

ERICKSON INC.  
Form 10-Q  
November 05, 2015

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2015

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

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ERICKSON INCORPORATED  
(Exact name of registrant as specified in its charter)

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Delaware 93-1307561  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

5550 SW Macadam Avenue, Suite 200, Portland, Oregon 97239  
(Address of principal executive offices) (Zip Code)

(503) 505-5800  
(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act: N/A

(Title of each class)

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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 October 30, 2015, 18,340,901 shares of common stock, par value \$0.0001, were outstanding.

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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ERICKSON INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data) (Unaudited)

|   | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
| Assets  |                       |                      |
| Current assets:   |                       |                      |
| Cash and cash equivalents   | \$ 1,698              | \$ 5,097             |
| Restricted cash   | 349                   | 567                  |
| Accounts receivable, net of allowances for doubtful accounts of \$170 and \$739 in 2015 and 2014, respectively  | 55,172                | 44,350               |
| Inventory   | 7,988                 | —                    |
| Prepaid expenses and other current assets   | 4,935                 | 8,780                |
| Income tax receivable   | 649                   | 677                  |
| Deferred tax assets   | 595                   | 1,230                |
| Total current assets  | 71,386                | 60,701               |
| Aircraft support parts, net   | 135,608               | 137,593              |
| Assets held for sale  | 5,959                 | —                    |
| Aircraft, net   | 109,672               | 128,221              |
| Property, plant and equipment, net  | 118,537               | 120,635              |
| Goodwill  | 163,616               | 215,241              |
| Other intangible assets, net  | 18,045                | 20,053               |
| Other non-current assets  | 22,028                | 23,077               |
| Total assets  | \$ 644,851            | \$ 705,521           |
| Liabilities and stockholders' equity  |                       |                      |
| Current liabilities:  |                       |                      |
| Accounts payable  | \$ 20,245             | \$ 19,844            |
| Current portion of long-term debt   | 4,840                 | 4,144                |
| Accrued and other current liabilities   | 29,100                | 19,034               |
| Income tax payable  | 398                   | 315                  |
| Deferred tax liabilities  | —                     | 884                  |
| Total current liabilities   | 54,583                | 44,221               |
| Long-term debt  | 17,580                | 12,751               |
| Long-term revolving credit facilities   | 87,384                | 89,339               |
| Long-term notes payable   | 355,000               | 355,000              |
| Other long-term liabilities   | 15,733                | 13,181               |
| Uncertain tax positions   | 6,484                 | 6,313                |
| Deferred tax liabilities  | 1,390                 | 3,703                |
| Total liabilities   | 538,154               | 524,508              |
| Stockholders' equity:   |                       |                      |
| Common stock; \$0.0001 par value; 110,000,000 shares authorized; 13,840,901 and 13,823,818 issued and outstanding at September 30, 2015 and December 31, 2014, respectively | 1                     | 1                    |
| Additional paid-in capital  | 181,186               | 181,018              |
| Retained earnings (accumulated deficit)   | (68,205)              | ) 1,812              |

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|  |           |           |   |
|--|-----------|-----------|---|
| Accumulated other comprehensive loss, net of tax                 | (6,973    | ) (2,544  | ) |
| Total stockholders' equity attributable to Erickson Incorporated | 106,009   | 180,287   |   |
| Noncontrolling interest  | 688       | 726       |   |
| Total stockholders' equity                                       | 106,697   | 181,013   |   |
| Total liabilities and stockholders' equity                       | \$644,851 | \$705,521 |   |

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

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ERICKSON INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(In thousands, except share and per share data) (Unaudited)

