b> |

**Table of Contents****Condensed Consolidating Balance Sheet  
December 31, 2013**

|  | <b>Parent Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries and<br/>Eliminations</b> | <b>Consolidated</b> |
|--|-----------------------|-----------------------------------|---------------------------------------|---|---------------------|
| <b>Assets</b>  |                       |                                   |                                       |   |                     |
| Current assets:                                      |                       |                                   |                                       |   |                     |
| Cash and cash equivalents                            | \$ 576                | \$ (12)                           | \$ 1,317                              | \$  | \$ 1,881            |
| Restricted cash                                      | 151                   | 364                               | 2,368                                 |   | 2,883               |
| Accounts receivable, net                             | 17,290                | 40,560                            | 8,024                                 | 113   | 65,987              |
| Prepaid expenses and other current assets            | 1,878                 | 582                               | 900                                   |   | 3,360               |
| Income tax receivable                                | 70                    |                                   | 65                                    |   | 135                 |
| Deferred tax assets                                  | 3,372                 |                                   | 343                                   |   | 3,715               |
| <b>Total current assets</b>                          | <b>23,337</b>         | <b>41,494</b>                     | <b>13,017</b>                         | <b>113</b>  | <b>77,961</b>       |
| Aircraft support parts, net                          | 93,719                | 33,022                            |                                       | (45)  | 126,696             |
| Aircraft, net  | 88,242                | 35,236                            | 3,701                                 |   | 127,179             |
| Property, plant and equipment, net                   | 70,145                | 37,825                            | 1,412                                 |   | 109,382             |
| Other intangible assets, net                         | 2,205                 | 17,870                            | 2,409                                 |   | 22,484              |
| Goodwill   |                       | 231,626                           | 4,114                                 | (762)   | 234,978             |
| Other non-current assets                             | 325,768               | 7,133                             | 816                                   | (305,092)   | 28,625              |
| <b>Total assets</b>                                  | <b>\$ 603,416</b>     | <b>\$ 404,206</b>                 | <b>\$ 25,469</b>                      | <b>\$ (305,786)</b>                                   | <b>\$ 727,305</b>   |
| <b>Liabilities and stockholders equity (deficit)</b> |                       |                                   |                                       |   |                     |
| Current liabilities:                                 |                       |                                   |                                       |   |                     |
| Accounts Payable                                     | 8,179                 | 17,889                            | 2,967                                 |   | \$ 29,035           |
| Accrued and other current liabilities                | (48,899)              | 66,513                            | 23,592                                | 27  | 41,233              |
| Income tax payable                                   |                       |                                   | 621                                   |   | 621                 |
| <b>Total current liabilities</b>                     | <b>(40,720)</b>       | <b>84,402</b>                     | <b>27,180</b>                         | <b>27</b>   | <b>70,889</b>       |
| Long-term debt, less current portion                 | 16,160                |                                   |                                       |   | 16,160              |
| Long-term revolving credit facilities                | 68,086                |                                   |                                       |   | 68,086              |
| Long-term notes payable                              | 355,000               |                                   |                                       |   | 355,000             |
| Other long-term liabilities                          | 1,756                 |                                   | 63                                    |   | 1,819               |
| Uncertain tax positions                              | 5,669                 |                                   |                                       |   | 5,669               |
| Deferred tax liabilities                             | 16,745                |                                   | 30                                    |   | 16,775              |
| <b>Total liabilities</b>                             | <b>422,696</b>        | <b>84,402</b>                     | <b>27,273</b>                         | <b>27</b>   | <b>534,398</b>      |
| Stockholders equity (deficit):                       |                       |                                   |                                       |   |                     |
| Common stock   | 1                     |                                   | 1,674                                 | (1,674)   | 1                   |
| Additional paid-in capital                           | 179,954               | 297,994                           | 33                                    | (298,027)   | 179,954             |
|  | 806                   | 21,810                            | (5,142)                               | (5,370)   | 12,104              |

|   |            |            |           |              |            |
|---|------------|------------|-----------|--------------|------------|
| Retained earnings (accumulated deficit)                                   |            |            |           |              |            |
| Accumulated other comprehensive income (loss)                             | (41)       |            | 997       | (998)        | (42)       |
| Total stockholders equity (deficit) attributable to Erickson Incorporated | 180,720    | 319,804    | (2,438)   | (306,069)    | 192,017    |
| Noncontrolling interest   |            |            | 634       | 256          | 890        |
| Total stockholders equity (deficit)                                       | 180,720    | 319,804    | (1,804)   | (305,813)    | 192,907    |
| Total liabilities and stockholders equity                                 | \$ 603,416 | \$ 404,206 | \$ 25,469 | \$ (305,786) | \$ 727,305 |

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**Condensed Consolidating Statement of Operations**  
**Quarter Ended June 30, 2014**

|  | <b>Parent Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries<br/>and<br/>Eliminations</b> | <b>Consolidated</b> |
|--|-----------------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net revenues:  | \$ 26,817             | \$ 44,706                         | \$ 13,853                             | \$ (4,491)  | \$ 80,885           |
| Cost of revenues   | 23,051                | 37,207                            | 11,389                                | (4,491)   | 67,156              |
| Gross profit   | 3,766                 | 7,499                             | 2,464                                 |   | 13,729              |
| Operating expenses:  |                       |                                   |                                       |   |                     |
| General and administrative   | 5,848                 | 185                               | 961                                   |   | 6,994               |
| Research and development   | 738                   |                                   |                                       |   | 738                 |
| Selling and marketing  | 1,937                 | 188                               | 30                                    |   | 2,155               |
| Impairment of goodwill   |                       | 21,272                            |                                       |   | 21,272              |
| Total operating expenses   | 8,523                 | 21,645                            | 991                                   |   | 31,159              |
| Operating income (loss)  | (4,757)               | (14,146)                          | 1,473                                 |   | (17,430)            |
| Other income (expense):  |                       |                                   |                                       |   |                     |
| Interest expense, net  | (8,957)               |                                   | (154)                                 |   | (9,111)             |
| Other expense, net   | (712)                 | (4)                               | (63)                                  | (64)  | (843)               |
| Total other income (expense)   | (9,669)               | (4)                               | (217)                                 | (64)  | (9,954)             |
| Net income (loss) before income taxes and noncontrolling interest      | (14,426)              | (14,150)                          | 1,256                                 | (64)  | (27,384)            |
| Income tax expense (benefit)   | (12,109)              |                                   | 1,887                                 |   | (10,222)            |
| Net loss   | (2,317)               | (14,150)                          | (631)                                 | (64)  | (17,162)            |
| Less: Net loss related to noncontrolling interest                      |                       |                                   |                                       | 53  | 53                  |
| Net loss attributable to Erickson Incorporated and common stockholders | \$ (2,317)            | \$ (14,150)                       | \$ (631)                              | \$ (11)   | \$ (17,109)         |

**Condensed Consolidating Statement of Operations**  
**Quarter Ended June 30, 2013**

|                  | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries<br/>and<br/>Eliminations</b> | <b>Consolidated</b> |
|------------------|---------------------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net revenues:    | \$ 29,601                 | \$ 29,872                         | \$ 16,672                             | \$ (7,555)  | \$ 68,590           |
| Cost of revenues | 21,723                    | 23,526                            | 13,348                                | (7,497)   | 51,100              |

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|   |            |          |          |          |            |
|---|------------|----------|----------|----------|------------|
| Gross profit  | 7,878      | 6,346    | 3,324    | (58)     | 17,490     |
| Operating expenses:   |            |          |          |          |            |
| General and administrative  | 7,326      | 1,669    | 1,136    | (19)     | 10,112     |
| Research and development  | 1,005      |          |          |          | 1,005      |
| Selling and marketing   | 1,315      | 155      | 54       | (48)     | 1,476      |
| Total operating expenses  | 9,646      | 1,824    | 1,190    | (67)     | 12,593     |
| Operating income (loss)   | (1,768)    | 4,522    | 2,134    | 9        | 4,897      |
| Other income (expense):   |            |          |          |          |            |
| Interest income (expense), net  | (6,505)    |          | 10       |          | (6,495)    |
| Other income (expense), net   | (824)      | (368)    | (2)      | (36)     | (1,230)    |
| Total other income (expense)  | (7,329)    | (368)    | 8        | (36)     | (7,725)    |
| Net income (loss) before income taxes and noncontrolling interest               | (9,097)    | 4,154    | 2,142    | (27)     | (2,828)    |
| Income tax expense (benefit)  | (1,993)    |          | 962      |          | (1,031)    |
| Net income (loss)   | (7,104)    | 4,154    | 1,180    | (27)     | (1,797)    |
| Less: Net income (loss) related to noncontrolling interest                      |            |          |          | (155)    | (155)      |
| Net income (loss) attributable to Erickson Incorporated and common stockholders | \$ (7,104) | \$ 4,154 | \$ 1,180 | \$ (182) | \$ (1,952) |

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**Condensed Consolidating Statement of Operations  
Six Months Ended June 30, 2014**

|  | <b>Parent Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>and<br/>Eliminations</b> | <b>Consolidated</b> |
|--|-----------------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net revenues:  | \$ 51,444             | \$ 87,458                         | \$ 25,413                             | \$ (9,246)                                    | \$ 155,069          |
| Cost of revenues   | 44,193                | 74,983                            | 23,130                                | (9,246)                                       | 133,060             |
| Gross profit   | 7,251                 | 12,475                            | 2,283                                 |   | 22,009              |
| Operating expenses:  |                       |                                   |                                       |   |                     |
| General and administrative   | 11,487                | 606                               | 1,698                                 |   | 13,791              |
| Research and development   | 2,056                 |                                   |                                       |   | 2,056               |
| Selling and marketing  | 4,738                 | 345                               | 60                                    |   | 5,143               |
| Impairment of goodwill   |                       | 21,272                            |                                       |   | 21,272              |
| Total operating expenses   | 18,281                | 22,223                            | 1,758                                 |   | 42,262              |
| Operating income (loss)  | (11,030)              | (9,748)                           | 525                                   |   | (20,253)            |
| Other income (expense):  |                       |                                   |                                       |   |                     |
| Interest income (expense), net   | (17,466)              | 17                                | (415)                                 |   | (17,864)            |
| Other income (expense), net  | (1,311)               | 22                                | 4                                     | (77)  | (1,362)             |
| Total other income (expense)   | (18,777)              | 39                                | (411)                                 | (77)  | (19,226)            |
| Net income (loss) before income taxes and noncontrolling interest      | (29,807)              | (9,709)                           | 114                                   | (77)  | (39,479)            |
| Income tax expense (benefit)   | (15,915)              |                                   | 1,123                                 |   | (14,792)            |
| Net loss   | (13,892)              | (9,709)                           | (1,009)                               | (77)  | (24,687)            |
| Less: Net loss related to noncontrolling interest                      |                       |                                   |                                       | (16)  | (16)                |
| Net loss attributable to Erickson Incorporated and common stockholders | \$ (13,892)           | \$ (9,709)                        | \$ (1,009)                            | \$ (93)                                       | \$ (24,703)         |

**Condensed Consolidating Statement of Operations  
Six Months Ended June 30, 2013**

|               | <b>Parent Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>and<br/>Eliminations</b> | <b>Consolidated</b> |
|---------------|-----------------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net revenues: | \$ 61,251             | \$ 29,872                         | \$ 26,440                             | \$ (12,033)                                   | \$ 105,530          |

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|   |            |          |        |          |            |
|---|------------|----------|--------|----------|------------|
| Cost of revenues  | 44,888     | 23,526   | 22,304 | (11,951) | 78,767     |
| Gross profit  | 16,363     | 6,346    | 4,136  | (82)     | 26,763     |
| Operating expenses:   |            |          |        |          |            |
| General and administrative  | 12,814     | 1,669    | 1,959  | (19)     | 16,423     |
| Research and development  | 1,918      |          |        |          | 1,918      |
| Selling and marketing   | 3,711      | 155      | 89     | (90)     | 3,865      |
| Total operating expenses  | 18,443     | 1,824    | 2,048  | (109)    | 22,206     |
| Operating income (loss)   | (2,080)    | 4,522    | 2,088  | 27       | 4,557      |
| Other income (expense):   |            |          |        |          |            |
| Interest income (expense), net  | (7,855)    |          | 4      |          | (7,851)    |
| Other income (expense), net   | (1,250)    | (368)    | 11     | (57)     | (1,664)    |
| Total other income (expense)  | (9,105)    | (368)    | 15     | (57)     | (9,515)    |
| Net income (loss) before income taxes and noncontrolling interest               | (11,185)   | 4,154    | 2,103  | (30)     | (4,958)    |
| Income tax expense (benefit)  | (3,526)    |          | 1,359  |          | (2,167)    |
| Net income (loss)   | (7,659)    | 4,154    | 744    | (30)     | (2,791)    |
| Less: Net income (loss) related to noncontrolling interest                      |            |          |        | (378)    | (378)      |
| Net income (loss) attributable to Erickson Incorporated and common stockholders | \$ (7,659) | \$ 4,154 | \$ 744 | \$ (408) | \$ (3,169) |

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**Condensed Consolidating Statement of Cash Flows**  
**Quarter Ended June 30, 2014**

|  | <b>Parent Company</b> | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Consolidating Entries and Eliminations</b> | <b>Consolidated</b> |
|--|-----------------------|-------------------------------|-----------------------------------|---|---------------------|
| <b>Cash flows from operating activities:</b>   |                       |                               |                                   |   |                     |
| Net loss   | \$ (2,317)            | \$ (14,150)                   | \$ (631)                          | \$ (64)                                       | \$ (17,162)         |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                       |                               |                                   |   |                     |
| Depreciation and amortization  | 6,343                 | 2,433                         | 205                               |   | 8,981               |
| Impairment of goodwill   |                       | 21,272                        |                                   |   | 21,272              |
| Deferred income taxes  | (12,711)              |                               | (45)                              |   | (12,756)            |
| Non-cash interest expense on debt  | 486                   |                               |                                   |   | 486                 |
| Stock-based compensation   | 236                   |                               |                                   |   | 236                 |
| Amortization of debt issuance costs  | 593                   |                               |                                   |   | 593                 |
| Gain on sale of equipment  | (60)                  |                               | (1)                               |   | (61)                |
| Changes in operating assets and liabilities:   |                       |                               |                                   |   |                     |
| Accounts receivable  | (6,243)               | (3,858)                       | (2,206)                           | 1   | (12,306)            |
| Prepaid expenses and other current assets  | (893)                 | 268                           | 318                               |   | (307)               |
| Income tax receivable  | (19)                  |                               | 807                               |   | 788                 |
| Aircraft support parts, net  | (4,424)               | (158)                         | (269)                             |   | (4,851)             |
| Other non-current assets   | 202                   | 1,157                         | 222                               |   | 1,581               |
| Accounts payable   | 634                   | (1,088)                       | (810)                             |   | (1,264)             |
| Accrued and other current liabilities  | (16,051)              | 4,688                         | (935)                             |   | (12,298)            |
| Income tax payable   | (10)                  | 4                             | 723                               |   | 717                 |
| Other long-term liabilities  | 264                   |                               |                                   |   | 264                 |
| <b>Net cash provided by (used in) operating activities</b>   | <b>(33,970)</b>       | <b>10,568</b>                 | <b>(2,622)</b>                    | <b>(63)</b>                                   | <b>(26,087)</b>     |
| <b>Cash flows from investing activities:</b>   |                       |                               |                                   |   |                     |
| Restricted cash  |                       |                               | 1,567                             |   | 1,567               |
| Proceeds from sale-leaseback of aircraft   | 24,660                |                               |                                   |   | 24,660              |
| Dividends paid to non-controlling interest   |                       |                               | (136)                             | 63  | (73)                |
| Purchases of aircraft and property, plant and equipment  | (8,988)               | (10,493)                      | (174)                             |   | (19,655)            |
| <b>Net cash provided by (used in) investing activities</b>   | <b>15,672</b>         | <b>(10,493)</b>               | <b>1,257</b>                      | <b>63</b>                                     | <b>6,499</b>        |
| <b>Cash flows from financing activities:</b>   |                       |                               |                                   |   |                     |
| Shares withheld for payment of taxes   | (166)                 |                               |                                   |   | (166)               |
| Repayments of credit facilities  | (54,723)              |                               |                                   |   | (54,723)            |
| Borrowings from credit facilities  | 73,264                |                               |                                   |   | 73,264              |
| Debt issuance costs  | (37)                  |                               |                                   |   | (37)                |

|  |        |       |          |          |
|--|--------|-------|----------|----------|
| Net cash provided by financing activities                              | 18,338 |       |          | 18,338   |
| Effect of foreign currency exchange rates on cash and cash equivalents | 433    |       | 51       | 484      |
| Net increase (decrease) in cash and cash equivalents                   | 473    | 75    | (1,314)  | (766)    |
| Cash and cash equivalents at beginning of period                       | 10     |       | 3,200    | 3,210    |
| Cash and cash equivalents at end of period                             | \$ 483 | \$ 75 | \$ 1,886 | \$ 2,444 |

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**Condensed Consolidating Statement of Cash Flows**  
**Quarter Ended June 30, 2013**

|  | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries<br/>and<br/>Eliminations</b> | <b>Consolidated</b> |
|--|---------------------------|-----------------------------------|---------------------------------------|---|---------------------|
| <b>Cash flows from operating activities:</b>   |                           |                                   |                                       |   |                     |
| Net income (loss)  | \$ (7,104)                | \$ 4,154                          | \$ 1,180                              | \$ (27)   | \$ (1,797)          |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                           |                                   |                                       |   |                     |
| Depreciation and amortization  | 6,436                     | 1,983                             | 55                                    |   | 8,474               |
| Deferred income taxes  | (1,993)                   | (269)                             |                                       |   | (2,262)             |
| Non-cash interest expense on debt  | 540                       |                                   |                                       |   | 540                 |
| Non-cash interest expense on tax contingencies   | 15                        | 296                               |                                       |   | 311                 |
| Stock-based compensation   | 232                       |                                   |                                       |   | 232                 |
| Write-off of debt issuance costs related to the early extinguishment of debt                       | 215                       |                                   |                                       |   | 215                 |
| Non-cash interest income on loans  | (41)                      |                                   |                                       |   | (41)                |
| Loss (gain) on sale of equipment   | (25)                      |                                   | 4                                     |   | (21)                |
| Amortization of debt issuance costs  | 465                       |                                   |                                       |   | 465                 |
| Changes in operating assets and liabilities:   |                           |                                   |                                       |   |                     |
| Accounts receivable  | 1,898                     | (4,042)                           | (5,286)                               | (1)   | (7,431)             |
| Prepaid expenses and other current assets  | 357                       | (347)                             | 21                                    |   | 31                  |
| Income tax receivable, net   | (416)                     |                                   | (36)                                  |   | (452)               |
| Aircraft support parts, net  | (8,057)                   | (3,464)                           |                                       |   | (11,521)            |
| Other non-current assets   | (74)                      | (2,608)                           | 1                                     |   | (2,681)             |
| Accounts payable   | 1,439                     | (26,532)                          | (67)                                  |   | (25,160)            |
| Accrued and other current liabilities  | (45,995)                  | 44,476                            | 3,147                                 | (291)   | 1,337               |
| Income tax payable   |                           | 1                                 | 840                                   |   | 841                 |
| Other long-term liabilities  | 1,216                     | 336                               |                                       |   | 1,552               |
| <b>Net cash provided by (used in) operating activities</b>   | <b>(50,892)</b>           | <b>13,984</b>                     | <b>(141)</b>                          | <b>(319)</b>  | <b>(37,368)</b>     |
| <b>Cash flows from investing activities:</b>   |                           |                                   |                                       |   |                     |
| Acquisition of businesses, net of cash acquired  | (208,870)                 |                                   |                                       |   | (208,870)           |
| Purchases of aircraft and property, plant and equipment  | (3,846)                   | (12,242)                          | (12)                                  |   | (16,100)            |
| Restricted cash  | (44,960)                  |                                   |                                       |   | (44,960)            |
| Dividends paid to noncontrolling interest  |                           |                                   | (660)                                 | 319   | (341)               |
| <b>Net cash provided by (used in) investing activities</b>   | <b>(257,676)</b>          | <b>(12,242)</b>                   | <b>(672)</b>                          | <b>319</b>  | <b>(270,271)</b>    |

|  |           |          |        |           |
|--|-----------|----------|--------|-----------|
| Cash flows from financing activities:                                  |           |          |        |           |
| Repayments of subordinated notes                                       | (27,572)  |          |        | (27,572)  |
| Repayments of credit facilities  | (125,147) |          |        | (125,147) |
| Borrowings from credit facilities                                      | 79,263    |          |        | 79,263    |
| Borrowing of notes   | 400,000   |          |        | 400,000   |
| Debt issuance costs  | (13,777)  |          |        | (13,777)  |
| Shares withheld for payment of taxes                                   | (613)     |          |        | (613)     |
| Net cash provided by financing activities                              | 312,154   |          |        | 312,154   |
| Effect of foreign currency exchange rates on cash and cash equivalents |           |          | (16)   | (16)      |
| Net increase (decrease) in cash and cash equivalents                   | 3,586     | 1,742    | (829)  | 4,499     |
| Cash and cash equivalents at beginning of period                       | 7         |          | 1,315  | 1,322     |
| Cash and cash equivalents at end of period                             | \$ 3,593  | \$ 1,742 | \$ 486 | \$ 5,821  |