|   | Three Months Ended |            | Nine Months Ended |            |
|---|--------------------|------------|-------------------|------------|
|   | September 30,      |            | September 30,     |            |
|   | 2015               | 2014       | 2015              | 2014       |
| Net revenues  | \$101,133          | \$118,338  | \$236,614         | \$273,407  |
| Cost of revenues  | 68,088             | 70,842     | 194,464           | 205,001    |
| Gross profit  | 33,045             | 47,496     | 42,150            | 68,406     |
| Operating expenses:   |                    |            |                   |            |
| General and administrative  | 5,483              | 6,608      | 18,082            | 20,399     |
| Research and development  | 425                | 783        | 1,886             | 2,839      |
| Selling and marketing   | 1,458              | 1,578      | 4,543             | 5,622      |
| Impairment of goodwill  | —                  | —          | 49,823            | 21,272     |
| Other asset impairment  | —                  | —          | 7,143             | —          |
| Total operating expenses  | 7,366              | 8,969      | 81,477            | 50,132     |
| Operating income (loss)   | 25,679             | 38,527     | (39,327)          | 18,274     |
| Other income (expense):   |                    |            |                   |            |
| Interest expense, net   | (9,292)            | (9,002)    | (27,879)          | (26,866)   |
| Amortization of debt issuance costs   | (683)              | (613)      | (1,937)           | (1,827)    |
| Unrealized foreign exchange gain (loss)                                     | 84                 | (518)      | (295)             | (274)      |
| Gain on early extinguishment of debt  | 153                | —          | 153               | —          |
| Realized foreign exchange gain  | 57                 | 93         | 4                 | 51         |
| Gain on involuntary conversion  | —                  | 308        | —                 | 308        |
| Gain on disposal of equipment   | 51                 | 62         | 121               | 253        |
| Other expense, net  | (938)              | (163)      | (978)             | (704)      |
| Total other expense   | (10,568)           | (9,833)    | (30,811)          | (29,059)   |
| Net income (loss) before income taxes and noncontrolling interest           | 15,111             | 28,694     | (70,138)          | (10,785)   |
| Income tax expense (benefit)  | (240)              | 11,753     | (167)             | (3,039)    |
| Net income (loss)   | 15,351             | 16,941     | (69,971)          | (7,746)    |
| Less: Net income related to noncontrolling interest                         | (278)              | (79)       | (46)              | (95)       |
| Net income (loss) attributable to Erickson Incorporated common stockholders | \$15,073           | \$16,862   | \$(70,017)        | \$(7,841)  |
| Net income (loss)   | \$15,351           | \$16,941   | \$(69,971)        | \$(7,746)  |
| Other comprehensive income (loss):  |                    |            |                   |            |
| Foreign currency translation adjustment                                     | (5,014)            | (1,995)    | (4,513)           | (1,189)    |
| Comprehensive income (loss)   | 10,337             | 14,946     | (74,484)          | (8,935)    |
| Comprehensive (income) loss attributable to noncontrolling interest         | (47)               | 17         | 38                | 14         |
| Comprehensive income (loss) attributable to Erickson Incorporated           | \$10,290           | \$14,963   | \$(74,446)        | \$(8,921)  |
| Net income (loss) per share attributable to common stockholders:            |                    |            |                   |            |
| Basic   | \$1.09             | \$1.22     | \$(5.06)          | \$(0.57)   |
| Diluted   | \$1.09             | \$1.22     | \$(5.06)          | \$(0.57)   |
| Weighted average shares outstanding:  |                    |            |                   |            |
| Basic   | 13,834,938         | 13,802,212 | 13,830,002        | 13,797,093 |
| Diluted   | 13,834,938         | 13,817,050 | 13,830,002        | 13,797,093 |

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

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

(Unaudited)

|  | Common Stock |        | Additional<br>Paid-in<br>Capital | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Stockholders'<br>Equity<br>(Deficit) of<br>Erickson<br>Incorporated |        | Noncontrol<br>Interest<br>Amount | Total<br>Stockholders'<br>Equity |
|--|--------------|--------|----------------------------------|--|---|--|--------|----------------------------------|----------------------------------|
|  | Shares       | Amount |                                  |  |   |  |        |                                  |                                  |
| Balance at December 31, 2013               | 13,787,914   | \$ 1   | \$ 179,954                       | \$ 12,104  | \$ (42 )                                      | \$ 192,017   | \$ 890 | \$ 192,907                       |                                  |
| Issuance of Restricted Stock Units         | 50,695       | —      | —                                | —  | —   | —  | —      | —                                |                                  |
| Noncontrolling interest dividend           | —            | —      | —                                | —  | —   | —  | (69 )  | (69 )                            |                                  |
| Stock-based compensation                   | —            | —      | 861                              | —  | —   | 861  | —      | 861                              |                                  |
| Shares withheld for payment of taxes       | (14,791 )    | —      | (211 )                           | —  | —   | (211 )   | —      | (211 )                           |                                  |
| Proceeds from shareholder, net             | —            | —      | 414                              | —  | —   | 414  | —      | 414                              |                                  |
| Components of comprehensive income (loss): |              |        |                                  |  |   |  |        |                                  |                                  |
| Net income (loss)                          | —            | —      | —                                | (10,292 )  | —   | (10,292 )  | 61     | (10,231 )                        |                                  |
| Foreign currency translation               | —            | —      | —                                | —  | (2,502 )                                      | (2,502 )   | (156 ) | (2,658 )                         |                                  |
| Comprehensive loss                         |              |        |                                  |  |   |  |        | (12,889 )                        |                                  |
| Balance at December 31, 2014               | 13,823,818   | \$ 1   | \$ 181,018                       | \$ 1,812   | \$ (2,544 )                                   | \$ 180,287   | \$ 726 | \$ 181,013                       |                                  |
| Issuance of Restricted Stock Units         | 27,213       | —      | —                                | —  | —   | —  | —      | —                                |                                  |
| Stock-based compensation                   | —            | —      | 211                              | —  | —   | 211  | —      | 211                              |                                  |
| Shares withheld for payment of taxes       | (10,130 )    | —      | (43 )                            | —  | —   | (43 )  | —      | (43 )                            |                                  |
| Components of comprehensive loss:          |              |        |                                  |  |   |  |        |                                  |                                  |
| Net income (loss)                          | —            | —      | —                                | (70,017 )  | —   | (70,017 )  | 46     | (69,971 )                        |                                  |
| Foreign currency translation               | —            | —      | —                                | —  | (4,429 )                                      | (4,429 )   | (84 )  | (4,513 )                         |                                  |
| Comprehensive loss                         |              |        |                                  |  |   |  |        | (74,484 )                        |                                  |
| Balance at September 30, 2015              | 13,840,901   | \$ 1   | \$ 181,186                       | \$ (68,205 )                                     | \$ (6,973 )                                   | \$ 106,009   | \$ 688 | \$ 106,697                       |                                  |