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**Condensed Consolidating Statement of Cash Flows**  
**Six Months Ended June 30, 2014**

|  | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>and<br/>Eliminations</b> | <b>Consolidated</b> |
|--|---------------------------|-----------------------------------|---------------------------------------|---|---------------------|
| <b>Cash flows from operating activities:</b>   |                           |                                   |                                       |   |                     |
| Net income   | \$ (13,892)               | \$ (9,709)                        | \$ (1,009)                            | \$ (77)                                       | \$ (24,687)         |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                           |                                   |                                       |   |                     |
| Depreciation and amortization  | 11,654                    | 4,885                             | 395                                   |   | 16,934              |
| Impairment of goodwill   |                           | 21,272                            |                                       |   | 21,272              |
| Deferred income taxes  | (16,830)                  |                                   | 90                                    |   | (16,740)            |
| Non-cash interest expense on debt  | 523                       |                                   |                                       |   | 523                 |
| Stock-based compensation   | 396                       |                                   |                                       |   | 396                 |
| Amortization of debt issuance costs  | 1,214                     |                                   |                                       |   | 1,214               |
| Gain on sale of equipment  | (121)                     | (25)                              | (45)                                  |   | (191)               |
| <b>Changes in operating assets and liabilities</b>   |                           |                                   |                                       |   |                     |
| Accounts receivable  | (1,359)                   | 5,906                             | (2,991)                               | 14  | 1,570               |
| Prepaid expenses and other current assets  | (1,159)                   | (64)                              | 317                                   |   | (906)               |
| Income tax receivable  | 41                        | (3)                               | 908                                   |   | 946                 |
| Aircraft support parts, net  | (7,759)                   | (4,483)                           | (473)                                 |   | (12,715)            |
| Other non-current assets   | 145                       | 2,753                             | 228                                   |   | 3,126               |
| Accounts payable   | 2,408                     | (1,285)                           | (392)                                 |   | 731                 |
| Accrued and other current liabilities  | (15,843)                  | (1,894)                           | 1,396                                 |   | (16,341)            |
| Income tax payable   | (10)                      | 4                                 | 723                                   |   | 717                 |
| Other long-term liabilities  | 558                       |                                   |                                       |   | 558                 |
| <b>Net cash provided by (used in) operating activities</b>   | <b>(40,034)</b>           | <b>17,357</b>                     | <b>(853)</b>                          | <b>(63)</b>                                   | <b>(23,593)</b>     |
| <b>Cash flows from investing activities:</b>   |                           |                                   |                                       |   |                     |
| Restricted cash  |                           |                                   | 1,767                                 |   | 1,767               |
| Proceeds from sale-leaseback of aircraft   | 24,660                    |                                   |                                       |   | 24,660              |
| Dividends paid to non-controlling interest   |                           |                                   | (136)                                 | 63  | (73)                |
| Purchases of aircraft and property, plant and equipment  | (19,623)                  | (17,270)                          | (245)                                 |   | (37,138)            |
| <b>Net cash provided by (used in) investing activities</b>   | <b>5,037</b>              | <b>(17,270)</b>                   | <b>1,386</b>                          | <b>63</b>                                     | <b>(10,784)</b>     |
| <b>Cash flows from financing activities:</b>   |                           |                                   |                                       |   |                     |
| Proceeds from shareholders, net  | 414                       |                                   |                                       |   | 414                 |
| Shares withheld for payment of taxes   | (166)                     |                                   |                                       |   | (166)               |
| Repayments of credit facilities  | (79,123)                  |                                   |                                       |   | (79,123)            |
| Borrowings from credit facilities  | 113,131                   |                                   |                                       |   | 113,131             |
| Debt issuance costs  | (267)                     |                                   |                                       |   | (267)               |

|  |        |       |          |          |
|--|--------|-------|----------|----------|
| Net cash provided by financing activities                              | 33,989 |       |          | 33,989   |
| Effect of foreign currency exchange rates on cash and cash equivalents | 915    |       | 36       | 951      |
| Net increase (decrease) in cash and cash equivalents                   | (93)   | 87    | 569      | 563      |
| Cash and cash equivalents at beginning of period                       | 576    | (12)  | 1,317    | 1,881    |
| Cash and cash equivalents at end of period                             | \$ 483 | \$ 75 | \$ 1,886 | \$ 2,444 |

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**Condensed Consolidating Statement of Cash Flows**  
**Six Months Ended June 30, 2013**

|  | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>and<br/>Eliminations</b> | <b>Consolidated</b> |
|--|---------------------------|-----------------------------------|---------------------------------------|---|---------------------|
| <b>Cash flows from operating activities:</b>   |                           |                                   |                                       |   |                     |
| Net income (loss)  | \$ (7,659)                | \$ 4,154                          | \$ 744                                | \$ (30)                                       | \$ (2,791)          |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                           |                                   |                                       |   |                     |
| Depreciation and amortization  | 11,783                    | 1,983                             | 108                                   |   | 13,874              |
| Deferred income taxes  | (3,526)                   | (269)                             |                                       |   | (3,795)             |
| Non-cash interest expense on debt  | 1,197                     |                                   |                                       |   | 1,197               |
| Non-cash interest expense on tax contingencies   | 15                        | 296                               |                                       |   | 311                 |
| Stock-based compensation   | 411                       |                                   |                                       |   | 411                 |
| Write-off of debt issuance costs related to the early extinguishment of debt                       | 215                       |                                   |                                       |   | 215                 |
| Non-cash interest income on loans  | (41)                      |                                   |                                       |   | (41)                |
| Loss (gain) on sale of equipment   | (25)                      |                                   | 4                                     |   | (21)                |
| Amortization of debt issuance costs  | 787                       |                                   |                                       |   | 787                 |
| <b>Changes in operating assets and liabilities:</b>  |                           |                                   |                                       |   |                     |
| Accounts receivable  | (3,278)                   | (4,042)                           | (6,364)                               | 1   | (13,683)            |
| Prepaid expenses and other current assets  | (1,197)                   | (347)                             | (94)                                  |   | (1,638)             |
| Income tax receivable, net   | (1,258)                   |                                   | 943                                   |   | (315)               |
| Aircraft support parts, net  | (9,730)                   | (3,464)                           |                                       |   | (13,194)            |
| Other non-current assets   | (74)                      | (2,608)                           | 1                                     |   | (2,681)             |
| Accounts payable   | 804                       | (26,532)                          | 252                                   |   | (25,476)            |
| Accrued and other current liabilities  | (41,550)                  | 44,476                            | 3,374                                 | (290)   | 6,010               |
| Income tax payable   | 390                       | 1                                 | 840                                   |   | 1,231               |
| Other long-term liabilities  | 1,216                     | 336                               |                                       |   | 1,552               |
| <b>Net cash provided by (used in) operating activities</b>   | <b>(51,520)</b>           | <b>13,984</b>                     | <b>(192)</b>                          | <b>(319)</b>                                  | <b>(38,047)</b>     |
| <b>Cash flows from investing activities:</b>   |                           |                                   |                                       |   |                     |
| Acquisition of businesses, net of cash acquired  | (208,870)                 |                                   |                                       |   | (208,870)           |
| Purchases of aircraft and property, plant and equipment  | (12,376)                  | (12,242)                          | (15)                                  |   | (24,633)            |
| Restricted cash  | (44,958)                  |                                   | (53)                                  |   | (45,011)            |
| Dividends paid to noncontrolling interest  |                           |                                   | (660)                                 | 319   | (341)               |
| Decrease (increase) in other assets  |                           |                                   | (35)                                  |   | (35)                |
| <b>Net cash provided by (used in) investing activities</b>   | <b>(266,204)</b>          | <b>(12,242)</b>                   | <b>(763)</b>                          | <b>319</b>                                    | <b>(278,890)</b>    |

|   |           |          |        |           |
|---|-----------|----------|--------|-----------|
| <b>Cash flows from financing activities:</b>                                  |           |          |        |           |
| Repayments of subordinated notes  | (27,572)  |          |        | (27,572)  |
| Repayments of credit facilities   | (184,417) |          |        | (184,417) |
| Borrowings from credit facilities   | 147,853   |          |        | 147,853   |
| Borrowing of notes  | 400,000   |          |        | 400,000   |
| Debt issuance costs   | (13,976)  |          |        | (13,976)  |
| Shares withheld for payment of taxes  | (613)     |          |        | (613)     |
| Net cash provided by financing activities                                     | 321,275   |          |        | 321,275   |
| <b>Effect of foreign currency exchange rates on cash and cash equivalents</b> |           |          |        |           |
|   |           |          | 15     | 15        |
| Net increase (decrease) in cash and cash equivalents                          | 3,551     | 1,742    | (940)  | 4,353     |
| Cash and cash equivalents at beginning of period                              | 41        |          | 1,427  | 1,468     |
| Cash and cash equivalents at end of period                                    | \$ 3,592  | \$ 1,742 | \$ 487 | \$ 5,821  |

**Table of Contents****Note 12. Income Taxes**

|   | <b>Three Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>Six Months<br/>Ended<br/>June 30, 2014</b> | <b>Six Months<br/>Ended<br/>June 30, 2013</b> |
|---|---|---|---|---|
| Effective tax rate                        | 37.3%   | 36.5%   | 37.5%   | 43.7%   |
| Discrete items expense (benefit)          | \$ (7,758)  | \$ 25   | \$ (7,758)                                    | \$ (268)                                      |
| Effective tax rate without discrete items | 40.3%   | 37.3%   | 38.6%   | 38.3%   |

The Company's effective rate for the three months ended June 30, 2014 and 2013 differs from the statutory rate primarily due to recurring items such as tax rates in foreign jurisdictions and the relative amount of income it earns in those jurisdictions. It is also affected by discrete items that may occur in any given period. The discrete items for the three months ended June 30, 2014 and 2013 related primarily to \$21.3 million of goodwill impairment and to insignificant state rate adjustments, respectively.

In accounting for income taxes, the Company recognizes deferred tax assets if realization of such assets is more likely than not. The Company believes, based on factors including, but not limited to, the ability to generate future taxable income from reversing taxable temporary differences and forecasts of financial and taxable income or loss by jurisdiction, that as of June 30, 2014 it is more likely than not that the Company will realize all of its deferred tax assets, including its net operating loss carry forwards and tax credits. The Company's utilization of net operating loss carryforwards and credit may be subject to annual limitations due to ownership change provisions of Internal Revenue Code Section 382.

As of June 30, 2014, there have been no material changes to the Company's uncertain tax position as provided at December 31, 2013. The Company's unrecognized tax benefits and related interest and penalties during the three months ended June 30, 2014 increased by \$0.2 million due to the uncertain tax positions associated with certain tax matters in Greece. The ending balance for the unrecognized tax benefits was approximately \$7.7 million at June 30, 2014 and included penalties of approximately \$2.1 million and the related interest was immaterial. It is the Company's policy to recognize interest and penalties related to uncertain tax positions in other income (expense).

On September 3, 2013, the Company completed its acquisition of Air Amazonia and in 2014 the Company intends to make a 338(g) election for Air Amazonia. The Company intends to record goodwill for Brazil income tax purposes for the amount paid in excess of the net equity of Air Amazonia, which may result in the generation of an amortizable premium or a step-up in the tax bases of otherwise depreciable or amortizable assets.

The IRS is currently conducting an income tax examination of the Company's 2012 tax year. The examination is in the information gathering phase and no formal adjustment or assessment has been made. The Italian tax authorities audited the Company's operations in Italy for the financial year 2010 and completed their examination on October 7, 2013 and subsequently issued proposed adjustments. The proposed adjustments are not expected to have a significant impact on the Company's consolidated financial position, results of operations, or cash flows. In February 2014, the Company filed an appeal with the Italian Court on this matter.

The Greek tax authorities are currently conducting a permanent establishment examination of the Company for the fiscal years 2010 and 2011. All material uncertain tax positions associated with the examination have been taken into account in the ending balance of the unrecognized tax benefits at June 30, 2014.

The Malaysian tax authorities have initiated an examination into the 2008 through 2011 tax return years. No formal adjustment or assessment has been made as the tax audit is in the information gathering phase.

The Company is not under examination by tax authorities in any other jurisdictions.

### **Note 13. Reportable Segments**

The Company reports segment information based on the management approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company's reportable segments. Prior to May 2, 2013, the Company's reportable operating segments were Aerial services, which consisted of firefighting, timber harvesting, infrastructure construction, and crewing, and Manufacturing/MRO, which consisted of aftermarket support and maintenance, repair, and overhaul (MRO) services for the Airplane and other aircraft and the remanufacture of Airplanes and related components. On May 2, 2013, the Company completed its acquisition of EHI. As a result of the acquisition, the Company established new reportable operating segments to assess performance by type of customer: Government and Commercial. The Government segment includes firefighting, defense and security, and transportation and other operating segments, as these lines of business are primarily contracted with government customers. The Commercial segment includes both logging and construction operating segments, as these lines of business are primarily contracted with commercial customers.

**Government.** The Company's Government revenue is derived primarily from contracts with various governments who use its services for firefighting, defense and security, and transportation and other government-related activities. Many of the Company's contracts for Government services are multi-year and provide the majority of its current revenue backlog.

**Firefighting Contracts.** The Company generally charges a daily standby fee for the contract period with an additional rate for hours flown; some contracts include a minimum number of hours to be flown before the hourly rate is charged. The Company has both domestic and international contracts, which may be exclusive-use or call-when-needed in nature. Exclusive-use contracts denote that the Company is obligated to provide, and its customers are obligated to take and pay for, the use of the Company's services. Call-when-needed contracts are contracts with pre-negotiated terms under which the Company may elect to provide services if requested.

**Defense and Security Contracts.** The Company generally charges a daily standby fee for the contract period with an additional rate for hours flown; some contracts include a minimum number of hours to be flown before the hourly rate is charged. The Company has both domestic and international contracts, but the majority of its defense and security-related work is performed outside of the U.S.

**Transportation and Other Government-Related Activities.** This line of business captures several types of government services including transportation of items for various government entities that are not defense or security related, crewing and cost per hour (CPH) services for government customers, as well as other government-related services. Crewing services are typically for customers who have purchased an Airplane but lack trained or certified operating

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personnel-related to the Airplane. The Company offers pilots and field maintenance crews as part of its crewing services. For government customers who desire better predictability and stability in their aircraft operating costs, the Company offers CPH contracts in which it provides major components and rotatable parts at a fixed cost per flight hour.

**Commercial.** The Company's Commercial revenue is derived primarily from timber harvesting, infrastructure construction, and manufacturing/ MRO.

**Timber Harvesting Contracts.** The Company generally operates on either an hourly rate structure or a per cubic meter of high grade timber delivered basis. The Company serves a variety of customers in North America and Asia.

**Infrastructure Construction Contracts.** The Company's infrastructure construction operations vary from short-term construction jobs (generally one to five days in duration) to longer-term jobs (several months or years in duration) within the oil and gas, construction, energy transmission, and energy generation industries.

**MRO, Component Part Sale, and Other.** The Company has an ongoing revenue stream from customers who own or operate either Airplanes or the military version CH-54s, or other aircraft and require parts support for their helicopters. Further, the Company provides services to customers who own or operate Airplanes, CH-54s, or other aircraft and need their aircraft components repaired or overhauled by a certified facility. The Company is also pursuing aftermarket opportunities to manufacture and sell parts or provide maintenance, repair, or overhaul for other aircraft components.

In the Company's Central Point, Oregon facility it has the capability to remanufacture Airplanes on existing S-64 and CH-54 airframes for either resale or to induct into the Company's fleet, and this remains a core business competency. Customers who identify a year-round or otherwise critical application for an Airplane may find it advantageous to own an Airplane rather than leasing the Company's fleet services. The Company has sold ten Airplanes since 2002, including the sale-leaseback transaction executed in the second quarter of 2014, and subsequently re-purchased one of these Airplanes in 2012. While the Company continues to pursue Airplane sales and will make sales strategically when opportunities arise, it does not rely on Airplane sales as an essential part of its business planning.

The following table sets forth information about the Company's operations by its two reportable segments. Amounts identified as Corporate are assets or expenses that are not directly attributable to a specific segment:

*Revenue by Reportable Segment (in thousands):*

|                      | <b>Three Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>Six Months<br/>Ended<br/>June 30, 2014</b> | <b>Six Months<br/>Ended<br/>June 30, 2013</b> |
|----------------------|---|---|---|---|
| <b>Net revenues:</b> |   |   |   |   |
| Government           | \$ 54,315   | \$ 43,855   | \$ 110,232                                    | \$ 61,462                                     |
| Commercial           | 26,570  | 24,735  | 44,837  | 44,068  |

|                           |           |           |            |            |
|---------------------------|-----------|-----------|------------|------------|
| <b>Total net revenues</b> | \$ 80,885 | \$ 68,590 | \$ 155,069 | \$ 105,530 |
|---------------------------|-----------|-----------|------------|------------|

*Gross Profit by Reportable Segment (in thousands):*

|                                    | <b>Three Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>Six Months<br/>Ended<br/>June 30, 2014</b> | <b>Six Months<br/>Ended<br/>June 30, 2013</b> |
|------------------------------------|---|---|---|---|
| <b>Gross Profit:</b>               |   |   |   |   |
| Government                         | \$ 34,528   | \$ 28,256   | \$ 69,378                                     | \$ 39,331                                     |
| Commercial                         | 13,621  | 14,298  | 23,092  | 25,010  |
| Non-allocated costs <sup>(1)</sup> | (34,420)  | (25,064)  | (70,461)                                      | (37,578)                                      |
| <b>Total gross profit</b>          | <b>\$ 13,729</b>                                    | <b>\$ 17,490</b>                                    | <b>\$ 22,009</b>                              | <b>\$ 26,763</b>                              |

- (1) Non-allocated costs include costs that are shared by both of the reporting segments but are not allocated to the operating segments for the use of the Chief Operating Decision Maker (CODM) and expenses that are not directly attributable to the operating segments.

*Assets by Reportable Segment (in thousands):*

|                             | <b>June 30, 2014</b> | <b>December 31, 2013</b> |
|-----------------------------|----------------------|--------------------------|
| <b>Assets:</b>              |                      |                          |
| Government                  | \$ 269,595           | \$ 295,153               |
| Commercial                  | 23,303               | 21,070                   |
| Corporate <sup>(1)</sup>    | 48,287               | 51,756                   |
| Fixed assets <sup>(2)</sup> | 380,339              | 359,326                  |
| <b>Total assets</b>         | <b>\$ 721,524</b>    | <b>\$ 727,305</b>        |

- (1) Corporate assets are comprised primarily of cash, prepaid and other current assets, and deferred tax assets  
(2) Fixed assets are comprised of the aircraft fleet and fleet support assets including aircraft, net, aircraft support parts, net, and property, plant, and equipment, net. Property, plant, and equipment, net are primarily used to support the aircraft fleet, with minimal amounts allocated to the corporate function

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A reconciliation of the Company's segment gross profit to operating income (loss) for the three and six months ended June 30, 2014 and June 30, 2013 is as follows (in thousands):

|   | <b>Three Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>Six Months<br/>Ended<br/>June 30, 2014</b> | <b>Six Months<br/>Ended<br/>June 30, 2013</b> |
|---|---|---|---|---|
| <b>Reconciliation to operating income (loss):</b> |   |   |   |   |
| Government gross profit                           | \$ 34,528   | \$ 28,256   | \$ 69,378                                     | \$ 39,331                                     |
| Commercial gross profit                           | 13,621  | 14,298  | 23,092  | 25,010  |
| Non-allocated costs of revenue <sup>(1)</sup>     | (34,420)  | (25,064)  | (70,461)                                      | (37,578)                                      |
| Operating expenses, net <sup>(2)</sup>            | (31,159)  | (12,593)  | (42,262)                                      | (22,206)                                      |
| <b>Total operating income (loss)</b>              | <b>\$ (17,430)</b>                                  | <b>\$ 4,897</b>                                     | <b>\$ (20,253)</b>                            | <b>\$ 4,557</b>                               |

- (1) Non-allocated costs include costs that are shared by both of the reporting segments but are not allocated to the operating segments for the use of the CODM and expenses that are not directly attributable to the operating segments.
- (2) Other corporate expenses include research and development, corporate sales and marketing expenses, stock-based compensation expense, certain tax expenses, various nonrecurring charges, and other separately managed general and administrative costs.

*Revenue by Geographic Area (in thousands):*

|                           | <b>Three Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>Six Months<br/>Ended<br/>June 30, 2014</b> | <b>Six Months<br/>Ended<br/>June 30, 2013</b> |
|---------------------------|---|---|---|---|
| <b>Net revenues:</b>      |   |   |   |   |
| North America             | \$ 30,515   | \$ 30,480   | \$ 48,230                                     | \$ 41,860                                     |
| Middle East               | 21,488  | 15,704  | 41,439  | 15,704  |
| Europe                    | 5,623   | 7,095   | 8,937   | 10,133  |
| Asia                      | 6,179   | 5,455   | 11,936  | 7,548   |
| South America             | 10,442  | 5,166   | 18,549  | 11,038  |
| Africa                    | 6,585   | 4,644   | 14,872  | 4,644   |
| Australia                 | 53  | 46  | 11,106  | 14,603  |
| <b>Total net revenues</b> | <b>\$ 80,885</b>                                    | <b>\$ 68,590</b>                                    | <b>\$ 155,069</b>                             | <b>\$ 105,530</b>                             |

For each operating segment, revenues are attributed to geographic area based on the country where the services were performed; for the Manufacturing / MRO line of business within the Commercial reportable segment, revenues are attributed to geographic area based on the country in which the customer is located.