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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
|  | 2015                                | 2014      | 2015                               | 2014      |
| Cash flows from operating activities:  |                                     |           |                                    |           |
| Net income (loss)  | \$ 15,351                           | \$ 16,941 | \$(69,971)                         | \$(7,746) |
| Adjustments to reconcile income (loss) to net cash provided by operating activities: |                                     |           |                                    |           |
| Depreciation and amortization  | 12,168                              | 10,164    | 30,884                             | 27,098    |
| Impairment of goodwill   | —                                   | —         | 49,823                             | 21,272    |
| Other asset impairment   | —                                   | —         | 7,143                              | —         |
| Deferred income taxes  | (1,210)                             | 8,467     | (2,897)                            | (8,273)   |
| Non-cash interest expense on debt  | 237                                 | 96        | 643                                | 226       |
| Stock-based compensation   | 114                                 | 220       | 211                                | 616       |
| Amortization of debt issuance costs  | 683                                 | 613       | 1,937                              | 1,827     |
| Gain on early extinguishment of debt   | (153)                               | —         | (153)                              | —         |
| Gain on sale of equipment  | (51)                                | (62)      | (121)                              | (253)     |
| Gain on involuntary conversion   | —                                   | (308)     | —                                  | (308)     |
| Changes in operating assets and liabilities:   |                                     |           |                                    |           |
| Accounts receivable  | (7,135)                             | (3,095)   | (11,607)                           | (1,525)   |
| Inventory  | 678                                 | —         | (7,988)                            | —         |
| Prepaid expenses and other current assets  | 3,490                               | (6,001)   | 3,632                              | (6,907)   |
| Income tax receivable  | (40)                                | 3         | 28                                 | 949       |
| Aircraft support parts, net  | 109                                 | (923)     | 150                                | (13,638)  |
| Other non-current assets   | (426)                               | 1,106     | 2,258                              | 4,232     |
| Assets held for sale   | 2,000                               | —         | 2,000                              | —         |
| Accounts payable   | 837                                 | (6,892)   | 862                                | (6,161)   |
| Accrued and other current liabilities  | 7,899                               | 12,291    | 12,413                             | (4,050)   |
| Income tax payable   | 555                                 | 493       | 298                                | 1,210     |
| Uncertain tax position   | (184)                               | —         | 170                                | —         |
| Other long-term liabilities  | (1,093)                             | (366)     | 2,524                              | 192       |
| Net cash provided by operating activities  | 33,829                              | 32,747    | 22,239                             | 8,761     |
| Cash flows from investing activities:  |                                     |           |                                    |           |
| Purchases of aircraft and property, plant and equipment                              | (8,790)                             | (15,569)  | (20,629)                           | (52,707)  |
| Proceeds from sale-leaseback of assets   | 5,078                               | —         | 5,078                              | 24,660    |
| Restricted cash  | 11                                  | 574       | 135                                | 2,341     |
| Dividends paid to non-controlling interest   | —                                   | —         | —                                  | (73)      |
| Net cash used in investing activities  | (3,701)                             | (14,995)  | (15,416)                           | (25,779)  |
| Cash flows from financing activities:  |                                     |           |                                    |           |
| Proceeds from shareholders, net  | —                                   | —         | —                                  | 414       |
| Repayments of subordinated notes   | (1,378)                             | —         | (3,378)                            | —         |
| Repayments of credit facilities  | (67,262)                            | (69,716)  | (140,444)                          | (148,839) |
| Borrowings from credit facilities  | 40,937                              | 53,862    | 138,490                            | 166,993   |
| Other long-term borrowings   | (36)                                | 51        | (120)                              | 444       |
| Payments under capital leases  | (271)                               | —         | (611)                              | —         |
| Debt issuance costs  | (10)                                | (72)      | (147)                              | (339)     |
| Shares withheld for payment of taxes   | (11)                                | —         | (43)                               | (166)     |

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|  |         |           |          |          |
|--|---------|-----------|----------|----------|
| Net cash provided by (used in) financing activities                    | (28,031 | ) (15,875 | ) (6,253 | ) 18,507 |
| Effect of foreign currency exchange rates on cash and cash equivalents | (2,165  | ) (1,762  | ) (3,969 | ) (811   |
| Net increase (decrease) in cash and cash equivalents                   | (68     | ) 115     | (3,399   | ) 678    |
| Cash and cash equivalents at beginning of period                       | 1,766   | 2,444     | 5,097    | 1,881    |
| Cash and cash equivalents at end of period                             | \$1,698 | \$2,559   | \$1,698  | \$2,559  |
| Supplemental disclosure of cash flow information:                      |         |           |          |          |
| Cash paid for interest   | \$2,007 | \$2,017   | \$20,104 | \$19,553 |
| Cash paid for income taxes, net  | \$296   | \$1,588   | \$1,563  | \$2,449  |

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

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ERICKSON INCORPORATED AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1. Description of the Business

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.), 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”), Erickson Aviation Peru S.A.C. (“Peru”) (collectively referred to as “the Company”), and Erickson Aviation Turkey Yonetim Hizmetleri Limited Sirketi (“EAT”). 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 September 30, 2015, the Company owned a fleet of 19 heavy lift helicopters, comprised of 13 S-64E and six S-64F model Aircranes, and 29 medium and light lift aircraft of varying model types, comprised of 25 rotor wing aircraft and four fixed-wing aircraft. As of September 30, 2015, the Company leased a fleet of one heavy lift S-64F model Aircrane, 26 medium and light lift aircraft of varying types, comprised of 22 rotor wing aircraft and four fixed-wing aircraft. The Company’s fleet operations span the globe with a presence on six continents. As of September 30, 2015, 17 of the owned aircraft and 16 of the leased aircraft were deployed outside of North America.

The Company owns the Type Certificate and Production Certificate for the S-64 Aircrane which gives it the authorization to convert and remanufacture the S-64 Aircrane 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 Aircrane 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 Aircranes and certain other aircraft, and the Company owns the Type Certificate for engines used in the S-64 Aircrane. The Company also holds the production certificate to manufacture engine parts for the Pratt & Whitney JT12 and JFTD12 engines.

Fiscal 2015

On January 1, 2015, as a result of an organizational restructuring, the Company established new operating reportable segments to assess performance by type of customer and end market: Government Aviation Services, Commercial Aviation Services and Manufacturing & MRO.

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.

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

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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”)

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, 2014 included in the Company’s annual report on Form 10-K filed with the SEC on March 10, 2015.

The balance sheet at December 31, 2014 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.

**Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation. Reclassification has been made to prior period amounts of external commissions from sales and marketing operating expenses to cost of revenues on the consolidated statements of comprehensive loss. Such reclassification had no effect on previously reported consolidated statements of stockholders’ equity or the consolidated balance sheet. For the three and nine months ended September 30, 2014 the prior period reclassification includes \$0.5 million and \$1.6 million, respectively, of external commissions reclassified from sales and marketing operating expenses to cost of revenues on the consolidated statements of comprehensive income (loss).

Additionally, reclassification has been made to prior period amounts of other long-term borrowings from non-cash interest expense on debt in the operating activities section of the consolidated statement of cash flows to other long-term borrowings in the financing activities section of the consolidated statement of cash flows. Such reclassification had no effect on previously reported consolidated statements of stockholders' equity or the consolidated balance sheet. For the three and nine months ended September 30, 2014, the prior period reclassification was \$0.1 million and \$0.4 million, respectively.

**Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-9, “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. On July 9, 2015, the FASB agreed to delay the effective date by one year. In accordance with the agreed upon delay, the FASB will allow early adoption in 2017, however, the Company will not be required to implement this guidance until the first quarter of fiscal year 2018, using one of the two prescribed retrospective methods. The Company has not yet determined the effect of the adoption on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. The Company is currently evaluating the impact the adoption of this standard will have on the consolidated financial statements.

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

Accounts receivable consisted of the following (in thousands):

|                           | September 30,<br>2015 | December 31,<br>2014 |
|---------------------------|-----------------------|----------------------|
| Trade accounts receivable | \$50,677              | \$42,296             |

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|                                       |          |          |
|---------------------------------------|----------|----------|
| Other receivables                     | 4,665    | 2,793    |
| Less: allowance for doubtful accounts | (170     | ) (739   |
|                                       | \$55,172 | \$44,350 |

The Company had bad debt expense of zero in the three months ended September 30, 2015 and 2014. During the nine months ended September 30, 2015, the Company had bad debt expense of zero. During the nine months ended September 30, 2014, the Company had bad debt recoveries 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,

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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 as of September 30, 2015 or December 31, 2014:

|  | Segment                      | September 30,<br>2015 | December 31,<br>2014 |  |   |
|--|------------------------------|-----------------------|----------------------|--|---|
| Fluor                                    | Government Aviation Services | 12.5                  | % 14.4               |  | % |
| Alion Science and Technology Corporation | Government Aviation Services | 15.1                  | % 11.8               |  | % |
| Hellenic Fire Brigade <sup>(1)</sup>     | Commercial Aviation Services | 8.4                   | % 10.8               |  | % |
|  |                              | 36.0                  | % 37.0               |  | % |

(1) On May 23, 2012, the Company entered into a three year agreement with the NATO Support Agency ("NSPA"), formerly known as the NATO Maintenance and Supply Agency, pursuant to which the Company agreed to supply aerial firefighting services in Greece for the 2012 to 2014 firefighting seasons. Prior to the agreement with NSPA, the Company contracted directly with the Hellenic Fire Brigade to provide firefighting services in Greece. At September 30, 2015 and December 31, 2014, the receivable from Hellenic Fire Brigade was classified in other non-current assets due to the long-term nature of obtaining resolution regarding the Company's permanent establishment status in Greece.