## **Note 14. Commitments and Contingencies**

### ***Environmental Remediation Matters***

The Company is continuing to participate in remediating environmental damage resulting from the identification of hazardous substances at its Central Point, Oregon facility. Under the Asset Purchase Agreement with Erickson Group, Ltd. (Erickson Group), a previous owner of the Company, Erickson Group agreed to bear the financial responsibility for the payment of the first \$1.5 million of the cleanup costs. Erickson Group and the Company shall each bear one-half of the financial responsibility for the payment of the next \$1.0 million of cleanup costs, and any aggregate costs in excess of \$2.5 million will be the sole responsibility of Erickson Group. Erickson Group is responsible for directing and controlling the remediation efforts. Since 2000, the Company has paid \$0.4 million to Erickson Group for a portion of its exposure on the \$0.5 million layer of financial responsibility and has recorded a liability for the remaining \$0.1 million exposure on its remaining share. Environmental consultants indicate that the Central Point site may require monitoring for another 20 years; therefore, the Company believes the full amount of its financial share will ultimately be paid.

### ***Legal Proceedings***

#### ***Fortis Matter***

A complaint was served on EHI on August 27, 2012, by the plaintiff, Fortis Lease Deutschland GmbH, in the Regional Court, 7th Chamber for Commercial Matters, Cologne, Germany. The plaintiff claims approximately 0.8 million in damages for the payment of VAT levied on the purchase price relating to EHI's purchase of two helicopters from the plaintiff in 2011. The complaint lodged by plaintiff resulted in a default judgment against EHI issued on February 26, 2013. In a brief filed with the court on May 10, 2013, EHI objected to the default judgment, arguing that the sale of the two helicopters was tax exempt as they both were exported to a third country outside the European Union. In May 2014, Erickson paid 40,000 in full and final settlement of this matter.

#### ***Arizona Environmental Matter***

In August 2012, EHI received a request for information from the State of Arizona regarding the Broadway-Pantano Site in Tucson, Arizona, which is comprised of two landfills at which the State has been conducting soil and groundwater investigations and cleanups. In addition, EHI has been served with various petitions to perpetuate testimony regarding the State's investigation into contamination at the Site. According to these documents, the State has identified approximately 101 parties that are potentially responsible for the contamination. Based on the information request and the petition to perpetuate testimony, it is possible that the State or other liable parties may assert that EHI is liable for the alleged contamination at the Site. There were no material developments with respect to this matter in 2013 or during the six months period ended June 30, 2014. At this time, the Company is not able to determine the likelihood of any outcome in this matter, nor is it able to estimate the amount or range of loss or the impact on its financial condition in the event of an unfavorable outcome.

#### ***World Fuel Claim***

In December of 2013, World Fuel, a former fuel supplier of Evergreen International Aviation (EIA) and Evergreen Airlines (EA), filed suit against EIA, EA and other named parties claiming approximately \$9 million of accounts payable due and owing to World Fuel for fuel purchases made by EIA and EA. Evergreen Helicopters, Inc. (Erickson's wholly-owned subsidiary, EHI) was a named party in the lawsuit since it was alleged that EHI signed a joint and several guaranty of payment in favor of World Fuel in 2012. In April 2014, the Company filed its Amended Answer which included certain counterclaims against World Fuel and certain cross claims against Mr. Delford Smith. Discovery in this matter is ongoing. At this time, the Company is not able to determine the likelihood of any outcome in this matter, nor is it able to estimate the amount or range of loss or the impact on its financial condition in the event

of an unfavorable outcome.

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**Table of Contents***Stockholder Action*

In August 2013, a putative stockholder of the Company filed a class and derivative action in the Court of Chancery for the State of Delaware against the Company, the members of its board of directors, EAC Acquisition Corp., and the ZM Funds and certain of their affiliates. The plaintiff asserted claims for breach of fiduciary duty and unjust enrichment in connection with the EHI acquisition and requested an award of unspecified monetary damages to the stockholders and to the Company, disgorgement and restitution, certain other equitable relief, and an award of plaintiff's costs and disbursements, including legal fees. On October 3, 2013, the defendants moved to dismiss the plaintiff's complaint on the ground that all of the plaintiff's claims in reality were derivative in nature and that the plaintiff had failed to allege facts sufficient to excuse pre-suit demand. On December 4, 2013, rather than oppose the motion to dismiss, the plaintiff chose to file an amended complaint. On January 24, 2014, the defendants again moved to dismiss the plaintiff's amended complaint on the same grounds. On April 15, 2014, the Court denied the defendants' motion, holding that one aspect of the plaintiff's claim was direct and that, in any event, the plaintiff had pled facts sufficient to excuse pre-suit demand. Although the Company is unable to predict the final outcome of the proceeding, the Company believes the allegations lack merit, intends to vigorously defend against them, and believes that the final results will not have a material effect on its consolidated financial position, results of operations, or cash flows.

In addition to the foregoing litigation, the Company is subject to ongoing litigation and claims as part of its normal business operations. In the Company's opinion, none of these claims will have a material adverse effect on it.

**Note 15. Related Party Transactions**

In addition to the stated items and transaction below, the Company reimbursed various entities affiliated with the ZM Funds and Quinn Morgan for expenses and other costs totaling zero during the three months ended June 30, 2014 and June 30, 2013. For the six months ending June 30, 2014 and June 30, 2013, the Company reimbursed ZM Funds and Quinn Morgan for expenses and other costs totaling \$0.2 million and zero respectively.

During the first quarter of 2014, the Company received \$0.4 million, net from short-swing profit disgorgement remitted by the ZM Funds. This activity was classified on the consolidated balance sheet as of June 30, 2014 as an increase to additional paid-in capital and as a component of financing activity within the consolidated statement of cash flows for the six months ended June 30, 2014.

*Registration Rights*

The Company is party to an amended and restated registration rights agreement among the Company and the ZM Funds, which are beneficial owners of more than 5% of the Company's common stock. Pursuant to the registration rights agreement, ZM EAC LLC has the right to require that the Company register its shares under the Securities Act for sale to the public. If ZM EAC LLC exercises its demand registration right, ZM Private Equity Fund I, L.P. and ZM Private Equity Fund II, L.P. will have the opportunity to include their shares in the registration. The Company must pay all expenses, except for underwriters' discounts and commissions, incurred in connection with the exercise of these demand registration rights.

In addition, the ZM Funds have piggyback registration rights, which mean that they have the right to include their shares in any registration that the Company effects under the Securities Act, other than a registration affected pursuant to an exercise of demand registration rights, subject to specified exceptions. The Company must pay all expenses, except for underwriters' discounts and commissions, incurred in connection with these piggyback registration rights.

The Company is unable to estimate the dollar value of registration rights to the holders of these rights. The amount of reimbursable expenses under the registration rights agreement depends on a number of variables, including whether registration rights are exercised incident to a primary offering by the Company, the form on which the Company is eligible to register such a transaction, and whether the Company has a shelf registration in place at the time of any future offering.

#### **Note 16. Derivative Instruments and Hedging Activities**

The Company enters into foreign currency forward contracts from time to time. The purpose of these transactions is to reduce the impact of future currency fluctuations related to anticipated cash receipts from expected future revenue that is denominated in a currency other than U.S. dollars. The change in the valuation of the foreign currency forwards portfolio is recorded within unrecognized or recognized gain (loss) in the accompanying consolidated statements of comprehensive income. Outstanding balances of foreign currency forward contracts in asset positions at year end are included in prepaid expenses and other assets if maturing within one year, or other noncurrent assets if maturing beyond one year within the accompanying consolidated balance sheets. Outstanding balances of foreign currency forward contracts in liability positions at year end are included in accrued and other current liabilities if maturing within one year, or other long-term liabilities if maturing beyond one year within the accompanying consolidated balance sheets.

The Company was not party to any foreign currency forward contracts as of June 30, 2014 or December 31, 2013.

#### **Note 17. Variable Interest Entity**

An entity is generally considered a variable interest entity (a VIE) that is subject to consolidation under ASC Topic 810 Consolidation, if the total equity investment at risk is not sufficient for the entity to finance its activities without additional subordinated financial support; or as a group, the holders of the equity investment at risk lack any one of the following characteristics: (a) the power, through voting rights or similar rights, to direct the activities that most significantly impact the entity's economic performance; (b) the obligation to absorb expected losses of the entity; or (c) the right to receive the expected residual returns of the entity.

European Air-Crane, S.p.A. (EuAC) is 49% owned by Erickson Incorporated (EAC); 49% owned by Grupo Inaer (Inaer formerly Elilario Italia S.p.A.); and 2% owned by Fiduciaria Centro Nord (FCN). EAC provided FCN with the financial means to purchase and transfer the shares of EuAC, in exchange for the patrimonial and administrative rights derived from the shares. These rights include the right to decide whether and how to vote in shareholders' meetings and the right to decide whether, when and to whom the shares should be transferred and endorsed.

The Company believes that EuAC is a VIE and that the Company is the primary beneficiary of the VIE due to its ability to make decisions about the entity's activities, the exposure to the expected losses of the entity if they occur, and the right to receive the expected residual returns of the entity if they occur. As such, the consolidated financial statements include the balances of EuAC.

At June 30, 2014, EuAC consolidated assets and liabilities were \$4.6 million and \$2.2 million, respectively. At December 31, 2013, EuAC consolidated VIE assets and liabilities were \$5.5 million and \$3.0 million, respectively. As of June 30, 2014 and December 31, 2013, \$0.8 million and \$0.9 million, respectively, of noncontrolling interest relating to the other owners' stockholdings in EuAC is reflected in stockholders' equity in the accompanying consolidated balance sheets.

**Table of Contents****Note 18. Seasonality**

The Company's flight hours are substantially reduced in winter or monsoon seasons. The global deployment of the Company's helicopters and crews helps to limit the effect of seasonality, but the Company's operations tend to peak in June through October and to be at a low point in January through April. The Company believes the acquisitions of EHI, which primarily services the Department of Defense, and Air Amazonia, which services an oil and gas related customer in Brazil, will continue to reduce seasonality and further diversify its end market and customer mix.

**Note 19. Net Loss Per Share**

The Company calculates basic loss per share by dividing net loss by the weighted average number of shares of common stock outstanding. Shares issuable upon the satisfaction of certain conditions are considered outstanding and included in the computation of basic loss per share.

The following table shows the computation of loss per share (net loss in thousands):

|  | <b>Three Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>Six Months<br/>Ended<br/>June 30, 2014</b> | <b>Six Months<br/>Ended<br/>June 30, 2013</b> |
|--|---|---|---|---|
| Net loss attributable to common shareholders                               | \$ (17,109)   | \$ (1,952)  | \$ (24,703)                                   | \$ (3,169)                                    |
| Basic weighted average shares outstanding                                  | 13,799,501  | 9,759,758   | 13,794,491                                    | 9,743,532                                     |
| Dilutive effect of stock-based awards                                      |   |   |   |   |
| Dilutive weighted average shares outstanding                               | 13,799,501  | 9,759,758   | 13,794,491                                    | 9,743,532                                     |
| Basic loss per share   | \$ (1.24)   | \$ (0.20)   | \$ (1.79)                                     | \$ (0.33)                                     |
| Diluted loss per share   | \$ (1.24)   | \$ (0.20)   | \$ (1.79)                                     | \$ (0.33)                                     |
| Antidilutive common stock equivalents excluded from diluted loss per share | 3,863   | 85,607  | 8,222   | 85,607  |

**Note 20. Stock-based Compensation**

In 2012, the Company adopted a Long Term Incentive Plan and reserved for issuance 417,649 shares of its common stock. The goal of the plan is to align the interests of the Company's eligible participants with the interests of its stockholders by providing long-term incentive compensation opportunities tied to the performance of the Company and its common stock. Because vesting is based on continued employment, these equity based incentives are also intended to attract, retain and motivate key personnel upon whose judgment, initiative and effort the successful conduct of the Company's business is largely dependent. There were 25,263 shares available for grant under the Long Term Incentive Plan as of June 30, 2014. The fair value of restricted stock units is determined based on the quoted

closing price of the Company's common stock on the date of grant.

The following table summarizes the Company's restricted stock unit awards activity during the six months ended June 30, 2014:

|  | <b>Restricted Stock<br/>Award Units</b> | <b>Weighted-Average<br/>Grant Date Fair Value</b> |
|--|---|---|
| Outstanding unvested at December 31, 2013    | 91,218                                  | \$ 11.75  |
| Granted                                      | 15,500                                  | 21.53   |
| Vested restricted stock units                | (23,022)                                | 7.62  |
| Forfeited                                    | (17,875)                                | 12.39   |
| <b>Outstanding unvested at June 30, 2014</b> | <b>65,821</b>                           | <b>\$ 15.32</b>                                   |

During the three months ended June 30, 2014 and June 30, 2013, the Company granted zero and 12,414 restricted stock unit awards, respectively. The Company recognized approximately \$0.2 million and \$0.2 million in stock-based compensation expense during the three months ended June 30, 2014 and June 30, 2013, respectively. During the six months ended June 30, 2014 and June 30, 2013, the Company granted 15,500 and 12,414 restricted stock unit awards, respectively. The Company recognized approximately \$0.4 million and \$0.4 million in stock-based compensation expense during the six months ended June 30, 2014 and June 30, 2013, respectively.

Unrecognized stock-based compensation expense related to outstanding unvested restricted stock unit awards as of June 30, 2014 is expected to be recognized over a weighted average period of 0.9 years, as follows (in thousands):

|              | <b>Unamortized<br/>Compensation Expense</b> |
|--------------|---|
| 2014         | \$ 495                                      |
| 2015         | 278   |
| 2016         | 9   |
| 2017         | 7   |
| Thereafter   |   |
| <b>Total</b> | <b>\$ 789</b>                               |

**Table of Contents****FORWARD-LOOKING STATEMENTS**

Certain statements contained in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those reflected in any forward-looking statements. You can identify forward-looking statements by words such as believe, may, estimate, continue, anticipate, intend, plan, expect, predict, potential, or the negative of these terms and similar terminology. These forward-looking statements are based on management's current expectations but they involve a number of risks and uncertainties. Actual results and the timing of events could differ materially from those anticipated in the forward-looking statements as a result of risks and uncertainties, which include: that we recently completed both the Air Amazonia and Evergreen Helicopters, Inc. ( EHI ) acquisitions and we may not realize the benefits of these acquisitions on a timely basis or at all; our ability to integrate these businesses successfully or in a timely and cost-efficient manner; our ability to successfully expand these businesses, enter new markets and manage international expansion; that we do not have extensive operating history in the aerial services segments, in the geographic areas, or with the types of aircraft historically operated by EHI and Air Amazonia; that the anticipated reduction in troops in Afghanistan in the near-term may adversely affect us; that we operate in certain dangerous and war-affected areas, which may result in hazards to our fleet and personnel; the hazards associated with our helicopter operations, which involve significant risks and which may result in hazards that may not be covered by our insurance or may increase the cost of our insurance; our safety record; our substantial indebtedness; that we and our subsidiaries may still incur significant additional indebtedness; our failure to obtain any required financing on favorable terms; compliance with debt obligations, which could adversely affect our financial condition and impair our ability to grow and operate our business; cancellations, reductions or delays in customer orders; our ability to collect on customer receivables; weather and seasonal fluctuations that impact aerial services activities; competition; reliance on a small number of large customers; the impact of short-term contracts; the availability and size of our fleet; the impact of government spending; the impact of product liability and product warranties; the ability to attract and retain qualified personnel; the impact of environmental and other regulations, including FAA regulations and similar international regulations; our ability to accurately forecast financial guidance; our ability to convert backlog into revenues and appropriately plan expenses; worldwide economic conditions (including conditions in the geographic areas in which we operate); our reliance on a small number of manufacturers; the necessity to provide components or services to owners and operators of aircraft; our ability to effectively manage our growth; our ability to keep pace with changes in technology; our ability to adequately protect our intellectual property; our ability to successfully enter new markets and manage international expansion; our ability to expand and market manufacturing and maintenance, repair and overhaul services; the potential unionization of our employees; the fluctuation in the price of fuel; the impact of changes in the value of foreign currencies; and the risks of doing business in developing countries and politically or economically volatile areas; as well as other risks and uncertainties more fully described under the heading "Risk Factors" in our most recently filed Annual Report on Form 10-K as well as the other reports we file with the SEC from time to time.

You should not place undue reliance on any forward-looking statements. Erickson assumes no obligation to update forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting forward-looking information, except to the extent required by applicable laws.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) is intended to help the reader understand our business and operations. The following discussion and analysis should be

read together with the selected consolidated financial data and our consolidated financial statements and notes thereto set forth in this quarterly report on Form 10-Q. Certain statements contained in this discussion may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those reflected in any forward-looking statements. See Forward-Looking Statements.

This overview summarizes the MD&A, which includes the following sections:

**Recent Developments** highlights from the second quarter of 2014 outlining some of the major events that happened during the quarter and how they affected our financial performance, as well as other recent developments.

**Overview of our Business** a review of our business and our business operating segments.

**Trends and Uncertainties Affecting our Business** some of the known trends, demands, events, and uncertainties that have had material effects on our results of operations for the periods presented in our consolidated financial statements or we believe are reasonably likely to have material effects in the future.

**Results of Operations** an analysis of the results of our operations for the quarterly period presented for 2014 in our consolidated financial statements. We believe this analysis will help the reader better understand our consolidated statements of comprehensive income. This section also includes financial and statistical data regarding our view of 2014.

**Liquidity and Capital Resources** an analysis of cash flows and sources and uses of cash, including some of the known trends, demands, events, and uncertainties that will or are reasonably likely to have a material impact on our liquidity and capital resources.

**Off-balance-sheet Arrangements** an overview of off-balance-sheet arrangements outstanding as of June 30, 2014.

**Critical Accounting Policies and Estimates** critical accounting policies and estimates that we believe are most important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.

## **RECENT DEVELOPMENTS**

In March 2014, we signed a four-year contract with Hunt Oil Exploration and Production Company of Peru, L.L.C. Sucursal de Peru ( Hunt Oil ), under which we will provide one S-64 Airplane and one Bell 214ST for year-round use.

In April 2014, we signed a five-year contract with Pluspetrol Peru Corporation S.A., under which we will provide one S-64 Airplane and related support for year-round use.

In June 2014, we completed a sale-leaseback transaction, under which the Company sold an S-64 Airplane for a total purchase price of \$24.7 million.

We experienced no aircraft accidents, maintained our SHARP certification, and maintained zero findings on all FAA certificates.

**Financial Highlights    quarter ended June 30, 2014 compared to quarter ended June 30, 2013**

Our revenue for the quarter ended June 30, 2014 was \$80.9 million, or \$12.3 million higher than for the quarter ended June 30, 2013. This 17.9% increase was primarily driven by the acquisition of EHI, coupled with increases in South American oil and gas construction primarily driven by the acquisition of Air Amazonia, partially offset by decreases in Australian firefighting, Malaysian timber harvesting and transportation and other government related activities provided to our Italian

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customer. Operating loss was \$17.4 million, an increase of \$22.3 million as compared to \$4.9 million income in the same quarter of 2013, primarily driven by goodwill impairment charge of \$21.3 million recorded during the quarter as well as lower margins realized during the period. Net loss attributable to Erickson for the quarter ended June 30, 2014 was \$17.1 million, as compared to \$2.0 million in 2013, an increase of \$15.1 million. Second quarter adjusted EBITDA decreased 19.8% to \$13.8 million as compared to \$17.2 million in the prior year period and second quarter adjusted EBITDAR decreased 7.3% to \$19.0 million as compared to \$20.5 million, primarily due to the items discussed above. See *Non-GAAP Financial Measures* for a reconciliation of adjusted EBITDA and adjusted EBITDAR to their most directly comparable GAAP financial measures.

Our heavy lift fleet utilization (calculated as the number of days on contract as a percentage of total available days) decreased from 62.0% in the second quarter of 2013 to 44.6% in the second quarter of 2014, primarily as a result of weather delays and delays in new contract starts. Our medium and light rotary wing fleet utilization decreased from 54.0% in the second quarter of 2013 to 51.7% for the second quarter of 2014. Our fixed-wing fleet utilization increased from 46.0% in the second quarter of 2013 to 46.2% for the second quarter of 2014.

***Aircraft Fleet***

As of June 30, 2014, we operated a fleet of 90 Aircraft, 61 of which were providing aerial services for our customers during the quarter. Aircraft fleet size and utilization are major drivers of our revenues. Throughout the course of any year we may remove aircraft from service for maintenance or for sale, or add aircraft to the fleet through our own production or through a purchase or lease. Of the total aircraft in our fleet as of June 30, 2014, 20 were Aircranes, one of which is in the process of heavy maintenance. As of June 30, 2014, a total of 70 aircraft were air-worthy and available to be on contract with customers.

The following table presents the changes in aircraft employed in our fleet as of June 30, 2014:

|  | <b>Aircraft</b> | <b>Total Aircraft<br/>Employed</b> |
|--|-----------------|------------------------------------|
| Aircraft in our fleet at December 31, 2013 |                 | 90                                 |
| Aircraft purchased                         | 2               |                                    |
| Aircraft returned to lessor                | (1)             |                                    |
| Aircraft sold                              | (1)             |                                    |
| Aircraft in our fleet at June 30, 2014     |                 | 90                                 |

**OVERVIEW OF THE BUSINESS**

We are a leading global provider of aviation services to a worldwide mix of Commercial and Government customers. We currently operate a diverse fleet of 90 rotary-wing and fixed-wing aircraft, including a fleet of 20 heavy-lift S-64 Aircranes. Our fleet supports a variety of Government and Commercial customers, across a broad range of aerial services, including critical supply and logistics for deployed military forces, humanitarian relief, firefighting, timber harvesting, infrastructure construction, and crewing. We also maintain a vertically-integrated manufacturing capability for the Aircrane, related components, and other aftermarket support and maintenance, repair, and overhaul services for the Aircrane and other aircraft. We typically lease our aircraft to customers for specific missions, with customers generally paying for the aircraft, maintenance, and crewing services, and in some cases, fuel expense. Within our fleet we have 20 Aircranes, versatile and powerful heavy-lift helicopters that we manufacture in-house. The Aircrane has

two models, the S-64E and the S-64F, and our fleet of 20 contains 13 and 7 of each model respectively, making us the largest operator of Aircranes in the world. The Aircrane has a lift capacity of up to 25,000 pounds and is the only commercial aircraft built specifically as a flying crane, without a fuselage for internal loads. It is also unique in that it is the only commercial heavy-lift helicopter with a rear load-facing cockpit, combining an unobstructed view and complete aircraft control for precision lift and load placement capabilities.

We own the Type and Production Certificates for the Aircrane, granting us exclusive design, manufacturing and related rights for the aircraft and OEM components. During the third quarter of 2013, we purchased the Type Certificate for engines used in the Aircrane as well as other aircraft. We also invest in new technologies and proprietary solutions with a goal of increasing our market share and entering new markets. We have remanufactured 36 Aircranes for our own fleet and for our customers in several countries worldwide. To date, we have sold and delivered ten Aircranes, including the sale-leaseback transaction executed in the second quarter of 2014. We also offer CPH contracts pursuant to which we provide components and expendable supplies for a customer's aircraft at a fixed cost per flight hour. We believe CPH contracts help our customers better predict and manage their maintenance costs. This sector of our business is referred to as Manufacturing/MRO.

### ***Sales and Marketing***

To maintain and strengthen our position in the aerial services market, we monitor revenue flight hours by our operating segments and their underlying lines of business, aggregate revenues, and backlog revenues for our Government segment by firefighting, defense and security, transport and other government-related activities and our Commercial segment for timber harvesting and infrastructure construction, and compare these against budgeted and forecasted targets to measure performance. We monitor our sales pipeline for each of these services, and maintain a master fleet schedule and attempt to maximize aircraft utilization and revenues by minimizing our aircraft idle time, or "white space".

Contained in our Commercial segment is our Manufacturing / MRO line of business. In an effort to continue to build and develop our Manufacturing / MRO business, we focus on the number of bids and win-rate associated with bids for MRO and component manufacturing opportunities. We compare revenues against budgeted and forecasted targets to measure performance.

### ***Operations and Safety***

A key operating measure used by management in evaluating each of our business segments is gross profit, which is calculated as revenues less cost of revenues. Our most significant cost of revenues are material (including raw materials and plant labor and overhead including related employee benefits, fuel, and labor). We closely monitor material costs and fuel costs measured on a per-flight-hour basis. We also measure the costs of crewing (our pilots and field mechanics) and related expenses such as travel and local contract-related expenses, and compare these metrics against budgeted and forecasted targets to measure performance. We target all contracts to have positive gross profit; however, due to the seasonality of our business, we often have unabsorbed costs in the first quarter and the fourth quarter which could lead to negative reported gross profit in these quarters. The additions of EHI and Air Amazonia significantly increase the diversity of the end markets we serve and we believe this addition reduces the seasonality of our business.

We evaluate key corporate projects and research and development projects based on projected returns on investment. We monitor implementation and development schedules and costs and compare performance to budgeted amounts.

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Safety is critical to the operation of our business, and we measure a variety of safety metrics including detail by ground and aerial operations and by mechanical and human factor related causes. We measure all metrics for both the current period and long-term trending, both in absolute terms and on a per-flight-hour basis.

### ***Financial and Overall Performance Measures***

We measure overall business performance according to seven critical metrics: Revenue growth, EBITDA, Adjusted EBITDA, Adjusted EBITDAR, net income, earnings per share and free cash flow.

Our key liquidity measures include free cash flow, revolver availability, receivables aging, capital investments, and bank covenant compliance.

We annually update a long-term strategic plan encompassing expected results of operations and key growth opportunities.

### **Our Operating Revenue**

**Government.** Our Government revenue is derived primarily from contracts with various governments who use our services for firefighting, defense and security, and transportation and other government-related activities. Many of our contracts for Government services are multi-year, and provide the majority of our current revenue backlog.

**Firefighting Contracts.** We generally charge a daily standby fee for the contract period with an additional rate for hours flown; some contracts include a minimum number of hours to be flown before the hourly rate is charged. We have both domestic and international contracts, which may be exclusive-use or call-when-needed in nature. Exclusive-use contracts denote that we are obligated to provide, and our customer is obligated to take and pay for, the use of our services. Call-when-needed contracts are contracts with pre-negotiated terms under which we may elect to provide services if requested.

**Defense and Security Contract.** We generally charge a daily standby fee for the contract period with an additional rate for hours flown; some contracts include a minimum number of hours to be flown before the hourly rate is charged. We have both domestic and international contracts, but the majority of our defense and security related work is performed outside of the U.S.

**Transportation and Other Government-Related Activities.** This line of service captures several types of government services including transportation of items for various government entities that are not defense or security related, crewing and/or cost per hour ( CPH ) for government customers, as well as other government-related services. Crewing services are typically for customers who have purchased an Airplane but lack trained or certified operating personnel related to the Airplane. We offer pilots and field maintenance crews under our crewing services. For government customers who desire better predictability and stability in their aircraft operating costs, we offer CPH contracts in which we provide major components and rotatable parts at a fixed cost per flight hour.

**Commercial.** Our Commercial revenue is derived primarily from timber harvesting, infrastructure construction, and Manufacturing/ MRO.

**Timber Harvesting Contracts.** We generally operate on either an hourly rate structure or on a per cubic meter of high grade timber delivered basis. We serve a variety of private customers in North America and Asia.

**Infrastructure Construction Contracts.** Our infrastructure construction operations vary from short-term construction jobs (generally one to five days in duration) to longer-term jobs (several months or years in duration) within the oil and gas, construction, energy transmission, and energy generation industries.

**Manufacturing / MRO.** We have an ongoing revenue stream from customers who own or operate either Aircranes or the military version CH-54s and require parts support for their helicopters. Further, we provide services to customers who own or operate Aircranes, CH-54s, or other aircraft and need their aircraft components repaired or overhauled by a certified facility. We are also pursuing aftermarket opportunities to manufacture and sell parts or provide maintenance, repair, or overhaul for other aircraft components.

In our Central Point, Oregon facility we have the capability to remanufacture Aircranes on existing S-64 and CH-54 airframes for either resale or to induct into our fleet, and this remains a core business competency. Customers who identify a year-round or otherwise critical application for an Aircrane may find it advantageous to own an Aircrane rather than lease our fleet's services. We have sold ten Aircranes since 2002, including the sale-leaseback transaction executed in the second quarter of 2014, and subsequently re-purchased one of these Aircranes in 2012. While we continue to pursue Aircrane sales and will make sales strategically when opportunities arise, we do not rely on Aircrane sales as an essential part of our business planning.

## **Our Operating Expenses**

**Cost of Revenues.** Our cost of revenues consists of purchased materials; consumed inventory; plant labor and overhead; aviation fuel; aircraft insurance; contract specific expenses associated with operating in various geographies; shipping costs for transporting our aircraft; depreciation and amortization of our aircraft, plant, property, and equipment, aircraft lease costs and pilot and field mechanic wages, benefits, amortization of intangible assets and other related costs.

**Selling and Marketing.** Our selling and marketing expenses consist primarily of compensation, benefits, and travel related costs for sales and marketing employees and fees paid to contractors and consultants. Also included are expenses for trade shows, customer demonstrations, and public relations and other promotional and marketing activities, as well as cost of bad debts.

**Research and Development.** Our research and development expenses consist primarily of wages, benefits, and travel costs for our engineering employees and fees paid to contractors and consultants. Also included are expenses for materials needed to support research and development efforts and expenses associated with testing and certification.

**General and Administrative.** Our general and administrative expenses consist primarily of wages, benefits, and travel costs for general and administrative employees and fees paid to contractors and consultants in executive, finance, accounting, information technology, human resources, and legal roles, including employees in our foreign subsidiaries involved in these activities. Also included are expenses for legal, accounting, and other professional services and bank fees.



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***Other Income (Expense), Net.*** Our other income (expense) consists primarily of the interest paid on outstanding indebtedness, realized/unrealized foreign exchange gains and losses, amortization of debt issuance costs, and interest and penalties related to tax contingencies, as well as certain other charges and income, such as gain and loss on the disposal of equipment, amortization and write-off of deferred financing fees, and insurance settlements. With regard to foreign exchange gains and losses, our operations in foreign countries are partially self-hedged, with the majority of our European, Canadian, Australian, Brazilian and Asian contracts having both revenues and expenses paid in the local currency; in addition, some of our contracts provide for rate adjustments based on changes in currency exchange rates. For currency exposure that is not self-hedged, we sometimes enter into forward contracts to reduce our currency risk.

**TRENDS AND UNCERTAINTIES AFFECTING OUR BUSINESS**

***Afghanistan and Other DOD Contracts.*** The United States government has announced plans to reduce its military activities in Afghanistan in 2014 and beyond, although the exact timing and number of troops to be withdrawn is not entirely understood at this time. This reduction has had and will likely continue to have a negative impact on our overall Government revenue. As a result of the already reduced level of flight activity in the Afghanistan region, we have seen increased pressure from our competitors in connection with new DOD contracts in other regions of the world where we operate, which we believe may negatively impact our pricing and margins with respect to some of the new DOD contracts on which we bid. In addition, our end-customer in the Philippines has indicated that certain portions or all of the contracted work in that region will be progressively concluding by the middle of 2015. While we do not yet fully understand the magnitude of this reduction in service levels, this uncertainty may have a negative impact on the Government sector of our business. As the number of the aircraft being utilized by our DOD customers changes, we will actively manage our leased aircraft portfolio. If we are not successful, the fixed lease costs may negatively impact our margins.

***Acquisition of Evergreen Helicopters, Inc.*** On May 2, 2013, we acquired EHI. The EHI acquisition significantly enhances and diversifies our business. As a result of the EHI acquisition, we now offer a full spectrum of heavy, medium, and light-lift helicopter solutions, including fixed-wing solutions. Our solutions include the design, engineering, development, certification, testing, and manufacturing of the Aircrane, as well as aerial services and MRO capabilities for these and other aircraft. The EHI acquisition also changed our mix of customers, most significantly to include defense and security.

The completion of the EHI acquisition provided us with an incremental fleet of 63 aircraft on the acquisition date, consisting of 50 medium and light lift helicopters as well as 13 fixed-wing aircraft. This diverse fleet serves a wide range of customers, including significant passenger transport and airlift services for the Department of Defense ( DOD ) and State Department. EHI s operations span the globe, including a presence in North America, the Middle East, Africa, and Asia.

***Acquisition of Air Amazonia.*** On September 3, 2013, we acquired Air Amazonia, which expanded our operations in Brazil. Air Amazonia primarily operates in the oil and gas business, a component of our infrastructure construction business. The acquisition added six medium and light lift helicopters to our fleet.

***Effect of 2007 Acquisition.*** We were acquired on September 27, 2007, in which the buyers acquired 100% of our outstanding common stock for \$93.1 million, which amount included direct acquisition costs of \$3.4 million. The acquisition was accounted for as a purchase in accordance with the Financial Accounting Standard Board s ( FASB ) ASC No. 805, Business Combinations. As a result, we allocated the purchase price to the assets acquired and the liabilities assumed at the date of the acquisition based on their estimated fair value as of the closing date. The difference between the aggregate purchase price and the estimated fair value of the assets acquired and liabilities

assumed was approximately \$553.7 million. Our management determined that the fair value of the various assets acquired and liabilities assumed was \$646.8 million on the date of acquisition and that, based in part on a valuation provided by an independent third party as required by U.S. GAAP in connection with such determination, the fair value of the 18 Aircranes in our fleet on the date of acquisition was \$317.7 million. The negative goodwill was used to reduce the value of Aircranes and support parts and other property, plant and equipment. As a result of this adjustment, the cost of revenues in each of the successor periods included in this Form 10-Q reflects the lower carrying value of our aircraft support parts that we have sold or used in our maintenance, repair, and overhaul operations. The aggregate effect of the purchase accounting adjustment with respect to our inventory was approximately \$37.9 million from the date of acquisition through June 30, 2014. Based on our past experience and historical inventory usage patterns, we expect to largely realize the benefit of the approximately \$5.3 million remaining fair value purchase accounting adjustment to aircraft support parts over the next three years as we sell and use our legacy inventory. Our legacy inventory consists of aircraft parts and components purchased over multiple years for which there is no liquid market; therefore, there is no guarantee that we will be able to purchase new inventory at the carrying values of our legacy inventory currently reflected on our balance sheet.

***Aircraft Sales.*** The sale of an aircraft to an existing or potential aerial services customer may reduce future aerial services revenues we may have received for services provided to such customers or other third parties. We would expect to maintain our level of operations through more efficient scheduling of our remaining fleet or by remanufacturing additional Aircranes to add to our fleet or leasing or acquiring aircraft. However, we may not always have the ability to maintain our desired level of aerial services operations with a reduced fleet, which could reduce our ability to generate aerial services revenues.

We expect to recognize revenue for our long-term construction contracts for aircraft builds in the future using the percentage of completion method, when all required criteria are met. Revenue on contracts using the percentage of completion method is based on estimates, including estimated labor hours. Because the percentage of completion method requires management estimates of aggregate contract costs, changes in estimates between periods could affect our anticipated earnings

We have expanded our aircraft sales business to include the sale of other types of aircraft to various customers through the addition of our Erickson Trade group. The Erickson Trade group will be focused on selling both aircraft and inventory held by the company as well as aircraft and inventory that will be acquired for sale. During the second quarter the Erickson Trade group completed the sale of one aircraft.

***Costs Associated with our Financing Arrangements.*** We are a highly leveraged company and, as a result, have significant debt service obligations. We are subject to financial covenants under our Revolving Credit Facility and 2020 Senior Notes. We were in compliance with our financial covenants at June 30, 2014 and December 31, 2013. Our ability to service our debt and comply with the financial covenants under our Revolving Credit Facility and 2020 Senior Notes is subject to various risks and uncertainties, and among other factors may be adversely affected by any of the following:

If our business does not perform as expected, including if we generate less than anticipated revenue from our aerial services operations or encounter significant unexpected costs;

If we fail to timely collect our receivables, including those from our major customers.

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Failure to service our debt and comply with our financial covenants could materially and adversely affect our business and financial condition. The senior secured asset-based credit facility under our Revolving Credit Facility matures on May 2, 2018. Our 2020 Senior Notes mature on May 1, 2020.

***Greece Receivable.*** As of June 30, 2014, included within our other non-current assets balance was \$6.0 million ( 4.4 million) due from the Hellenic Fire Brigade for final payment of firefighting services performed in 2011. In 2012, the Greek taxing authorities asserted that we had a permanent establishment in Greece for 2011 and 2010, which would require us to file Greek tax returns and pay related taxes. The Hellenic Fire Brigade is withholding payment to us until a resolution is made regarding our permanent establishment status. No formal tax assessments have been made, and we are continuing to pursue various options to settle this dispute. As of June 30, 2014, we recorded an unrecognized tax benefit of \$7.7 million for potential income taxes and penalties that may be due if we are determined to have a permanent establishment within Greece. Payment of tax in this foreign jurisdiction would result in a foreign tax credit in the United States, which we have included in our deferred assets. For the six month period ended June 30, 2014 we recognized \$0.4 million for potential penalties associated with the tax liability for Greece.

***Crewing and CPH Contracts with Italian Forestry Service.*** We have provided crewing services on a multi-year basis to the Italian Forestry Service in respect of four aircraft we previously sold to the Italian Forestry Service. We also provided maintenance and CPH for parts to this customer. Our contracts to provide services to the Italian Forestry Service expired in June 2013. We entered into a short term contract with the Italian Forestry Service to provide crewing services for the fire season. As part of the new contract the Italian Forestry Service elected to purchase MRO parts directly from us in lieu of utilizing our CPH services.

***Seasonality.*** Our aerial services operations in any given location are heavily seasonal and depend on prevailing weather conditions and the intensity and duration of the summer fire season. Our flight hours are substantially reduced in winter or monsoon seasons. The global deployment of our helicopters and crews helps to limit the effect of seasonality, but our aerial services operations tend to peak in June through October and to be at a low point in January through April. The additions of EHI and Air Amazonia significantly increase the diversity of end markets we serve and we believe this addition will ultimately continue to reduce the seasonality of our business.

***Fluctuations in our Mix of Services.*** We derive a majority of our total revenues from our Government segment, which is composed of revenues from firefighting, defense and security, and transport and other government-related activities. The margins we make on these activities vary substantially by contract and may vary from year to year, and the amount of our flight hours dedicated to these activities can also vary from year to year. The margins may also differ between the Government and Commercial segment of our business. For example, in the second quarter of 2014 we generated average revenues per flight hour for firefighting, timber harvesting, and infrastructure construction of \$29,405, \$5,837, and \$18,417, respectively, compared to average revenues per flight hour for firefighting, timber harvesting, and infrastructure construction of \$18,956, \$6,978, and \$15,845 in the second quarter of 2013. Our Government segment has also fluctuated compared to the prior year period as a result of the addition of EHI and its revenue earned associated with DoD contracts. Changes in the composition of our flight hours for any reason could impact our total revenues. Many of our contracts, particularly firefighting and defense and security contracts contain a daily standby fee as well as an hourly rate based on flight activity. Changes in the composition of daily standby fees relative to the number of hours flown could impact our total revenues. In addition, the acquisitions of EHI and Air Amazonia will continue to impact our mix of services and the regions in which we provide them.

***Expenses Associated with Expansion.*** As part of our business strategy, we may acquire businesses or specific assets or engage in other strategic transactions. For instance, we acquired EHI in May 2013 and Air Amazonia in September 2013. Such transactions may result in expenses that impact our financial results, including expenses associated with the negotiation and closing of the transaction, funding the transaction, attracting and retaining qualified talent and to

finance our expansion, and integrating the business or assets acquired.