The following is a summary of customers that accounted for at least 10% of the Company's net revenues in the three and nine months ended September 30, 2015 or September 30, 2014:

|                   | Three Months Ended September<br>30, |        | Nine Months Ended September<br>30, |        |   |
|-------------------|-------------------------------------|--------|------------------------------------|--------|---|
|                   | 2015                                | 2014   | 2015                               | 2014   |   |
| Fluor             | 13.4                                | % 13.0 | % 17.5                             | % 16.7 | % |
| US Forest Service | 33.3                                | % 27.1 | % 16.8                             | % 13.9 | % |
|                   | 46.7                                | % 40.1 | % 34.3                             | % 30.6 | % |

## Note 4. Inventory

Inventory consists of the following (in thousands):

|                | September 30,<br>2015 | December 31,<br>2014 |
|----------------|-----------------------|----------------------|
| Finished goods | \$7,988               | \$—                  |

In the first quarter of 2015, the Company entered into an exclusive agreement with Bell Helicopters Textron Inc. (Bell) to provide support for the Bell 214 B and ST models, including spare parts supply, technical assistance, maintenance training, and maintenance, repair and overhaul (MRO) services. As a part of the agreement the Company acquired \$9.4 million of inventory from Bell in exchange for a two year promissory note. When acquired, the Company classified the assets as inventory within current assets in the consolidated balance sheet.

## Note 5. 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.

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

|                 | September 30,<br>2015 | December 31,<br>2014 |
|-----------------|-----------------------|----------------------|
| Aircraft parts  | \$129,106             | \$124,629            |
| Work-in-process | 11,802                | 18,604               |



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|                                   |           |           |   |
|-----------------------------------|-----------|-----------|---|
| Less: Excess and obsolete reserve | (5,300    | ) (5,640  | ) |
|                                   | \$135,608 | \$137,593 |   |

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## Note 6. Assets Held for Sale

We have classified certain assets as held for sale as these assets are ready for immediate sale and the Company expects these assets to be sold within one year. The changes in assets held for sale during the nine months ended September 30, 2015, are as follows (dollars in thousands):

|   | Assets Held for Sale |          |
|---|----------------------|----------|
|   | # of Aircraft        |          |
| Assets held for sale, January 1, 2015                                   | —                    | \$—      |
| Aircraft classified as held for sale, net of impairment                 | 9                    | 5,779    |
| Deferred overhauls associated with aircraft classified as held for sale |                      | 2,571    |
| Book value of aircraft sold   | (1)                  | (2,000 ) |
| Fluctuations due to foreign currency translation adjustments            |                      | (391 )   |
| Total assets held for sale, September 30, 2015                          | 8                    | \$5,959  |

During the first quarter of 2015, nine aircraft were reclassified to assets held for sale as the Company reviewed its fleet strategy for fiscal 2015. The Company recorded an impairment charge of \$7.1 million to write down the carrying value of the aircraft to their estimated fair value less the costs to sell. The charge is included in other asset impairment in the consolidated statement of comprehensive loss for the nine months ended September 30, 2015. The fair value of assets held for sale is considered a level 2 measurement in the fair value hierarchy as the measurement is based on the recent sales and listed prices in the active markets for similar aircraft. The assets are no longer being depreciated or amortized effective March 31, 2015.

## Note 7. Aircraft and Property, Plant and Equipment

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

|                                | September 30,<br>2015 | December 31,<br>2014 |
|--------------------------------|-----------------------|----------------------|
| Aircraft                       | \$149,810             | \$162,246            |
| Less: Accumulated depreciation | (40,138 )             | (34,025 )            |
|                                | \$109,672             | \$128,221            |

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

|   | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
| Land and land improvements                      | \$308                 | \$308                |
| Buildings                                       | 9,940                 | 7,926                |
| Vehicles and equipment                          | 32,746                | 29,500               |
| Deferred overhauls, net                         | 81,976                | 86,768               |
| Construction-in-progress                        | 16,053                | 15,926               |
|   | 141,023               | 140,428              |
| Less: Accumulated depreciation and amortization | (22,486 )             | (19,793 )            |
|   | \$118,537             | \$120,635            |

During the three months ended September 30, 2015, and 2014, depreciation expense was \$4.7 million and \$4.5 million, respectively. During the three months ended September 30, 2015 and 2014, amortization expense associated with deferred overhauls was \$6.8 million and \$5.1 million, respectively. During the nine months ended September 30, 2015, and 2014, depreciation expense was \$13.9 million and \$13.4 million, respectively. During the nine months ended September 30, 2015, and 2014, amortization expense associated with deferred overhauls was \$15.0 million and \$11.9 million, respectively.

During the third quarter of 2015, the Company completed a sale-leaseback transaction pursuant to which the Company sold its hangar facility for \$5.1 million located at the Medford international airport in Oregon. The lease has an initial term of 15 years, commencing on August 1, 2015.