## RESULTS OF OPERATIONS

### *Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013*

The following table presents our consolidated operating results for the three months ended June 30, 2014 compared to the three months ended June 30, 2013:

| (Dollars in thousands)                            | Three Months<br>Ended<br>June 30,<br>2014 | % of<br>Revenues | Three Months<br>Ended<br>June 30,<br>2013 | % of<br>Revenues | Change    | % Change |
|---|---|------------------|---|------------------|-----------|----------|
| Net revenues:                                     |   |                  |   |                  |           |          |
| Government  | \$ 54,315                                 | 67.2             | \$ 43,855                                 | 63.9             | \$ 10,460 | 23.9     |
| Commercial  | 26,570                                    | 32.8             | 24,735                                    | 36.1             | 1,835     | 7.4      |
| Total Revenues                                    | 80,885                                    | 100.0            | 68,590                                    | 100.0            | 12,295    | 17.9     |
| Cost of revenues:                                 |   |                  |   |                  |           |          |
| Government <sup>(1)</sup>                         | 19,787                                    | 36.4             | 15,599                                    | 35.6             | 4,188     | 26.8     |
| Commercial <sup>(1)</sup>                         | 12,949                                    | 48.7             | 10,437                                    | 42.2             | 2,512     | 24.1     |
| Non-allocated                                     | 34,420                                    | 42.6             | 25,064                                    | 36.5             | 9,356     | 37.3     |
| Total cost of revenues                            | 67,156                                    | 83.0             | 51,100                                    | 74.5             | 16,056    | 31.4     |
| Gross profit                                      |   |                  |   |                  |           |          |
| Government <sup>(1)</sup>                         | 34,528                                    | 63.6             | 28,256                                    | 64.4             | 6,272     | 22.2     |
| Commercial <sup>(1)</sup>                         | 13,621                                    | 51.3             | 14,298                                    | 57.8             | (677)     | (4.7)    |
| Non-allocated                                     | (34,420)                                  | (42.6)           | (25,064)                                  | (36.5)           | (9,356)   | 37.3     |
| Total gross profit                                | 13,729                                    | 17.0             | 17,490                                    | 25.5             | (3,761)   | (21.5)   |
| Operating expenses:                               |   |                  |   |                  |           |          |
| General and administrative                        | 6,994                                     | 8.6              | 10,112                                    | 14.7             | (3,118)   | (30.8)   |
| Research and development                          | 738                                       | 0.9              | 1,005                                     | 1.5              | (267)     | (26.6)   |
| Selling and marketing                             | 2,155                                     | 2.7              | 1,476                                     | 2.2              | 679       | 46.0     |
| Impairment of goodwill                            | 21,272                                    | 26.3             |   |                  | 21,272    | NM       |
| Total Operating expenses                          | 31,159                                    | 38.5             | 12,593                                    | 18.4             | 18,566    | 147.4    |
| Operating income (loss)                           |   |                  |   |                  |           |          |
| Operating income (loss)                           | (17,430)                                  | (21.5)           | 4,897                                     | 7.1              | (22,327)  | NM       |
| Other income (expense)                            |   |                  |   |                  |           |          |
| Interest expense, net                             | (9,111)                                   | (11.3)           | (6,495)                                   | (9.5)            | (2,616)   | 40.3     |
| Loss on early extinguishment of debt              |   |                  | (215)                                     | (0.3)            | 215       | NM       |
| Other expense, net                                | (843)                                     | (1.0)            | (1,015)                                   | (1.5)            | 172       | (16.9)   |
| Total other income (expense)                      | (9,954)                                   | (12.3)           | (7,725)                                   | (11.3)           | (2,229)   | 28.9     |
| Net loss before taxes and noncontrolling interest |   |                  |   |                  |           |          |
| Net loss before taxes and noncontrolling interest | (27,384)                                  | (33.9)           | (2,828)                                   | (4.1)            | (24,556)  | NM       |



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|  |             |        |            |       |             |         |
|--|-------------|--------|------------|-------|-------------|---------|
| Income tax benefit   | (10,222)    | (12.6) | (1,031)    | (1.5) | (9,191)     | NM      |
| Net loss   | (17,162)    | (21.2) | (1,797)    | (2.6) | (15,365)    | NM      |
| Less: Net (income) loss related to noncontrolling interest | 53          | 0.1    | (155)      | (0.2) | 208         | (134.2) |
| Net loss attributable to Erickson Incorporated             | \$ (17,109) | (21.2) | \$ (1,952) | (2.8) | \$ (15,157) | 776.5   |

(1) Percentage of net revenues of segment.

(2) We use the abbreviation NM throughout this Form 10-Q to refer to changes that are not meaningful.  
*Revenues*

Consolidated revenues increased by \$12.3 million, or 17.9%, to \$80.9 million in the second quarter of 2014 from \$68.6 million in the second quarter of 2013. The increase in revenues was attributable to a \$10.5 million increase in Government revenues and a \$1.8 million increase in Commercial revenues compared to the second quarter of 2013.

| (Dollars in thousands) | Three Months Ended |               | Three Months Ended |               | Change    | % Change |
|------------------------|--------------------|---------------|--------------------|---------------|-----------|----------|
|                        | June 30, 2014      | % of Revenues | June 30, 2013      | % of Revenues |           |          |
| Net revenues:          |                    |               |                    |               |           |          |
| Government             | \$ 54,315          | 67.2          | \$ 43,855          | 63.9          | \$ 10,460 | 23.9     |
| Commercial             | 26,570             | 32.8          | 24,735             | 36.1          | 1,835     | 7.4      |
| Total revenues         | \$ 80,885          | 100.0         | \$ 68,590          | 100.0         | \$ 12,295 | 17.9     |

*Government.* Government revenues increased by \$10.5 million, or 23.9%, to \$54.3 million in the second quarter of 2014 from \$43.9 million in the second quarter of 2013. This increase was primarily due to the acquisition of EHI during the second quarter of 2013, offset by a decrease in transport and other government-related services, primarily due to lower revenues associated with our Italian CPH and crewing customer.

*Commercial.* Commercial revenues increased \$1.8 million, or 7.4%, to \$26.6 million in the second quarter of 2014 from \$24.7 million in the second quarter of 2013. This increase was primarily due to the acquisition of Air Amazonia, coupled with the sale of an aircraft by our Erickson Trade group to a commercial customer and an increase in MRO sales to Airplane customers, partially offset by lower timber harvesting revenues in Canada and Malaysia and lower infrastructure construction revenues in Europe.

The following are our revenues and revenue flight hours by type of service for the three months ended June 30, 2014 and 2013:

| (Dollars in thousands) | Three Months Ended | Three Months Ended | Change | % Change |
|------------------------|--------------------|--------------------|--------|----------|
|------------------------|--------------------|--------------------|--------|----------|

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|   | June 30,<br>2014 | June 30,<br>2013 |                  |             |
|---|------------------|------------------|------------------|-------------|
| <b>Government revenues:</b>                     |                  |                  |                  |             |
| Firefighting                                    | \$ 11,409        | \$ 10,862        | \$ 547           | 5.0         |
| Defense and security                            | 41,393           | 28,767           | 12,626           | 43.9        |
| Transport and other government-related services | 1,513            | 4,226            | (2,713)          | (64.2)      |
| <b>Total Government revenues</b>                | <b>\$ 54,315</b> | <b>\$ 43,855</b> | <b>\$ 10,460</b> | <b>23.9</b> |

| (Dollars in thousands)           | Three<br>Months<br>Ended<br>June 30,<br>2014 | Three<br>Months<br>Ended<br>June 30,<br>2013 | Change          | %<br>Change |
|----------------------------------|--|--|-----------------|-------------|
| <b>Commercial revenues:</b>      |  |  |                 |             |
| Timber harvesting                | \$ 7,629                                     | \$ 11,276                                    | \$ (3,647)      | (32.3)      |
| Infrastructure construction      | 15,562                                       | 12,071                                       | 3,491           | 28.9        |
| Manufacturing / MRO              | 2,299  | 1,388  | 911             | 65.6        |
| Aircraft sales                   | 1,080  |  | 1,080           | NM          |
| <b>Total Commercial revenues</b> | <b>\$ 26,570</b>                             | <b>\$ 24,735</b>                             | <b>\$ 1,835</b> | <b>7.4</b>  |

|   | Three<br>Months<br>Ended<br>June 30,<br>2014 | Three<br>Months<br>Ended<br>June 30,<br>2013 | Change     | %<br>Change |
|---|--|--|------------|-------------|
| <b>Government revenue flight hours:</b>         |  |  |            |             |
| Firefighting                                    | 388  | 573  | (185)      | (32.3)      |
| Defense and security                            | 3,851  | 3,216  | 635        | 19.7        |
| Transport and other government-related services | 90   | 292  | (202)      | (69.2)      |
| <b>Total Government flight hours</b>            | <b>4,329</b>                                 | <b>4,081</b>                                 | <b>248</b> | <b>6.1</b>  |

|   | Three<br>Months<br>Ended<br>June 30,<br>2014 | Three<br>Months<br>Ended<br>June 30,<br>2013 | Change       | %<br>Change  |
|---|--|--|--------------|--------------|
| <b>Commercial revenue flight hours:</b> |  |  |              |              |
| Timber harvesting                       | 1,307  | 1,616  | (309)        | (19.1)       |
| Infrastructure construction             | 845  | 762  | 83           | 10.9         |
| <b>Total Commercial flight hours</b>    | <b>2,152</b>                                 | <b>2,378</b>                                 | <b>(226)</b> | <b>(9.5)</b> |

**Government Revenues**

Firefighting revenues increased \$0.5 million, or 5.0%, to \$11.4 million for the second quarter of 2014 from \$10.9 million in the second quarter in 2013. This

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increase was primarily due to an increase in revenues generated from our contract in Turkey that was not in place in 2013, partially offset by a decrease in firefighting activity in North America. Firefighting flight hours decreased to 388 from 573 in the second quarter of 2013, primarily due to lower flight hours in North America of 301 flight hours, partially offset by the 117 flight hours in Turkey.

Defense and security revenues increased \$12.6 million, or 43.9% to \$41.4 million for the second quarter of 2014 from \$28.8 million in 2013 due to a full quarter of results from EHI in the second quarter of 2014 compared to two months of results in the second quarter of 2013. Defense and security flight hours increased by 635 hours or 19.7%.

Transport and other government-related activities revenues decreased \$2.7 million, or 64.2%, to \$1.5 million for the second quarter of 2014 from \$4.2 million in the second quarter of 2013. The decrease was primarily due to the decrease in services being performed for our largest Italian customer as compared to the second quarter of 2013.

## **Commercial Revenues**

Timber harvesting revenues decreased \$3.6 million, or 32.3%, to \$7.6 million in the second quarter of 2014 from \$11.3 million in the second quarter of 2013. The decrease in revenues was primarily due to decreased revenues in Canada of \$2.9 million due to the lack of customer demand for a third Aircrane as compared to the prior year second quarter, coupled with a decrease of \$0.7 million in Malaysia where we have ended our Aircrane logging operation. Timber harvesting flight hours decreased 309 hours to 1,307 in the second quarter of 2014 from 1,616 in the second quarter of 2013. The decrease in flight hours was primarily due to decreased flight hours in Canada of 220, coupled with a decrease in Malaysia of 89 hours.

Infrastructure construction including oil and gas revenues increased \$3.5 million, or 28.9%, to \$15.6 million in the second quarter of 2014 from \$12.1 million in the second quarter of 2013. The increase in revenues was primarily due to an increase of \$5.3 million in South American oil and gas infrastructure construction primarily driven by our acquisition of Air Amazonia, partially offset by a decrease in European infrastructure construction of \$1.4 million. Infrastructure construction flight hours increased 83 hours to 845 in the second quarter of 2014 from 762 in the second quarter of 2013. The increase in flight hours was primarily due to increased flight hours in North America of 184 hours partially offset by decreased flight hours in South America of 30.

Manufacturing / MRO revenues increased \$0.9 million, or 65.6%, to \$2.3 million in the second quarter of 2014 from \$1.4 million in the second quarter of 2013. The increase was primarily due to sales of S-64 parts to our Italian customer. For 2014, our Italian customer is purchasing parts as needed as compared to the second quarter of 2013 when they utilized a cost per hour agreement with us for their parts needs to support their fleet of S-64 Aircrafts.

Aircraft sales revenue increased to \$1.1 million in the second quarter of 2014 from zero in the second quarter of 2013. This increase was due to the addition of the Erickson Trade group which is focusing on selling

aircraft and brokering aircraft sales.

### Cost of Revenues

Consolidated cost of revenues increased by \$16.1 million, or 31.4%, to \$67.2 million for the second quarter of 2014 from \$51.1 million for the second quarter of 2013. The increase was attributable to an increase in non-allocated costs of \$9.4 million, an increase of \$4.2 million in Government costs and an increase of \$2.5 million in Commercial costs for the second quarter of 2014 compared to the same quarter of 2013.

| (Dollars in thousands)        | Three Months Ended |               | Three Months Ended |               | Change           | % Change    |
|-------------------------------|--------------------|---------------|--------------------|---------------|------------------|-------------|
|                               | June 30, 2014      | % of Revenues | June 30, 2013      | % of Revenues |                  |             |
| Cost of revenues:             |                    |               |                    |               |                  |             |
| Government <sup>(1)</sup>     | \$ 19,787          | 36.4          | \$ 15,599          | 35.6          | \$ 4,188         | 26.8        |
| Commercial <sup>(1)</sup>     | 12,949             | 48.7          | 10,437             | 42.2          | 2,512            | 24.1        |
| Non-allocated                 | 34,420             | 42.6          | 25,064             | 36.5          | 9,356            | 37.3        |
| <b>Total cost of revenues</b> | <b>\$ 67,156</b>   | <b>83.0</b>   | <b>\$ 51,100</b>   | <b>74.5</b>   | <b>\$ 16,056</b> | <b>31.4</b> |

(1) Percent of net revenues of applicable segment

#### Government Cost of Revenues

Costs of revenues for our Government segment are primarily comprised of variable and fixed venue costs associated with firefighting, defense and security, and transport and other government-related activities. For the second quarter of 2014, these costs were \$19.8 million, or 36.4% of revenues for the segment, as compared to \$15.6 million, or 35.6% of net revenues for the segment for the second quarter of 2013. The increase of \$4.2 million was primarily due to the addition of the defense and security work associated with the acquisition of EHI, partially offset by decreased costs associated with firefighting in North America and transport and other governmental-related activities primarily related to our Italian crewing customer. Cost of revenues as a percentage of revenues increased by 80 basis points primarily due to margin pressure on our defense and security projects, partially offset by improved margins on firefighting.

#### Commercial Cost of Revenues

Costs of revenues for our Commercial segment are primarily comprised of variable and fixed venue costs associated with timber harvesting, infrastructure construction, and MRO / Manufacturing. For the second quarter of 2014, these costs were \$12.9 million, or 48.7% of revenues for the segment, as compared to \$10.4 million, or 42.2% of net revenues for the segment for the second quarter of 2013. The increase of \$2.5 million was primarily due to higher venue costs in infrastructure construction primarily due to the addition of Air Amazonia and delayed starts for several key projects, coupled with additional costs associated with aircraft sales for the Erickson Trade group. Costs of revenues as a percentage of revenues increased by 650 basis points to 48.7% from 42.2%, primarily due to margin pressure resulting from the startup costs associated with new contracts that started during the second quarter in South American oil and gas construction.

#### Non-allocated Cost of Revenues

Non-allocated costs of revenues are primarily comprised of costs that are mostly fixed in nature and are shared costs between the segments. These costs are primarily salaries and benefit costs of our pilots and field mechanics,

depreciation and amortization costs related to the aircraft, aircraft lease costs, insurance costs and other similar costs. For the second quarter of 2014, these costs were \$34.4 million, or 42.6% of net revenues, as compared to \$25.1 million, or 36.5% of net revenues for the

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second quarter of 2013. The increase of \$9.4 million was primarily driven by the increased costs associated with operating the EHI fleet for the full quarter in 2014 as compared to a partial quarter in 2013. Cost of revenues as a percentage of revenues increased by six percentage points to 42.6% from 36.5%, primarily due to an increase in the cost of field maintenance, aircraft lease costs, and depreciation, partially offset by lower insurance costs.

*Gross Profit*

Consolidated gross profit decreased by \$3.8 million, or 21.5%, to \$13.7 million in the second quarter of 2014 from \$17.5 million in the second quarter of 2013. A combination of an increase in non-allocated costs of \$9.4 million and a decrease in Commercial gross profit of \$0.7 million offset a \$6.3 million increase in Government gross profit.

| (Dollars in thousands)    | Three Months Ended |               | Three Months Ended |               | Change            | % Change      |
|---------------------------|--------------------|---------------|--------------------|---------------|-------------------|---------------|
|                           | June 30, 2014      | % of Revenues | June 30, 2013      | % of Revenues |                   |               |
| Gross profit:             |                    |               |                    |               |                   |               |
| Government <sup>(1)</sup> | \$ 34,528          | 63.6          | \$ 28,256          | 64.4          | \$ 6,272          | 22.2          |
| Commercial <sup>(1)</sup> | 13,621             | 51.3          | 14,298             | 57.8          | (677)             | (4.7)         |
| Non-allocated             | (34,420)           | (42.6)        | (25,064)           | (36.5)        | (9,356)           | 37.3          |
| <b>Total gross profit</b> | <b>\$ 13,729</b>   | <b>17.0</b>   | <b>\$ 17,490</b>   | <b>25.5</b>   | <b>\$ (3,761)</b> | <b>(21.5)</b> |

(1) Percentage of net revenues of applicable segment

*Government.* Primarily as a result of the factors discussed above, Government gross profit increased by \$6.3 million, or 22.2%, to \$34.5 million in the second quarter of 2014 from \$28.3 million in the second quarter of 2013. Gross profit margin was 63.6% in the second quarter of 2014 compared to 64.4% in the second quarter of 2013.

*Commercial.* Primarily as a result of the factors discussed above, Commercial gross profit decreased by \$0.7 million, or 4.7%, to \$13.6 million in the second quarter of 2014 from \$14.3 million in the second quarter of 2013. Gross profit margin was 51.3% in the second quarter of 2014 compared to 57.8% in the second quarter of 2013.

*Non-allocated.* Primarily as a result of the factors discussed above, non-allocated costs were \$34.4 million in the second quarter of 2014 compared to \$25.1 million in the second quarter of 2013.

*Operating Expenses*

| (Dollars in thousands)     | Three Months Ended |               | Three Months Ended |               | Change     | % Change |
|----------------------------|--------------------|---------------|--------------------|---------------|------------|----------|
|                            | June 30, 2014      | % of Revenues | June 30, 2013      | % of Revenues |            |          |
| Operating expenses:        |                    |               |                    |               |            |          |
| General and administrative | \$ 6,994           | 8.6           | \$ 10,112          | 14.7          | \$ (3,118) | (30.8)   |

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|                          |             |        |          |      |             |        |
|--------------------------|-------------|--------|----------|------|-------------|--------|
| Research and development | 738         | 0.9    | 1,005    | 1.5  | (267)       | (26.6) |
| Selling and marketing    | 2,155       | 2.7    | 1,476    | 2.2  | 679         | 46.0   |
| Impairment of goodwill   | 21,272      | 26.3   |          |      | 21,272      | NM     |
| Total operating expenses | 31,159      | 38.5   | 12,593   | 18.4 | 18,566      | 147.4  |
| Operating income (loss)  | \$ (17,430) | (21.5) | \$ 4,897 | 7.1  | \$ (22,327) | NM     |

Operating expenses increased by \$18.6 million, or 147.4%, to \$31.2 million in the second quarter of 2014 from \$12.6 million in the second quarter of 2013. The increase was primarily due to goodwill impairment loss associated with EHI and increased legal costs in general and administrative expenses. The increase was partially offset by a decrease in general and administrative costs resulting from lower acquisition and integration costs associated with EHI. Selling and marketing costs increased \$0.7 million primarily due to increased costs associated with pursuing new customers in the defense and security industry as well as additional investment in the sales workforce.

*Other Income (Expense)*

| (Dollars in thousands)               | Three Months<br>Ended<br>June 30,<br>2014 | % of<br>Revenues | Three Months<br>Ended<br>June 30,<br>2013 | % of<br>Revenues | Change     | %<br>Change |
|--------------------------------------|---|------------------|---|------------------|------------|-------------|
| Other income (expense)               |   |                  |   |                  |            |             |
| Interest expense, net                | \$ (9,111)                                | (11.3)           | \$ (6,495)                                | (9.5)            | \$ (2,616) | 40.3        |
| Loss on early extinguishment of debt |   |                  | (215)                                     | (0.3)            | 215        | NM          |
| Other expense, net                   | (843)                                     | (1.0)            | (1,015)                                   | (1.5)            | 172        | (16.9)      |
| Total other expense                  | \$ (9,954)                                | (12.3)           | \$ (7,725)                                | (11.3)           | \$ (2,229) | 28.9        |

Total other expense, net increased by \$2.2 million to \$10.0 million of net expense in the second quarter of 2014 from \$7.7 million of net expense in the second quarter of 2013. Interest expense, net increased by \$2.6 million to \$9.1 million in the second quarter of 2014, from \$6.5 million in the second quarter of 2013, primarily due to an increase in our average outstanding borrowings. Other expense, net decreased by \$0.2 million to \$0.8 million in other expense in the second quarter of 2014 from \$1.0 million in other expense in the second quarter of 2013 due to the factors described below.

| (Dollars in thousands)                  | Three Months<br>Ended<br>June 30,<br>2014 | Three Months<br>Ended<br>June 30,<br>2013 | Change |
|---|---|---|--------|
| Other income (expense), net:            |   |   |        |
| Unrealized foreign exchange gain (loss) | \$ 27                                     | \$ (66)                                   | \$ 93  |
| Realized foreign exchange gain (loss)   | 15  | (113)                                     | 128    |
| Amortization of debt issuance costs     | (593)                                     | (465)                                     | (128)  |

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|   |                |                  |               |
|---|----------------|------------------|---------------|
| Interest expense related to tax contingencies |                | (311)            | 311           |
| Gain on disposal of equipment                 | 61             | 21               | 40            |
| Loss on early extinguishment of debt          |                | (215)            | 215           |
| Other expense, net                            | (353)          | (81)             | (272)         |
| <b>Total other expense, net</b>               | <b>\$(843)</b> | <b>\$(1,230)</b> | <b>\$ 387</b> |

Other income (expense), net decreased by \$0.4 million to \$0.8 million of other expense in the second quarter of 2014 from \$1.2 million of other expense in the second quarter of 2013. The decrease in net expense was primarily due to interest expense related to tax contingencies of \$0.3 million recorded in second quarter of 2013.

*Income Tax Benefit*

| <b>(Dollars in thousands)</b>                            | <b>Three Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>% of<br/>Revenues</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>% of<br/>Revenues</b> | <b>Change</b>      | <b>%<br/>Change</b> |
|--|---|--------------------------|---|--------------------------|--------------------|---------------------|
| Net loss before income taxes and noncontrolling interest | \$ (27,384)   | (33.9)                   | \$ (2,828)  | (4.1)                    | \$ (24,556)        | NM                  |
| Income tax benefit                                       | (10,222)  | (12.6)                   | (1,031)   | (1.5)                    | (9,191)            | NM                  |
| <b>Net income loss</b>                                   | <b>\$ (17,162)</b>                                  | <b>(21.2)</b>            | <b>\$ (1,797)</b>                                   | <b>(2.6)</b>             | <b>\$ (15,365)</b> | <b>NM</b>           |

Income tax benefit increased by \$9.2 million to \$10.2 million in the second quarter of 2014, as compared to a benefit of \$1.0 million in the second quarter of 2013, primarily due to a goodwill impairment loss of \$21.3 million and its related tax benefit of \$7.7 million. For the quarter ended June 30, 2014 the effective tax rate before discrete items was 40.3% as compared to 37.3% for the quarter ended June 30, 2013 primarily due to a second quarter decrease in full year forecast pretax income for 2014.