During the first quarter of 2015, the Company completed a nonmonetary exchange of aircraft pursuant to which the Company transferred four Bell 212 helicopters to a third party in exchange for two Sikorsky S-76C+ helicopters.

Independent appraisal confirmed that the fair values of the two aircraft received approximated the book values of the four aircraft transferred, and no

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gain or loss was recorded on the transaction. Prior to the exchange the aircraft were recorded in aircraft, net and their major components were recorded in deferred overhauls, net within property, plant, and equipment, net in the Company's consolidated balance sheets. The aircraft received and their major components were also recorded in aircraft, net and deferred overhauls, net, respectively, in the consolidated balance sheets.

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 \$12.3 million. The lease had 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 accrued and other current liabilities, and the non-current portion of deferred gain of \$8.3 million is included in other long-term liabilities in the consolidated balance sheet as of September 30, 2015.

## Note 8. Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2015 are as follows (in thousands):

|  | Government<br>Aviation<br>Services | Commercial<br>Aviation<br>Services | Manufacturing<br>& MRO | Total     |
|--|------------------------------------|------------------------------------|------------------------|-----------|
| Balance at January 1, 2015                                   |                                    |                                    |                        |           |
| Goodwill, gross  | \$207,128                          | \$23,843                           | \$5,542                | \$236,513 |
| Accumulated impairment losses                                | (21,272)                           | ) —                                | —                      | (21,272)  |
| Goodwill, net  | 185,856                            | 23,843                             | 5,542                  | 215,241   |
| Activity during 2015   |                                    |                                    |                        |           |
| Impairment losses  | (49,823)                           | ) —                                | —                      | (49,823)  |
| Fluctuations due to foreign currency translation adjustments | —                                  | (1,802)                            | ) —                    | (1,802)   |
| Balance at September 30, 2015                                |                                    |                                    |                        |           |
| Goodwill, gross  | 207,128                            | 22,041                             | 5,542                  | 234,711   |
| Accumulated impairment losses                                | (71,095)                           | ) —                                | —                      | (71,095)  |
| Goodwill, net  | \$136,033                          | \$22,041                           | \$5,542                | \$163,616 |

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 business climate.

The goodwill impairment test involves a two-step process pursuant to ASC 350-20 "Intangibles - Goodwill and Other". 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 was considered a reporting unit for the purposes of that analysis. As a result, the Company recorded an impairment charge of \$21.3 million against the carrying amount of goodwill during the year ended December 31, 2014.

On January 1, 2015, the Company evaluated its reporting units and determined it has four reporting units under its three operating reportable segments. The Company assigned its goodwill to each of the four reporting units as of January 1, 2015 using a relative fair value approach. During the quarter ended June 30, 2015 the Company re-evaluated its reporting units and determined that Oil and Gas Aviation Services business is no longer considered a stand-alone reporting unit, and is a part of Commercial Aviation Services.

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During the first quarter of 2015, the Company performed a qualitative and quantitative analysis which indicated that it is more likely than not that the fair value of the Government Aviation Services reporting unit is less than its carrying amount. The Company compared the 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 the step two analysis, the Company estimated the fair value of the reporting unit using the 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 \$49.8 million during the quarter ended March 31, 2015.

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%, an effective tax rate of 38%, a terminal EBITDA multiple of 7.0, and utilizing the excess earnings method to value the customer relationship intangible. Subsequent to the Company's re-organization into three operating segments, the Company elected an annual testing date for each reporting unit during the second quarter of the fiscal year. During the second quarter of 2015, the Company performed the annual goodwill impairment review for the Government Aviation Services, Commercial Aviation Services, and Manufacturing & MRO reporting units. The Company assessed qualitative factors to determine whether it is more likely than not that the fair value of the reporting units are less than its carrying amount. As a result of this qualitative assessment, the Company determined it was not necessary to perform step one of the goodwill impairment tests.

## Note 9. Other Intangible Assets, net

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

|                                 | Reportable Segment           | Useful Life<br>(in years) | September 30,<br>2015 | December 31,<br>2014 |
|---------------------------------|------------------------------|---------------------------|-----------------------|----------------------|
| Customer Relationships          | Government Aviation Services | 9                         | \$ 19,300             | \$ 19,300            |
| Customer Relationships          | Commercial Aviation Services | 1 (1)                     | 2,500                 | 2,500                |
| Type Certificate <sup>(2)</sup> | Manufacturing & MRO          | Indefinite                | 2,205                 | 2,205                |
|                                 |                              |                           | 24,005                | 24,005               |
| Less: accumulated amortization  |                              |                           | (5,960)               | (3,952)              |
|                                 |                              |                           | \$ 18,045             | \$ 20,053            |

During the first quarter of 2015 the Company reevaluated the customer relationship intangible related to the (1) acquisition of Air Amazonia and reduced the useful life from 9 years to 2 years, and further reduced such estimated useful life to 1 year during the third quarter of 2015.