*Net Loss Attributable to Erickson Incorporated*

| <b>(Dollars in thousands)</b>   | <b>Three Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>% of<br/>Revenues</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>% of<br/>Revenues</b> | <b>Change</b>      | <b>%<br/>Change</b> |
|---|---|--------------------------|---|--------------------------|--------------------|---------------------|
| Net loss  | \$ (17,162)   | (21.2)                   | \$ (1,797)  | (2.6)                    | \$ (15,365)        | NM                  |
| Less: Net (income) loss related to noncontrolling interest                    | 53  | 0.1                      | (155)   | (0.2)                    | 208                | (134.2)             |
| <b>Net loss attributable to Erickson Incorporated and common stockholders</b> | <b>\$ (17,109)</b>                                  | <b>(21.2)</b>            | <b>\$ (1,952)</b>                                   | <b>(2.8)</b>             | <b>\$ (15,157)</b> | <b>NM</b>           |

Net loss attributable to Erickson increased by \$15.2 million to \$17.1 million in the second quarter of 2014 from \$2.0 million in the second quarter of 2013, primarily due to the changes in revenues, expenses, and taxes discussed above.

As there were no dividends on our Series A Redeemable Preferred Stock during the second quarters of 2014 or 2013, net loss attributable to common stockholders was also \$17.1 million for the second quarter of 2014 and \$2.0 million for the second quarter of 2013.

*Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013*

The following table presents our consolidated operating results for the Six months ended June 30, 2014 compared to the Six months ended June 30, 2013:

| (Dollars in thousands)                                     | Six Months<br>Ended<br>June 30,<br>2014 | % of<br>Revenues | Six Months<br>Ended<br>June 30,<br>2013 | % of<br>Revenues | Change    | %      |
|--|---|------------------|---|------------------|-----------|--------|
| Net revenues:  |   |                  |   |                  |           |        |
| Government   | \$ 110,232                              | 71.1             | \$ 61,462                               | 58.2             | \$ 48,770 | 79.3   |
| Commercial   | 44,837                                  | 28.9             | 44,068                                  | 41.8             | 769       | 1.7    |
| Total Revenues   | 155,069                                 | 100.0            | 105,530                                 | 100.0            | 49,539    | 46.9   |
| Cost of revenues:  |   |                  |   |                  |           |        |
| Government <sup>(1)</sup>                                  | 40,854                                  | 37.1             | 22,131                                  | 36.0             | 18,723    | 84.6   |
| Commercial <sup>(1)</sup>                                  | 21,745                                  | 48.5             | 19,058                                  | 43.2             | 2,687     | 14.1   |
| Non-allocated  | 70,461                                  | 45.4             | 37,578                                  | 35.6             | 32,883    | 87.5   |
| Total cost of revenues                                     | 133,060                                 | 85.8             | 78,767                                  | 74.6             | 54,293    | 68.9   |
| Gross profit   |   |                  |   |                  |           |        |
| Government <sup>(1)</sup>                                  | 69,378                                  | 62.9             | 39,331                                  | 64.0             | 30,047    | 76.4   |
| Commercial <sup>(1)</sup>                                  | 23,092                                  | 51.5             | 25,010                                  | 56.8             | (1,918)   | (7.7)  |
| Non-allocated  | (70,461)                                | (45.4)           | (37,578)                                | (35.6)           | (32,883)  | 87.5   |
| Total gross profit   | 22,009                                  | 14.2             | 26,763                                  | 25.4             | (4,754)   | (17.8) |
| Operating expenses:  |   |                  |   |                  |           |        |
| General and administrative                                 | 13,791                                  | 8.9              | 16,423                                  | 15.6             | (2,632)   | (16.0) |
| Research and development                                   | 2,056                                   | 1.3              | 1,918                                   | 1.8              | 138       | 7.2    |
| Selling and marketing                                      | 5,143                                   | 3.3              | 3,865                                   | 3.7              | 1,278     | 33.1   |
| Impairment of goodwill                                     | 21,272                                  | 13.7             |   |                  | 21,272    | NM     |
| Total Operating expenses                                   | 42,262                                  | 27.3             | 22,206                                  | 21.0             | 20,056    | 90.3   |
| Operating income (loss)                                    | (20,253)                                | (13.1)           | 4,557                                   | 4.3              | (24,810)  | NM     |
| Other income (expense)                                     |   |                  |   |                  |           |        |
| Interest income (expense), net                             | (17,864)                                | (11.5)           | (7,851)                                 | (7.4)            | (10,013)  | 127.5  |
| Loss on early extinguishment of debt                       |   |                  | (215)                                   | (0.2)            | 215       | NM     |
| Other income (expense), net                                | (1,362)                                 | (0.9)            | (1,449)                                 | (1.4)            | 87        | (6.0)  |
| Total other income (expense)                               | (19,226)                                | (12.4)           | (9,515)                                 | (9.0)            | (9,711)   | 102.1  |
| Net income (loss) before taxes and noncontrolling interest | (39,479)                                | (25.5)           | (4,958)                                 | (4.7)            | (34,521)  | NM     |

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|                              |          |        |         |       |          |    |
|------------------------------|----------|--------|---------|-------|----------|----|
| Income tax expense (benefit) | (14,792) | (9.5)  | (2,167) | (2.1) | (12,625) | NM |
| Net income (loss)            | (24,687) | (15.9) | (2,791) | (2.6) | (21,896) | NM |

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|  |             |        |            |       |             |        |
|--|-------------|--------|------------|-------|-------------|--------|
| Less: Net (income) loss related to noncontrolling interest | (16)        | NM     | (378)      | (0.4) | 362         | (95.8) |
| Net income (loss) attributable to Erickson Incorporated    | \$ (24,703) | (15.9) | \$ (3,169) | (3.0) | \$ (21,534) | NM     |

(1) Percentage of net revenues of segment.

(2) We use the abbreviation NM throughout this Form 10-Q to refer to changes that are not meaningful.

**Revenues**

Consolidated revenues increased by \$49.5 million, or 46.9%, to \$155.1 million in the six months ended June 30, 2014 from \$105.5 million in the six months ended June 30, 2013. The increase in revenues was attributable to a \$48.8 million increase in Government revenues and a \$0.8 million increase in Commercial revenues compared to the six months ended June 30, 2013.

| (Dollars in thousands) | Six Months Ended June 30, 2014 |               | Six Months Ended June 30, 2013 |               | Change    | % Change |
|------------------------|--------------------------------|---------------|--------------------------------|---------------|-----------|----------|
|                        |                                | % of Revenues |                                | % of Revenues |           |          |
| Net revenues:          |                                |               |                                |               |           |          |
| Government             | \$ 110,232                     | 71.1          | \$ 61,462                      | 58.2          | \$ 48,770 | 79.3     |
| Commercial             | 44,837                         | 28.9          | 44,068                         | 41.8          | 769       | 1.7      |
| Total revenues         | \$ 155,069                     | 100.0         | \$ 105,530                     | 100.0         | \$ 49,539 | 46.9     |

**Government.** Government revenues increased by \$48.8 million, or 79.3%, to \$110.2 million in the six months ended June 30, 2014 from \$61.5 million in the six months ended June 30, 2013. This increase was primarily due to the acquisition of EHI during the second quarter of 2013, offset by a decrease in transport and other government-related services, primarily due to lower revenues associated with our Italian CPH and crewing customer, coupled with lower firefighting revenues primarily due to lower flight hours in Australia and North America.

**Commercial.** Commercial revenues increased \$0.8 million, or 1.7%, to \$44.8 million in the six months ended June 30, 2014 from \$44.1 million in the six months ended June 30, 2013. This increase was primarily due to the increase in infrastructure construction in South America primarily due to the acquisition of Air Amazonia during third quarter of 2013, coupled with a \$2.0 million increase in MRO revenues and sale of an aircraft by our Trade group, partially offset by lower infrastructure construction in North America, coupled with lower timber harvesting in Canada and Malaysia.

The following are our revenues and revenue flight hours by type of service for the six months ended June 30, 2014 and 2013:

(Dollars in thousands)

Change

|   | Six<br>Months<br>Ended<br>June 30,<br>2014 | Six<br>Months<br>Ended<br>June 30,<br>2013 |                  | %<br>Change |
|---|--|--|------------------|-------------|
| Government revenues:                            |  |  |                  |             |
| Firefighting                                    | \$ 24,281                                  | \$ 25,417                                  | \$ (1,136)       | (4.5)       |
| Defense and security                            | 82,470                                     | 28,767                                     | 53,703           | 186.7       |
| Transport and other government-related services | 3,481                                      | 7,278                                      | (3,797)          | (52.2)      |
| <b>Total Government revenues</b>                | <b>\$ 110,232</b>                          | <b>\$ 61,462</b>                           | <b>\$ 48,770</b> | <b>79.3</b> |

|                                  | Six<br>Months<br>Ended<br>June 30,<br>2014 | Six<br>Months<br>Ended<br>June 30,<br>2013 | Change        | %<br>Change |
|----------------------------------|--|--|---------------|-------------|
| <b>(Dollars in thousands)</b>    |  |  |               |             |
| Commercial revenues:             |  |  |               |             |
| Timber harvesting                | \$ 12,158                                  | \$ 17,500                                  | \$ (5,342)    | (30.5)      |
| Infrastructure construction      | 26,566                                     | 23,535                                     | 3,031         | 12.9        |
| Manufacturing / MRO              | 5,033                                      | 3,033                                      | 2,000         | 65.9        |
| Aircraft sales                   | 1,080                                      |  | 1,080         | NM          |
| <b>Total Commercial revenues</b> | <b>\$ 44,837</b>                           | <b>\$ 44,068</b>                           | <b>\$ 769</b> | <b>1.7</b>  |

|   | Six<br>Months<br>Ended<br>June 30,<br>2014 | Six<br>Months<br>Ended<br>June 30,<br>2013 | Change       | %<br>Change |
|---|--|--|--------------|-------------|
| Government revenue flight hours:                |  |  |              |             |
| Firefighting                                    | 836  | 1,051                                      | (215)        | (20.5)      |
| Defense and security                            | 7,637                                      | 3,216                                      | 4,421        | 137.5       |
| Transport and other government-related services | 173  | 315  | (142)        | (45.1)      |
| <b>Total Government flight hours</b>            | <b>8,646</b>                               | <b>4,582</b>                               | <b>4,064</b> | <b>88.7</b> |

|                                      | Six Months<br>Ended<br>June 30,<br>2014 | Six Months<br>Ended<br>June 30,<br>2013 | Change       | %<br>Change   |
|--------------------------------------|---|---|--------------|---------------|
| Commercial revenue flight hours:     |   |   |              |               |
| Timber harvesting                    | 1,997                                   | 2,472                                   | (475)        | (19.2)        |
| Infrastructure construction          | 1,347                                   | 1,564                                   | (217)        | (13.9)        |
| <b>Total Commercial flight hours</b> | <b>3,344</b>                            | <b>4,036</b>                            | <b>(692)</b> | <b>(17.1)</b> |

## Government Revenues

Firefighting revenues decreased \$1.1 million, or 4.5%, to \$24.3 million for the six months ended June 30, 2014 from \$25.4 million in the six months ended June 30, 2013. This decrease was primarily due to a decrease in firefighting activity in North America and a decrease of flight hours in Australia, partially offset by revenues generated from our new contract in Turkey. Firefighting flight hours decreased to 836 from 1,051 in the six months ended June 30, 2013, primarily due to lower flight hours in North America of 308 hours, partially offset by 195 flight hours in Turkey.

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Defense and security revenues increased to \$82.5 million for the six months ended June 30, 2014 from \$28.8 million in 2013 due to six months of results from EHI in 2014 versus two months of results in 2013.

Transport and other government-related activities revenues decreased \$3.8 million, or 52.2%, to \$3.5 million for the six months ended June 30, 2014 from \$7.3 million in the six months ended June 30, 2013. The decrease was primarily due to the decrease in services being performed for our largest Italian customer as compared to the first six months of 2013.

**Commercial Revenues**

Timber harvesting revenues decreased \$5.3 million, or 30.5%, to \$12.2 million in the six months ended June 30, 2014 from \$17.5 million in the six months ended June 30, 2013. The decrease in revenues was primarily due to decreased revenues in Canada of \$3.4 million due to weather and a lack of customer demand for a third Aircrane as compared to the six months ended June 30, 2013, coupled with decreased revenues in Malaysia, where we have ended our Aircrane logging operations in the second quarter of 2014. Timber harvesting flight hours decreased 475 hours to 1,997 in the six months ended June 30, 2014 from 2,472 in the six months ended June 30, 2013. The decrease in flight hours were primarily due to decreased flight hours in Malaysia of 243, coupled with a decrease in Canada of 232.

Infrastructure construction revenues increased \$3.0 million, or 12.9%, to \$26.6 million in the six months ended June 30, 2014 from \$23.5 million in the six months ended June 30, 2013. The increase in revenues was primarily due to increased revenues in South American oil and gas infrastructure construction of \$7.5 million primarily driven by our acquisition of Air Amazonia, partially offset by a decrease in North American infrastructure construction of \$3.2 million driven by weather and project delays. Infrastructure construction flight hours decreased 217 hours to 1,347 in the six months ended June 30, 2014 from 1,564 in the six months ended June 30, 2013. The decrease in flight hours was primarily due to decreased flight hours in South America of 415 hours partially offset by increased flight hours in North America of 276.

Manufacturing / MRO revenues increased \$2.0 million, or 65.9%, to \$5.0 million in the six months ended June 30, 2014 from \$3.0 million in the six months ended June 30, 2013. The increase was primarily due to sales to customers associated with the EHI acquisition and sales of S-64 parts primarily to our Italian customer. For 2014, our Italian customer is purchasing parts as needed as compared to the six months ended June 30, 2013 when they utilized a cost per hour agreement with us for their parts needs to support their fleet of S-64 Aircrafts.

Aircraft sales revenue increased to \$1.1 million in the six months ended June 30, 2014 from zero in the same period 2013.

***Cost of Revenues***

Consolidated cost of revenues increased by \$54.3 million, or 68.9%, to \$133.1 million for the six months ended June 30, 2014 from \$78.8 million for the six months ended June 30, 2013. The increase was attributable to an increase in non-allocated costs of \$32.9 million, an increase of \$18.7 million in Government costs and an increase of \$2.7 million in Commercial costs for the six months ended June 30, 2014 compared to the same quarter of 2013.

| <b>(Dollars in thousands)</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>% of<br/>Revenues</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>% of<br/>Revenues</b> | <b>%<br/>Change</b> | <b>Change</b> |
|-------------------------------|---|--------------------------|---|--------------------------|---------------------|---------------|
| <b>Cost of revenues:</b>      |   |                          |   |                          |                     |               |
| Government <sup>(1)</sup>     | \$ 40,854   | 37.1                     | \$ 22,131   | 36.0                     | \$ 18,723           | 84.6          |
| Commercial <sup>(1)</sup>     | 21,745  | 48.5                     | 19,058  | 43.2                     | 2,687               | 14.1          |
| Non-allocated                 | 70,461  | 45.4                     | 37,578  | 35.6                     | 32,883              | 87.5          |
| <b>Total cost of revenues</b> | <b>\$ 133,060</b>                                 | <b>85.8</b>              | <b>\$ 78,767</b>                                  | <b>74.6</b>              | <b>\$ 54,293</b>    | <b>68.9</b>   |

(1) Percent of net revenues of applicable segment

### **Government Cost of Revenues**

Costs of revenues for our Government segment are primarily comprised of variable and fixed venue costs associated with firefighting, defense and security, and transport and other government-related activities. For the six months ended June 30, 2014, these costs were \$40.9 million, or 37.1% of revenues for the segment, as compared to \$22.1 million, or 36.0% of net revenues for the segment for the six months ended June 30, 2013. The increase of \$18.7 million was primarily due to the addition of the defense and security work associated with the acquisition of EHI, partially offset by decreased costs associated with firefighting in Australia and North America and transport and other governmental-related activities primarily related to our Italian crewing customer. For the six months ended June 30, 2014, cost of revenues were 37.1% of revenues for the segment compared to 36.0% for the six months ended June 30, 2013 primarily due to the addition of EHI partially offset by decrease in firefighting cost of revenues of 4 percent and decrease in transport cost of revenues of 11 percent.

### **Commercial Cost of Revenues**

Costs of revenues for our Commercial segment are primarily comprised of variable and fixed venue costs associated with timber harvesting, infrastructure construction, and MRO / Manufacturing. For the six months ended June 30, 2014, these costs were \$21.7 million, or 48.5% of revenues for the segment, as compared to \$19.1 million, or 43.2% of net revenues for the segment for the six months ended June 30, 2013. The increase of \$2.7 million was primarily due to higher fixed venue costs in infrastructure construction primarily due to the acquisition of Air Amazonia and delayed starts for several key projects, coupled with additional costs associated with aircraft sales for the Erickson Trade group. For the six months ended June 30, 2014, cost of revenues were 48.5% compared to 42.7% for the six months ended June 30, 2013, or a 6% increase, primarily due to higher costs in our construction business of 7 percent due to higher costs in North America and start up costs in South America coupled with fixed costs in Malaysia, partially offset by improved margin in Canada timber harvesting.

### **Non-allocated Cost of Revenues**

Non-allocated costs of revenues are primarily comprised of costs that are mostly fixed in nature and are shared costs between the segments. These costs are primarily salaries and benefit costs of our pilots and field mechanics, depreciation and amortization costs related to the aircraft, aircraft lease costs, insurance costs and other similar costs. For the six months ended June 30, 2014, these costs were \$70.5 million, or 45.4% of net revenues, as compared to \$37.6 million, or 35.6% of net revenues for the six months ended June 30, 2013. The increase of \$32.9 million was primarily driven by the increased costs associated with operating the EHI fleet for a full six months in 2014 as compared to a partial year in 2013. Non-allocated cost of revenue as a percentage of revenues increased by 10 percentage points to 45.4% from 35.6%, primarily due to an increase in the cost of pilots, field maintenance, aircraft lease costs, and depreciation, partially offset by lower insurance costs.

**Table of Contents***Gross Profit*

Consolidated gross profit decreased by \$4.8 million, or 17.8%, to \$22.0 million in the six months ended June 30, 2014 from \$26.8 million in the six months ended June 30, 2013. A combination of an increase in non-allocated costs of \$32.9 million and a decrease in Commercial gross profit of \$1.9 million offset a \$30.0 million increase in Government gross profit.

| (Dollars in thousands)    | Six Months<br>Ended<br>June 30,<br>2014 | % of<br>Revenues | Six Months<br>Ended<br>June 30,<br>2013 | % of<br>Revenues | Change            | %             |
|---------------------------|---|------------------|---|------------------|-------------------|---------------|
| <b>Gross profit:</b>      |   |                  |   |                  |                   |               |
| Government <sup>(1)</sup> | \$ 69,378                               | 62.9             | \$ 39,331                               | 64.0             | \$ 30,047         | 76.4          |
| Commercial <sup>(1)</sup> | 23,092                                  | 51.5             | 25,010                                  | 56.8             | (1,918)           | (7.7)         |
| Non-allocated             | (70,461)                                | (45.4)           | (37,578)                                | (35.6)           | (32,883)          | 87.5          |
| <b>Total gross profit</b> | <b>\$ 22,009</b>                        | <b>14.2</b>      | <b>\$ 26,763</b>                        | <b>25.4</b>      | <b>\$ (4,754)</b> | <b>(17.8)</b> |

(1) Percentage of net revenues of applicable segment

*Government.* Primarily as a result of the factors discussed above, Government gross profit increased by \$30.0 million, or 76.4%, to \$69.4 million in the six months ended June 30, 2014 from \$39.3 million in the six months ended June 30, 2013. Gross profit margin was 62.9% in the six months ended June 30, 2014 compared to 64.0% in the six months ended June 30, 2013.

*Commercial.* Primarily as a result of the factors discussed above, Commercial gross profit decreased by \$1.9 million, or 7.7%, to \$23.1 million in the six months ended June 30, 2014 from \$25.0 million in the six months ended June 30, 2013. Gross profit margin was 51.5% in the six months ended June 30, 2014 compared to 56.8% in the six months ended June 30, 2013.

*Non-allocated.* Primarily as a result of the factors discussed above, non-allocated costs for 2013 were \$70.5 million in the six months ended June 30, 2014 compared to \$37.6 million in the six months ended June 30, 2013.