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

During the three months ended September 30, 2015 and 2014, amortization expense for intangible assets was \$0.7 million and \$0.6 million, respectively. During the nine months ended September 30, 2015 and 2014, amortization expense for intangible assets was \$2.0 million and \$1.8 million, respectively, and was recorded in cost of revenues. Estimated amortization expense for intangible assets for future periods, including remaining amounts to be recorded in 2015 as of September 30, 2015, is as follows (in thousands):

|      | Intangible Asset Amortization |
|------|-------------------------------|
| 2015 | \$ 2,259                      |
| 2016 | 2,144                         |
| 2017 | 2,144                         |
| 2018 | 2,144                         |

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|            |           |
|------------|-----------|
| 2019       | 2,144     |
| Thereafter | 5,005     |
| Total      | \$ 15,840 |

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## Note 10. Accrued and Other Current Liabilities

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

|   | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
| Interest  | \$12,703              | \$5,542              |
| Payroll and related taxes                       | 4,780                 | 6,069                |
| Promissory note, net of discount <sup>(1)</sup> | 3,712                 | —                    |
| Deferred revenue                                | 1,509                 | 795                  |
| Deferred gain on sale-leaseback                 | 1,760                 | 1,760                |
| Accrued commissions                             | 183                   | 1,301                |
| Other   | 4,453                 | 3,567                |
|   | \$29,100              | \$19,034             |

In the first quarter of 2015, the Company entered into a \$10.0 million promissory note with Bell Helicopter Textron Inc. (Bell) in exchange for inventory delivered to the Company. The promissory note has no stated interest rate and matures on March 1, 2017. The Company has agreed to pay, beginning on March 1, 2015, semi-annual principal payments, in cash, until the date of maturity. For the purposes of recording the initial liability, the fair (1) value of the promissory note was estimated at \$9.4 million, assuming a market level borrowing rate of 6.5% per annum. Interest expense is recorded as the discount is amortized over the term of the note. As of September 30, 2015, the carrying value of the promissory note was \$5.7 million, made up of the face value of the remaining principal of \$6.0 million, net of the unamortized discount of \$0.3 million. The non-current portion of the note of \$1.9 million is included in other long-term liabilities in the consolidated balance sheet as of September 30, 2015.

## Note 11. Debt

Outstanding debt consisted of the following (in thousands):

|  | September 30, 2015 |           | December 31, 2014 |           |
|--|--------------------|-----------|-------------------|-----------|
|  | Current            | Long-term | Current           | Long-term |
| 2020 Senior Notes                        | \$—                | \$355,000 | \$—               | \$355,000 |
| Revolving Credit Facility                | —                  | 87,384    | —                 | 89,339    |
| 2020 subordinated notes, net of discount | 3,593              | 9,857     | 4,000             | 12,486    |
| Capital lease obligations                | 1,098              | 7,582     | —                 | —         |
| Fixtures financing                       | 149                | 141       | 144               | 265       |
| Total                                    | \$4,840            | \$459,964 | \$4,144           | \$457,090 |

## 2020 Senior Notes 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 primarily to finance a portion of the purchase price for the EHI acquisition and refinance its 2015 Subordinated Notes and 2016 Subordinated Notes.

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's 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 September 30, 2015 and December 31, 2014 was \$355.0 million.

Revolving Credit Facility

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The maximum amount that the Company may borrow under the Revolving Credit Facility is \$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. The Company was in compliance with the financial covenants as of September 30, 2015 and December 31, 2014.

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.

Effective June 30, 2015, the Revolving Credit Facility was amended to, among other things, limit the requirement to be compliant with the fixed charge coverage ratio to periods when the availability is less than 12.5% of the maximum revolver amount. The Revolving Credit Facility contains certain financial covenants, including a minimum fixed charge coverage ratio of 1.10:1.00. The fixed charge coverage ratio has multiple inputs, including, but not limited to, bank EBITDA, capital expenditures, and cash paid for interest, taxes, and principal debt payments. The Revolving Credit Facility also imposes an annual growth capital expenditures limit of approximately \$10.0 million for the fiscal year of 2015, escalating to \$20.0 million for fiscal 2016, and to \$25.0 million in subsequent years, which is subject to standard carry-over provisions for 2016 and beyond.

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 September 30, 2015 and December 31, 2014 was \$87.4 million and \$89.3 million, respectively. The weighted average interest rate for borrowings under the Revolving Credit Facility for the three and nine months period ended September 30, 2015 was 5.02% and 5.03%, respectively. The interest rate at September 30, 2015 and December 31, 2014 was 4.79% and 5.02%, respectively. As of September 30, 2015 and December 31, 2014 the Company had \$0.6 million and \$4.7 million in outstanding standby letters of credit under the Revolving Credit Facility, respectively, and maximum borrowing availability was \$52.0 million and \$46.0 million as of September 30, 2015 and December 31, 2014, respectively.

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 agreed to pay, in cash, quarterly installments of interest only (in arrears) until March 31, 2015, after which date the Company will 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 September 30, 2015, the carrying value of the 2020 Subordinated Notes was \$13.5 million, made up of the face value of the remaining principal of \$14.1 million net of the unamortized discount of \$0.7 million. As of December 31, 2014, the carrying value of the 2020 Subordinated Notes was \$16.5 million, made up of the face value of \$17.5 million net of the unamortized discount of \$1.0 million.