*Operating Expenses*

| (Dollars in thousands)     | Six Months<br>Ended<br>June 30,<br>2014 | % of<br>Revenues | Six Months<br>Ended<br>June 30,<br>2013 | % of<br>Revenues | Change     | %      |
|----------------------------|---|------------------|---|------------------|------------|--------|
| <b>Operating expenses:</b> |   |                  |   |                  |            |        |
| General and administrative | \$ 13,791                               | 8.9              | \$ 16,423                               | 15.6             | \$ (2,632) | (16.0) |
| Research and development   | 2,056                                   | 1.3              | 1,918                                   | 1.8              | 138        | 7.2    |
| Selling and marketing      | 5,143                                   | 3.3              | 3,865                                   | 3.7              | 1,278      | 33.1   |

|                          |             |        |          |      |             |         |
|--------------------------|-------------|--------|----------|------|-------------|---------|
| Impairment of goodwill   | 21,272      | 13.7   |          |      | 21,272      | NM      |
| Total operating expenses | 42,262      | 27.3   | 22,206   | 21.0 | 20,056      | 90.3    |
| Operating income (loss)  | \$ (20,253) | (13.1) | \$ 4,557 | 4.3  | \$ (24,810) | (544.4) |

Operating expenses increased by \$20.1 million, or 90.3%, to \$42.3 million in the six months ended June 30, 2014 from \$22.2 million in the six months ended June 30, 2013. The increase was primarily due to goodwill impairment loss associated with EHI partially offset by the decrease in general and administrative costs resulting from lower acquisition and integration costs associated with the addition of EHI partially offset by increased legal costs. Selling and marketing costs increased by \$1.3 million primarily related to increased costs associated with pursuing new customers in the defense and security industry.

*Other Income (Expense)*

| (Dollars in thousands)               | Six Months<br>Ended<br>June 30,<br>2014 | % of<br>Revenues | Six Months<br>Ended<br>June 30,<br>2013 | % of<br>Revenues | Change      | %<br>Change |
|--------------------------------------|---|------------------|---|------------------|-------------|-------------|
| Other income (expense)               |   |                  |   |                  |             |             |
| Interest expense, net                | \$ (17,864)                             | (11.5)           | \$ (7,851)                              | (7.4)            | \$ (10,013) | 127.5       |
| Loss on early extinguishment of debt |   |                  | (215)                                   | (0.2)            | 215         | NM          |
| Other expense, net                   | (1,362)                                 | (0.9)            | (1,449)                                 | (1.4)            | 87          | (6.0)       |
| Total other expense                  | \$ (19,226)                             | (12.4)           | \$ (9,515)                              | (9.0)            | \$ (9,711)  | 102.1       |

Total other expense increased by \$9.7 million to \$19.2 million of net expense in the six months ended June 30, 2014 from \$9.5 million of net expense in the six months ended June 30, 2013. Interest expense, net increased by \$10.0 million to \$17.9 million in the six months ended June 30, 2014, from \$7.9 million in the six months ended June 30, 2013, primarily due to an increase in our average outstanding borrowings. Other expense, net decreased by \$0.1 million to \$1.4 million in other expense in the six months ended June 30, 2014 from \$1.5 million in other expense in the six months ended June 30, 2013 due to the factors described below.

| (Dollars in thousands)                        | Six Months<br>Ended<br>June 30,<br>2014 | Six Months<br>Ended<br>June 30,<br>2013 | Change |
|---|---|---|--------|
| Other income (expense), net:                  |   |   |        |
| Unrealized foreign exchange gain              | \$ 244                                  | \$ 140                                  | \$ 104 |
| Realized foreign exchange loss                | (42)                                    | (150)                                   | 108    |
| Amortization of debt issuance costs           | (1,214)                                 | (787)                                   | (427)  |
| Interest expense related to tax contingencies |   | (311)                                   | 311    |
| Gain on disposal of equipment                 | 191                                     | 21                                      | 170    |
| Loss on early extinguishment of debt          |   | (215)                                   | 215    |
| Other expense, net                            | (541)                                   | (362)                                   | (179)  |
| Other expense, net                            | \$ (1,362)                              | (1,664)                                 | \$ 302 |



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Other expense, net decreased by \$0.3 million to \$1.4 million of other expense in the six months ended June 30, 2014 from \$1.7 million of other expense in the six months ended June 30, 2013. The decrease was primarily due to a decrease in interest expense related to tax contingencies of \$0.3 million, a decrease in loss on early extinguishment of debt of \$0.2 million, and an increased gain on disposal of equipment of \$0.2 million. This is partially offset by an increase in amortization of debt issuance costs of \$0.4 million resulting from the addition of the 2020 Senior Notes offering and the new Revolving Credit Agreement entered into during 2013, as well as \$0.2 million costs related to asset write downs due to de-scoping in Malaysia.

*Income Tax Benefit*

| <b>(Dollars in thousands)</b>                            | <b>Six Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>% of<br/>Revenues</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>% of<br/>Revenues</b> | <b>Change</b>      | <b>%<br/>Change</b> |
|--|---|--------------------------|---|--------------------------|--------------------|---------------------|
| Net loss before income taxes and noncontrolling interest | \$ (39,479)                                       | (25.5)                   | \$ (4,958)  | (4.7)                    | \$ (34,521)        | NM                  |
| Income tax benefit                                       | (14,792)  | (9.5)                    | (2,167)   | (2.1)                    | (12,625)           | NM                  |
| <b>Net loss</b>  | <b>\$ (24,687)</b>                                | <b>(15.9)</b>            | <b>\$ (2,791)</b>                                 | <b>(2.6)</b>             | <b>\$ (21,896)</b> | <b>NM</b>           |

Income tax benefit increased by \$12.6 million to a \$14.8 million benefit in the six months ended June 30, 2014 as compared to a \$2.2 million benefit for the same period of 2013. The increase in tax benefit was primarily due to a \$34.5 million increase in net losses before income taxes mainly due to a goodwill impairment of \$21.3 million for the six months ended June 30, 2014 as compared to the same period during 2013.

*Net Loss Attributable to Erickson Incorporated*

| <b>(Dollars in thousands)</b>   | <b>Six Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>% of<br/>Revenues</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>% of<br/>Revenues</b> | <b>Change</b>      | <b>%<br/>Change</b> |
|---|---|--------------------------|---|--------------------------|--------------------|---------------------|
| Net loss  | \$ (24,687)                                       | (15.9)                   | \$ (2,791)  | (2.6)                    | \$ (21,896)        | NM                  |
| Less: Net (income) loss related to noncontrolling interest                    | (16)  | NM                       | (378)   | (0.4)                    | 362                | (95.8)              |
| <b>Net loss attributable to Erickson Incorporated and common stockholders</b> | <b>\$ (24,703)</b>                                | <b>(15.9)</b>            | <b>\$ (3,169)</b>                                 | <b>(3.0)</b>             | <b>\$ (21,534)</b> | <b>NM</b>           |

Net loss attributable to Erickson increased by \$21.5 million to \$24.7 million in the six months ended June 30, 2014 from \$3.2 million in the six months ended June 30, 2013, primarily due to the changes in revenues, expenses, and taxes discussed above. As there were no dividends on our Series A Redeemable Preferred Stock during the six months ended June 30, 2014 or 2013, net loss attributable to common stockholders was also \$24.7 million for the six months ended June 30, 2014 and \$3.2 million for the six months ended June 30, 2013.

**LIQUIDITY AND CAPITAL RESOURCES**

Our primary sources of liquidity are borrowings available under our Revolving Credit Facility, cash flows from operations, and current balances of cash and cash equivalents. Our primary cash needs are debt service payments, capital expenditures and funding working capital requirements. Cash and cash equivalents in excess of our needs are held in interest bearing accounts with financial institutions.

We have a concentration of large customers, several of which are U.S. and foreign government agencies or entities, and our cash flows depend on being able to collect our receivables from them. If, in the future, we cannot generate sufficient cash from operations to comply with our debt service obligations, we will need to refinance such debt obligations, obtain additional financing, or sell assets. We believe that our cash from operations and borrowings available to us under our Revolving Credit Facility will be adequate to meet our liquidity needs, capital expenditure requirements and debt service payments for at least the next 12 months. Our Revolving Credit Facility has a maturity date of May 2, 2018.

In addition, we may need to fund our debt service obligations or capital expenditures through the issuance of debt or equity securities or other external financing sources to the extent we are unable to fund such debt service obligations or capital expenditures out of our cash from operations.

As part of our business strategy, we may acquire businesses or specific assets or engage in other strategic transactions. However, our cash from operations and borrowings available under our existing credit facility may not be sufficient to fund any acquisitions or strategic transactions we choose to make. As a result, in the event we engage in any acquisitions or strategic transactions we may need to seek additional funds through the issuance of additional equity or debt securities or other sources of financing.

***Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013***

The following chart is a condensed presentation of our statement of cash flows for the three months ended June 30, 2014 and June 30, 2013 (in thousands):

| <b>(Dollars in thousands)</b>                        | <b>Three Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>Change</b> |
|--|---|---|---------------|
| Net cash used in operating activities                | \$ (26,087)   | \$ (37,368)   | \$ 11,281     |
| Net cash provided by (used in) investing activities  | 6,499   | (270,271)   | 276,770       |
| Net cash provided by financing activities            | 18,338  | 312,154   | (293,816)     |
| Foreign-currency effect on cash and cash equivalents | 484   | (16)  | 500           |
| Net increase (decrease) in cash and cash equivalents | (766)   | 4,499   | (5,265)       |
| Cash and cash equivalents at beginning of period     | 3,210   | 1,322   | 1,888         |
| Cash and cash equivalents at end of period           | \$ 2,444  | \$ 5,821  | \$ (3,377)    |



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**Table of Contents*****Sources and Uses of Cash***

At June 30, 2014, we had cash and cash equivalents of \$2.4 million compared to \$1.9 million at December 31, 2013. At June 30, 2014, we had restricted cash of \$1.1 million compared to \$2.9 million at December 31, 2013. Our cash and cash equivalents are intended to be used for working capital, capital expenditures, and debt repayments. Our restricted cash includes cash to secure performance bonds on certain contracts.

*Net cash used in operating activities.* For the quarter ended June 30, 2014 net cash provided by operating activities before the change in operating assets and liabilities was \$1.6 million, which included net loss of \$17.2 million and non-cash adjustments reconciling net income to net cash provided by operating activities of \$18.8 million (impairment of goodwill of \$21.3 million, depreciation and amortization of \$9.0 million, non-cash interest on debt of \$0.5 million, amortization of debt issuance costs of \$0.6 million and stock-based compensation of \$0.2 million, partially offset by a \$12.8 million net decrease in deferred income taxes). The change in operating assets and liabilities was a \$27.7 million use of cash primarily consisting of the following: a \$12.3 million increase in accounts receivable (primarily attributable to increased revenues), a \$12.3 million decrease in accrued and other liabilities, a \$4.9 million increase in Aircraft support parts, net (primarily attributable to increases in inventory levels needed in preparation for the active fire season), a \$1.3 million decrease in accounts payable, a \$0.3 million increase in prepaid expenses and other, partially offset by a \$0.8 million decrease in income tax receivable, a \$0.7 million increase in income taxes payable, and a \$0.3 million increase in other long term liabilities. As a result of these factors, operating activities used \$26.1 million of cash during the three months ended June 30, 2014.

For the three months ended June 30, 2013, net cash provided by operating activities before the change in operating assets and liabilities was \$6.1 million, which included a net loss of \$1.8 million coupled with non-cash adjustments reconciling net income to net cash provided by operating activities of \$7.9 million (depreciation and amortization of \$8.5 million, non-cash interest on debt of \$0.5 million, amortization of debt issuance costs of \$0.5 million, non-cash interest on tax contingencies of \$0.3 million, \$0.2 million in stock based compensation, and a \$0.2 million write-off of debt issuance costs related to the early termination of debt, partially offset by a net decrease of \$2.3 million in the deferred income taxes net liability position). The change in operating assets and liabilities was a \$43.5 million use of cash consisting primarily of the following: a \$25.2 million decrease in accounts payable (primarily attributable to the payment of EHI outstanding payables upon acquisition), a \$11.5 million increase in aircraft and support parts, net (primarily attributable to increases in inventory levels in preparation for the active fire season), a \$7.4 million increase in accounts receivable (primarily attributable to increased revenues), a \$2.7 million increase in other noncurrent assets, and a \$0.5 million increase to income tax receivable partially offset by a \$1.6 million increase in other long-term liabilities (primarily related to penalties on uncertain tax positions), a \$1.3 million increase in accrued and other current liabilities, and a \$0.8 million decrease in income tax payable. As a result of these factors, we used \$37.4 million of cash in operating activities in the three months ended June 30, 2013.

*Net cash provided by (used in) investing activities.* Net cash provided by investing activities was \$6.5 million for the quarter ended June 30, 2014 compared to net cash used in investing activities of \$270.3 million for the quarter ended June 30, 2013. In the quarter ended June 30, 2014, we used net cash of \$19.7 million for purchases of aircraft and property, plant and equipment primarily in support of our legacy business and expanded operations subsequent to the EHI acquisition and releases of restricted cash provided \$1.6 million. In the quarter ended June 30, 2014, the sale-leaseback of the Airplane provided \$24.7 million. In the quarter ended June 30, 2013, we used net cash of \$16.1 million for the purchase of aircraft and routine capital expenditures and \$208.9 million for the purchase of EHI.

*Net cash provided by financing activities.* During the quarter ended June 30, 2014, financing activities provided \$18.4 million of cash compared to \$312.2 million during the quarter ended June 30, 2013. For the second quarter of 2014, borrowings from credit facilities of \$73.3 million exceeded repayments of \$54.7 million, providing \$18.5

million of net cash. In the three months ended June 30, 2013, net cash provided by financing activities of \$400.0 million was borrowings of the Notes, partially offset by net repayments on revolving credit facilities and debt issuance.

### *Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013*

The following chart is a condensed presentation of our statement of cash flows for the six months ended June 30, 2014 and June 30, 2013 (in thousands):

| <b>(Dollars in thousands)</b>                        | <b>Six Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Six<br/>Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>Change</b> |
|--|---|---|---------------|
| Net cash used in operating activities                | \$ (23,593)                                       | \$ (38,047)   | \$ 14,454     |
| Net cash used in investing activities                | (10,784)  | (278,890)   | 268,106       |
| Net cash provided by financing activities            | 33,989  | 321,275   | (287,286)     |
| Foreign-currency effect on cash and cash equivalents | 951   | 15  | 936           |
| Net increase in cash and cash equivalents            | 563   | 4,353   | (3,790)       |
| Cash and cash equivalents at beginning of period     | 1,881   | 1,468   | 413           |
| Cash and cash equivalents at end of period           | \$ 2,444  | \$ 5,821  | \$ (3,377)    |

### *Sources and Uses of Cash*

At June 30, 2014, we had cash and cash equivalents of \$2.4 million compared to \$1.9 million at December 31, 2013. At June 30, 2014, we had restricted cash of \$1.1 million compared to \$2.9 million at December 31, 2013. Our cash and cash equivalents are intended to be used for working capital, capital expenditures, and debt repayments. Our restricted cash includes cash to secure performance bonds on certain contracts.

*Net cash used in operating activities.* For the six months ended June 30, 2014 net cash used by operating activities before the change in operating assets and liabilities was \$1.3 million, which included net loss of \$24.7 million and non-cash adjustments reconciling net income to net cash used by operating activities of \$23.4 million (impairment of goodwill of \$21.3 million, depreciation and amortization of \$16.9 million, amortization of debt issuance costs of \$1.2 million, non-cash interest on debt of \$0.5 million, and stock-based compensation of \$0.4 million, partially offset by a \$16.7 million net decrease in deferred income taxes and gains on sale of equipment of \$0.2 million). The change in operating assets and liabilities was a \$22.3 million use of cash primarily consisting of the following: a \$16.3 million decrease in accrued in other liabilities, \$12.7 million increase in Aircraft support parts, net (primarily attributable to increases in inventory levels needed in preparation for the active fire season), a \$0.9 million increase in prepaid expenses and other current assets, partially offset by a \$3.1 million decrease in other noncurrent assets, and \$1.6 million decrease in accounts receivable, a \$0.7 million increase in accounts payable, a \$0.7 million increase in income taxes payable, and a \$0.6 million increase in other long-term liabilities. As a result of these factors, operating activities used \$23.6 million of cash during the six months ended June 30, 2014.

For the six months ended June 30, 2013, net cash provided by operating activities before the change in operating assets and liabilities was \$10.1 million, which included a net loss of \$2.8 million offset by non-cash adjustments reconciling net loss to net cash provided by operating activities of \$12.9 million (depreciation of \$13.9 million,

non-cash interest on subordinated notes of \$1.2 million, amortization of debt issuance costs of \$0.8 million, stock based compensation of \$0.4 million, non-cash interest on tax contingencies of \$0.3 million, and a \$0.2 million write-off of debt issuance costs related to the early termination of debt, partially offset by a \$3.8 million decrease in deferred income taxes). The change in operating assets and liabilities was a \$48.2 million use consisting of the following: a \$25.5 million

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decrease in accounts payable (primarily related to repayment of EHI related payables), a \$13.7 million increase in accounts receivable (primarily attributable to increased revenues), a \$13.2 million increase in aircraft support parts, net (primarily attributable to increases in inventory levels in preparation for the active fire season), a \$2.7 million increase in other non-current assets, a \$1.6 million increase in prepaid and other expenses, and a \$0.3 million increase in income taxes receivable, partially offset by, a \$6.0 million increase in accrued and other current liabilities, a \$1.6 million increase in other long-term liabilities, and a \$1.2 million increase in income tax payable. As a result of these factors, we used \$38.0 million of cash in operating activities in the six months ended June 30, 2013.

*Net cash used in investing activities.* Net cash used in investing activities was \$10.8 million for the six month period ended June 30, 2014 compared to net cash used in investing activities of \$278.9 million for the period ended June 30, 2013. In the six months period ended June 30, 2014, we used net cash of \$37.1 million for purchases of aircraft and property, plant and equipment primarily in support of our legacy business and expanded operations subsequent to the EHI acquisition and releases of restricted cash provided \$1.8 million. In the period ended June 30, 2013, we used net cash of \$24.6 million for the purchase of aircraft and routine capital expenditures.

*Net cash provided by financing activities.* During the six months period ended June 30, 2014, financing activities provided \$34.0 million of cash compared to \$321.3 million during the period ended June 30, 2014. In the six months ended June 30, 2014, net cash provided by financing activities of \$113.1 million was borrowings from the revolving line of credit, partially offset by repayments of \$79.1 million. In the six months ended June 30, 2013, net cash provided by financing activities of \$400.0 million was borrowings of the Notes, partially offset by net repayments on revolving credit facilities and debt issuance costs.

**Description of Indebtedness**

The following summary of certain provisions of the instruments evidencing our material indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, all of the provisions of the corresponding agreements, including the definitions of certain terms therein that are not otherwise defined in this Form 10-K.

*2020 Senior Notes Offering*

On May 2, 2013, we closed our \$400.0 million aggregate principal note offering of the 2020 Senior Notes. The 2020 Senior Notes bear interest at 8.25%, are second priority senior secured obligations, and are due in 2020. The 2020 Senior Notes are guaranteed by certain of our existing and future domestic subsidiaries.

We used the net proceeds of the offering to (i) finance a portion of the purchase price for the EHI acquisition, (ii) refinance our 2015 Subordinated Notes and 2016 Subordinated Notes, (iii) refinance our prior senior secured asset-based revolving credit facility, comprised of the Term Debt and Revolving Line of Credit, (iv) pay related fees and expenses, and (v) record the remaining cash to the balance sheet.

The indenture under which the 2020 Senior Notes were issued, among other things, limits our ability and the ability of our restricted subsidiaries to: (i) pay dividends or distributions, repurchase equity, prepay subordinated debt or make certain investments; (ii) incur additional debt or issue certain disqualified stock and preferred stock; (iii) incur liens on assets; (iv) merge or consolidate with another company or sell all or substantially all assets; (v) enter into transactions with affiliates; and (vi) allow to exist certain restrictions on the ability of the guarantors to pay dividends or make other payments to us.

The 2020 Senior Notes are secured by second-position liens, subject to certain exceptions and permitted liens, on substantially all of our and the guarantors' existing and future assets that secure our new Revolving Credit Facility.

The interest rate on the 2020 Senior Notes is fixed at 8.25%. The outstanding balance under the 2020 Senior Notes at June 30, 2014 and December 31, 2013 was \$355.0 million.

A total of \$46.0 million of the net proceeds were initially deposited in escrow, consisting of \$45.0 million of aggregate principal and \$1.0 million related to anticipated interest, to be used toward the acquisition of Air Amazonia. Pursuant to the terms of the 2020 Senior Notes, these proceeds of the offering were not released from escrow to consummate the Air Amazonia acquisition before July 31, 2013, and as a result, an aggregate principal amount of 2020 Senior Notes equal to \$45.0 million were redeemed, on a pro rata basis, on August 5, 2013 pursuant to a special mandatory redemption, at a price equal to 100% of the principal amount of the 2020 Senior Notes being redeemed, plus accrued and unpaid interest to, but not including, August 5, 2013. We funded the purchase price of the Air Amazonia acquisition with our Revolving Credit Facility during 2013.

On May 2, 2014, the Company commenced an offer (the "Exchange Offer") to exchange all \$355.0 aggregate principal amount of its outstanding 8.25% Second Priority Senior Secured Notes due 2020, which were not registered under the Securities Act of 1933 (the "Old Notes"), for an equal principal amount of new 8.25% Second Priority Senior Secured Notes due 2020 which have been registered under the Securities Act of 1933 (the "New Notes"). The Exchange Offer was completed on June 6, 2014.

#### *Revolving Credit Facility*

On May 2, 2013, we entered into the Revolving Credit Facility, providing a new \$100.0 million, five-year revolving credit facility with a group of financial institutions led by Wells Fargo Bank N.A. and including Bank of the West, Deutsche Bank Trust Company Americas, and HSBC Bank USA NA. On June 14, 2013, the Revolving Credit Facility was amended to increase the maximum aggregate amount that we may borrow from \$100.0 million to \$125.0 million, and on March 11, 2014 it was amended to increase the maximum aggregate amount that we may borrow to \$140.0 million. The interest rate under the Revolving Credit Facility is 225-450 basis points over LIBOR/Prime base rate depending on the Company's senior leverage ratio. The proceeds under the Revolving Credit Facility are primarily used for general corporate purposes and we used a portion of the proceeds to fund the purchase price of the Air Amazonia acquisition.

We, and each of our current and future, direct and indirect, material domestic subsidiaries guarantee the indebtedness under the Revolving Credit Facility on a senior secured first lien basis.

The Revolving Credit Facility contains certain financial covenants, including, without limitation, a minimum fixed charge coverage ratio of 1.20:1.00 if our average excess availability, as calculated pursuant to the terms of the Revolving Credit Facility, is greater than \$16.8 million or 1.05:1.00 if our average excess availability, as calculated pursuant to the terms of the Revolving Credit Facility, is less than or equal to \$16.8 million, and an annual growth capital expenditures limit of approximately \$25.0 million, subject to standard carry-over provisions.

The Revolving Credit Facility includes mandatory prepayment requirements for the certain types of transactions, including, without limitation, requiring prepayment from (a) proceeds that we receive as a result of certain asset sales, subject to re-investment provisions on terms to be determined, and (b) proceeds from extraordinary receipts.

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The outstanding balance under the Revolving Credit Facility at June 30, 2014 and December 31, 2013 was \$102.1 million and \$68.1 million, respectively. The weighted average interest rate for borrowings under the Revolving Credit Facility for the three and six months period ended June 30, 2014 was 5.08% and 5.11%, respectively. The interest rate at June 30, 2014 and December 31, 2013 was 5.03% and 5.06%, respectively. As of June 30, 2014 and December 31, 2013 the Company had \$4.8 million and \$5.1 million in outstanding standby letters of credit under the Revolving Credit Facility, respectively, and maximum borrowing availability was \$33.1 million and \$51.8 million as of June 30, 2014 and December 31, 2013, respectively.

*2020 Subordinated Notes*

Pursuant to the terms of the EHI stock purchase agreement, the consideration included \$17.5 million of our subordinated notes. The subordinated notes accrue interest at a fixed rate of 6.0% per annum, mature on November 2, 2020, and may be prepaid at our option. Upon an event of default under the subordinated notes, the interest rate will increase to 8.0% per annum until the event of default is cured. We have agreed to pay, in cash, quarterly installments of interest only (in arrears) until March 31, 2015, after which date we have agreed to pay, in addition to such interest, on a quarterly basis \$1.0 million in principal. Upon any refinancing of the 2020 Senior Notes or the Revolving Credit Facility the principal amount of the subordinated notes with all accrued interest thereon will become due and payable. Upon a change of control, the principal amount together with all accrued interest shall forthwith be due and payable. Until the principal amount of the subordinated notes together with all accrued interest thereon has been paid in full, we and our subsidiaries may not declare or pay any dividend, make any payment on account of, or take certain other actions in respect of any of our or our subsidiaries' equity interests, subject to certain exceptions.

For purchase accounting of the EHI acquisition, the fair value of the subordinated notes was estimated at \$15.9 million, assuming a market level borrowing rate of 9.00%. As of June 30, 2014 and December 31, 2013, the carrying value of the 2020 Subordinated Notes was \$16.3 million, made up of the face value of \$17.5 million net of the unamortized discount of \$1.2 million. The weighted average interest rate for borrowings under the 2020 Subordinated Notes was 6.00% during the three and six months period ended June 30, 2014.

*Advance from Cambiano*

EuAC is party to an Amended Agreement with Banca Di Credito Cooperativo Di Cambiano (Cambiano) whereby EuAC may request advances up to 4.0 million. Advances are based on documentary proof of receivables due from the Italian government. The purpose of this Agreement is to provide short term liquidity needs. There were no advances outstanding as of June 30, 2014 and December 31, 2013. The agreement may be canceled by either party at any time.

On August 4, 2008, EuAC executed a bank guarantee and pledged 3.0 million as restricted cash in connection with a performance guarantee for a four-year leasing contract in Italy. Following receipt of the restricted cash, Cambiano issued a letter of credit for the performance bond. In the third quarter of 2012, the restricted cash amount was reduced to \$2.6 million (2.0 million), in conjunction with the reduction in the corresponding letter of credit. The restrictions renewed in June 2013 through the remainder of the 2013 fire season and the Company has classified the restricted cash related to the pledges as current assets based on the anticipated release date of the restriction. In the second quarter of 2014, the restricted cash amount was reduced to \$0.6 million (0.4 million), in conjunction with the reduction in the corresponding letter of credit.

*Non-GAAP Financial Measures*

We use EBITDA, Adjusted EBITDA and Adjusted EBITDAR to monitor our overall business performance. We define EBITDA as net income (loss) before interest expense, net, provision for (benefit from) income taxes,

depreciation and amortization, and non-cash charges relating to financings. We include the amortization of overhaul costs as an add-back to EBITDA. We believe that such adjustments to arrive at EBITDA are common industry practice amongst our peers and we believe this provides us with a more comparable measure for managing our business. We also believe that it is frequently used by securities analysts, investors, and other interested parties in the evaluation of companies in our industry.

Adjusted EBITDA means, as defined by our Revolving Credit Facility agreement, with respect to any fiscal period, our EBITDA, adjusted for, without duplication, the sum of the following amounts for such period to the extent included in determining consolidated net earnings (or loss) for such period: (i) extraordinary gains, (ii) non-cash items increasing consolidated net earnings for such period, excluding any items representing the impact of purchase accounting or the reversal of any accrual of, or cash reserve for, anticipated changes in any period, (iii) non-cash extraordinary losses, (iv) any other non-cash charges reducing consolidated net earnings for such period, excluding any such charge that represents an accrual or reserve for a cash expenditure for a future period or amortization of a prepaid cash expense that was paid in a prior period, (v) to the extent not capitalized, (A) non-recurring expenses, fees, costs and charges incurred and funded prior to, on or within nine months after the closing date in connection with the Revolving Credit Facility and the EHI acquisition; and (B) expenses incurred and funded prior to, on, or within two years of the closing date in connection with the termination of the lease for the location of the chief executive office of EHI as of the closing date; and (vi) transaction-related expenditures incurred and funded prior to, on or within nine months of the date of consummation of (A) the HRT acquisition, (B) any permitted acquisition under the Revolving Credit Facility, or (C) any investment that is permitted pursuant to the Revolving Credit Facility, in the case of each of (A), (B), and (C), that arise out of cash charges related to deferred stock compensation, management bonuses, strategic market reviews, restructuring, retention bonuses, consolidation, severance or discontinuance of any portion of operations, termination of the lease for the headquarters of EHI, employees or management of the target of such permitted acquisition, accrued vacation payments and working notices payments and other non-cash accounting adjustments.

We also use Adjusted EBITDAR in managing our business. Adjusted EBITDAR is determined by adding aircraft lease expense to Adjusted EBITDA. We present Adjusted EBITDAR because we believe this provides us with a more comparable measure for managing our business. We have further adjusted EBITDA for continued acquisition and integration costs beyond the nine months defined by our Revolving Credit Facility agreement and the restructuring costs associated with exiting the Malaysian timber harvesting market.

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EBITDA, Adjusted EBITDA, and Adjusted EBITDAR are supplemental measures of our performance that are not required by or presented in accordance with U.S. GAAP. EBITDA, Adjusted EBITDA and Adjusted EBITDAR are not measurements of our financial performance under U.S. GAAP and should not be considered as alternatives to revenue, net income (loss), cash flow, or any other performance measure derived in accordance with U.S. GAAP. Our presentation of EBITDA, Adjusted EBITDA, and Adjusted EBITDAR may not be comparable to similarly titled measures of other companies. A reconciliation of net loss to EBITDA, Adjusted EBITDA, and Adjusted EBITDAR is provided below.

| <b>(Dollars in thousands)</b>                                       | <b>Three Months<br/>Ended<br/>June 30,<br/>2014</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2013</b> | <b>Six Months<br/>Ended<br/>June 30, 2014</b> | <b>Six Months<br/>Ended<br/>June 30, 2013</b> |
|---|---|---|---|---|
| <b>EBITDA, Adjusted EBITDA and Adjusted EBITDAR Reconciliation:</b> |   |   |   |   |
| Net loss attributable to Erickson Incorporated                      | \$ (17,109)   | \$ (1,952)  | \$ (24,703)                                   | \$ (3,169)                                    |
| Interest expense, net   | 9,111   | 6,495   | 17,864  | 7,851   |
| Tax benefit   | (10,222)  | (1,031)   | (14,792)                                      | (2,167)                                       |
| Depreciation and amortization                                       | 8,981   | 8,474   | 16,934  | 13,874  |
| Amortization of debt issuance costs                                 | 593   | 465   | 1,214   | 787   |
| <b>EBITDA</b>   | <b>\$ (8,646)</b>                                   | <b>\$ 12,451</b>                                    | <b>\$ (3,483)</b>                             | <b>\$ 17,176</b>                              |
| Acquisition and integration related expenses                        | 631   | 3,982   | 1,422   | 6,245   |
| Non-cash unrealized mark-to-market foreign exchange (gains) losses  | (27)  | 66  | (244)   | (140)   |
| Non-cash charges from awards to employees of equity interests       | 236   | 232   | 396   | 411   |
| Loss on early extinguishment of debt                                |   | 215   |   | 215   |
| Interest expense related to tax contingencies                       |   | 311   |   | 311   |
| Non-cash goodwill impairment expense                                | 21,272  |   | 21,272  |   |
| Restructuring costs for Erickson Air-Crane Malaysia                 | 414   |   | 414   |   |
| Gain on sale of equipment   | (61)  | (21)  | (191)   | (21)  |
| <b>Adjusted EBITDA</b>  | <b>\$ 13,819</b>                                    | <b>\$ 17,236</b>                                    | <b>\$ 19,586</b>                              | <b>\$ 24,197</b>                              |
| Aircraft lease expenses   | 5,149   | 3,219   | 10,108  | 3,222   |
| <b>Adjusted EBITDAR</b>   | <b>\$ 18,968</b>                                    | <b>\$ 20,455</b>                                    | <b>\$ 29,694</b>                              | <b>\$ 27,419</b>                              |

**OFF-BALANCE SHEET ARRANGEMENTS**

With the exception of operating leases, letters of credit, and an advance agreement with a foreign bank, we are not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, or cash flows.

*Operating Leases.* We lease light and medium lift aircraft, certain premises on a short-term basis, and a minor amount of our facilities and certain other property and equipment under noncancelable operating lease agreements that expire on various dates through August 2064. Certain leases have renewal options. During the second quarter of 2014, we have entered into a sale-leaseback transaction for one S-64 Airplane for a total purchase price of \$24.7 million. The lease has an initial term of seven years commencing on June 30, 2014, and base monthly lease payments of approximately \$264,000.

*Letters of Credit.* To meet certain customer requirements, we issue letters of credit which are used as collateral for performance bonds, bid bonds, or advance customer payment on contracts. These instruments involve a degree of risk that is not recorded on our balance sheet. At June 30, 2014, we had letters of credit with various expiration dates extending into 2016 valued at approximately \$5.4 million outstanding, including \$4.8 million outstanding under our Revolving Credit Facility and \$0.6 million ( 0.4 million) outstanding under a performance bond issued by Banca Di Credito Cooperativo Di Cambiano that we have secured with \$0.6 million ( 0.4 million) in restricted cash.

*Advance Agreements with Foreign Banks.* In order to provide short-term liquidity needs of our subsidiaries, we may allow those subsidiaries to enter into agreements with banks to obtain advances on key accounts receivable. At June 30, 2014 and December 31, 2013, there were no advances outstanding under these types of arrangement.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates could have reasonably been used, or if changes in the accounting estimates that are reasonably likely to occur periodically could materially impact our consolidated financial statements. Our critical accounting policies and estimates are discussed in our Form 10-K filed with the SEC on March 14, 2014. We believe that there have been no significant changes to our critical accounting policies during the six months period ended June 30, 2014 other than the effects of the acquisitions disclosed.

We cannot predict what future laws and regulations might be passed that could have a material effect on our results of operations. We assess the impact of significant changes in laws and regulations on a regular basis and update the assumptions and estimates used to prepare our financial statements when we deem it necessary.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk in the normal course of our business operations due to changes in interest rates, increase in cost of aircraft fuel, and our exposure to fluctuations in foreign currency exchange rates. We have established policies and procedures to govern our management of market risks.

### ***Interest Rate Risk***

At June 30, 2014 we had total indebtedness of \$474 million (excluding \$5.4 million of letters of credit). Our exposure to market risk from adverse changes in interest rates is primarily associated with our Revolving Credit Facility as our other debt obligations maintain fixed interest rates. Market risks associated with our Revolving Credit Facility include the potential reductions in fair value and negative impacts to future earnings from an increase in interest rates. Under

our pre-acquisition debt, composed of the Term Debt and Revolving Line of Credit terminated on May 2, 2013, the applicable interest rate on our borrowings was calculated based on either LIBOR (London Interbank Offered Rate) or a base rate plus a margin depending on the level of the senior debt leverage covenant ratio as defined in our prior credit agreement. The rates applicable to outstanding borrowings fluctuated based on many factors including, but not limited to, general economic conditions and interest rates, including the LIBOR, Federal Funds, and prime rates. Under our Revolving Credit Facility, the applicable interest rate on our borrowings is 225 - 450 basis points over LIBOR/Prime base rate depending on the Company's senior leverage ratio. We estimate that a hypothetical 10% change in the interest rates experienced on our debt would have impacted interest expense for the quarter ended June 30, 2014 by approximately \$0.7 million.

#### *Aircraft Fuel*

Our results of operations are affected by changes in the price and availability of aircraft fuel. For the quarter ended June 30, 2014, a deviation of 10% in the average price per gallon of fuel would have impacted our cost of revenues by approximately \$0.5 million. Many of our contracts allow for recovery of all or part of any fuel cost change through pricing adjustments. We do not currently purchase fuel under long-term contracts or enter into futures or swap contracts.

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We are not exposed to material commodity price risks except with respect to the purchase of aircraft fuel.

### ***Foreign Currency Exchange Rate Risk***

A significant portion of our revenues are denominated in a currency other than the U.S. dollar. We are subject to exposures that arise from foreign currency movements between the date the foreign currency transactions are recorded and the date they are settled. Our exposure to foreign currency movements is somewhat mitigated through naturally offsetting asset and liability currency positions. We periodically enter into foreign currency hedging transactions to mitigate the risk of foreign currency movements and minimize the impact of exchange rate fluctuations on our profits. A hypothetical 10% decrease in the value of the foreign currencies in which our business is denominated relative to the U.S. dollar for the quarter ended June 30, 2014 would have resulted in an estimated pre-hedged decrease of \$0.2 million in our net income.

### ***Supplier Risk***

The Company operates within the aviation industry where certain vendors constitute the sole source for FAA-approved parts. The loss of certain suppliers could cause a material business disruption to the Company.

## **ITEM 4. Controls and Procedures.**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), to allow timely decisions to be made regarding required disclosure. We have established a Disclosure Committee, consisting of certain members of management, to assist in this evaluation. The Disclosure Committee meets on a quarterly basis, and as needed.

Our management, including 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) promulgated under the Exchange Act), at June 30, 2014. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at June 30, 2014, our disclosure controls and procedures were effective.

We are in the process of integrating the control environments of EHI and Air Amazonia, which we acquired on May 2, 2013 and September 3, 2013, respectively, with our existing control environment. Except for that integration process, there have been no changes in internal control over financial reporting that occurred during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

*Fortis Matter*

A complaint was served on EHI on August 27, 2012, by the plaintiff, Fortis Lease Deutschland GmbH, in the Regional Court, 7th Chamber for Commercial Matters, Cologne, Germany. The plaintiff claims approximately 0.8 million in damages for the payment of VAT levied on the purchase price relating to EHI's purchase of two helicopters from the plaintiff in 2011. The complaint lodged by plaintiff resulted in a default judgment against EHI issued on February 26, 2013. In a brief filed with the court on May 10, 2013, EHI objected to the default judgment, arguing that the sale of the two helicopters was tax exempt as they both were exported to a third country outside the European Union. In May 2014, Erickson paid 40,000 in full and final settlement of this matter.

#### *Arizona Environmental Matter*

In August 2012, EHI received a request for information from the State of Arizona regarding the Broadway-Pantano Site in Tucson, Arizona, which is comprised of two landfills at which the State has been conducting soil and groundwater investigations and cleanups. In addition, EHI has been served with various petitions to perpetuate testimony regarding the State's investigation into contamination at the Site. According to these documents, the State has identified approximately 101 parties that are potentially responsible for the contamination. Based on the information request and the petition to perpetuate testimony, it is possible that the State or other liable parties may assert that EHI is liable for the alleged contamination at the Site. There were no material developments with respect to this matter in 2013 or during the six months period ended June 30, 2014. At this time, the Company is not able to determine the likelihood of any outcome in this matter, nor is it able to estimate the amount or range of loss or the impact on its financial condition in the event of an unfavorable outcome.

#### *World Fuel Claim*

In December of 2013, World Fuel, a former fuel supplier of Evergreen International Aviation (EIA) and Evergreen Airlines (EA), filed suit against EIA, EA and other named parties claiming approximately \$9 million of accounts payable due and owing to World Fuel for fuel purchases made by EIA and EA. Evergreen Helicopters, Inc. (Erickson's wholly-owned subsidiary, EHI) was a named party in the lawsuit since it was alleged that EHI signed a joint and several guaranty of payment in favor of World Fuel in 2012. In April 2014, the Company filed its Amended Answer which included certain counterclaims against World Fuel and certain cross claims against Mr. Delford Smith. Discovery in this matter is ongoing. At this time, the Company is not able to determine the likelihood of any outcome in this matter, nor is it able to estimate the amount or range of loss or the impact on its financial condition in the event of an unfavorable outcome.

#### *Stockholder Action*

In August 2013, a putative stockholder of the Company filed a class and derivative action in the Court of Chancery for the State of Delaware against the Company, the members of its board of directors, EAC Acquisition Corp., and the ZM Funds and certain of their affiliates. The plaintiff asserted claims for breach of fiduciary duty and unjust enrichment in connection with the EHI acquisition and requested an award of unspecified monetary damages to the stockholders and to the Company, disgorgement and restitution, certain other equitable relief, and an award of plaintiff's costs and disbursements, including legal fees. On October 3, 2013, the defendants moved to dismiss the plaintiff's complaint on the ground that all of the plaintiff's claims in reality were derivative in nature and that the plaintiff had failed to allege facts sufficient to excuse pre-suit demand. On December 4, 2013, rather than oppose the motion to dismiss, the plaintiff chose to file an amended complaint. On January 24, 2014, the defendants again moved to dismiss the plaintiff's amended complaint on the same grounds. On April 15, 2014, the Court denied the

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defendants' motion, holding that one aspect of the plaintiff's claim was direct and that, in any event, the plaintiff had pled facts sufficient to excuse pre-suit demand. Although the Company is unable to predict the final outcome of the proceeding, the Company believes the allegations lack merit, intends to vigorously defend against them, and believes that the final results will not have a material effect on its consolidated financial position, results of operations, or cash flows.

In addition to the foregoing litigation, the Company is subject to ongoing litigation and claims as part of its normal business operations. In the Company's opinion, none of these claims will have a material adverse effect on it.

**ITEM 6. EXHIBITS**

Please see the Exhibit Index immediately following the signature page to this Quarterly Report on Form 10-Q.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Erickson Incorporated**

Date: August 7, 2014

By: */s/ ERIC STRUIK*  
Eric Struik  
*Chief Financial Officer*  
*(signing on behalf of the registrant as principal financial officer)*

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| <b>Exhibit</b> |  | <b>Filed</b> |                      | <b>Exhibit</b> | <b>File</b> | <b>Filing</b> |                 |             |
|----------------|--|--------------|----------------------|----------------|-------------|---------------|-----------------|-------------|
|                |  | <b>No.</b>   | <b>Exhibit Title</b> |                |             |               | <b>Herewith</b> | <b>Form</b> |
| 31.1           | Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |              |                      |                |             |               |                 |             |
|                |  |              |                      |                |             |               |                 |             |
| 31.2           | Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |              |                      |                |             |               |                 |             |
|                |  |              |                      |                |             |               |                 |             |
| 32.1           | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |              |                      |                |             |               |                 |             |
|                |  |              |                      |                |             |               |                 |             |
| 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   |              |                      |                |             |               |                 |             |
|                |  |              |                      |                |             |               |                 |             |