The weighted average interest rate for borrowings under the 2020 Subordinated Notes was 6.00% during the three and nine months period ended September 30, 2015.

Note 12. Other Long-Term Liabilities

Other long-term liabilities consisted of the following (in thousands):

|  | September 30,<br>2015 | December 31,<br>2014 |
|--|-----------------------|----------------------|
| Deferred gain on sale-leaseback (see Note 7)   | \$8,358               | \$9,678              |
| Promissory note, net of discount (see Note 10) | 1,948                 | —                    |
| Other  | 5,427                 | 3,503                |
|  | \$15,733              | \$13,181             |

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Note 13. 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 liability 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 September 30, 2015 and 2014, and for the three and nine months ended September 30, 2015 and 2014 are unaudited.

Table of ContentsCondensed Consolidating Balance Sheet  
September 30, 2015

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
|---|-------------------|---------------------------|-------------------------------|--|--------------|
| Assets  |                   |                           |                               |  |              |
| Current assets:                                   |                   |                           |                               |  |              |
| Cash and cash equivalents                         | \$ 18             | \$ 109                    | \$ 1,571                      | \$—  | \$ 1,698     |
| Restricted cash                                   | 125               | —                         | 224                           | —  | 349          |
| Accounts receivable, net                          | 26,973            | 21,853                    | 6,306                         | 40   | 55,172       |
| Inventory   | 7,988             | —                         | —                             | —  | 7,988        |
| Prepaid expenses and other current assets         | 3,951             | 564                       | 420                           | —  | 4,935        |
| Income tax receivable                             | 84                | 235                       | 330                           | —  | 649          |
| Deferred tax assets                               | 632               | —                         | (37                           | ) —  | 595          |
| Total current assets                              | 39,771            | 22,761                    | 8,814                         | 40   | 71,386       |
| Aircraft support parts, net                       | 106,055           | 29,068                    | 530                           | (45  | ) 135,608    |
| Assets held for sale                              | 1,800             | 2,550                     | 1,609                         | —  | 5,959        |
| Aircraft, net                                     | 80,040            | 29,660                    | (28                           | ) —  | 109,672      |
| Property, plant and equipment, net                | 73,990            | 43,304                    | 1,243                         | —  | 118,537      |
| Goodwill  | —                 | 160,532                   | 3,846                         | (762   | ) 163,616    |
| Other intangible assets, net                      | 2,204             | 14,119                    | 1,722                         | —  | 18,045       |
| Other non-current assets                          | 320,839           | 5,637                     | 645                           | (305,093                                     | ) 22,028     |
| Total assets                                      | \$ 624,699        | \$ 307,631                | \$ 18,381                     | \$ (305,860                                  | ) \$ 644,851 |
| Liabilities and stockholders' equity<br>(deficit) |                   |                           |                               |  |              |
| Current liabilities:                              |                   |                           |                               |  |              |
| Accounts payable                                  | \$ 7,088          | \$ 12,077                 | \$ 1,080                      | \$—  | \$ 20,245    |
| Current portion of long-term debt                 | 3,954             | 886                       | —                             | —  | 4,840        |
| Accrued and other current liabilities             | (16,627           | ) 25,042                  | 20,685                        | —  | 29,100       |
| Income tax payable                                | (219              | ) —                       | 617                           | —  | 398          |
| Total current liabilities                         | (5,804            | ) 38,005                  | 22,382                        | —  | 54,583       |
| Long-term debt, less current portion              | 15,145            | 2,435                     | —                             | —  | 17,580       |
| Long-term revolving credit facilities             | 87,384            | —                         | —                             | —  | 87,384       |
| Long-term notes payable                           | 355,000           | —                         | —                             | —  | 355,000      |
| Other long-term liabilities                       | 15,148            | 521                       | 63                            | 1  | 15,733       |
| Uncertain tax positions                           | 6,484             | —                         | —                             | —  | 6,484        |
| Deferred tax liabilities                          | 2,285             | —                         | (895                          | ) —  | 1,390        |
| Total liabilities                                 | 475,642           | 40,961                    | 21,550                        | 1  | 538,154      |
| Stockholders' equity (deficit):                   |                   |                           |                               |  |              |
| Common stock                                      | 1                 | —                         | 1,675                         | (1,675                                       | ) 1          |
| Additional paid-in capital                        | 181,186           | 297,994                   | 33                            | (298,027                                     | ) 181,186    |
| Retained earnings (accumulated deficit)           | (26,707           | ) (31,324                 | ) (4,720                      | ) (5,454                                     | ) (68,205    |
| Accumulated other comprehensive loss              | (5,423            | ) —                       | (791                          | ) (759                                       | ) (6,973     |
| Total stockholders' equity (deficit)              | 149,057           | 266,670                   | (3,803                        | ) (305,915                                   | ) 106,009    |
| attributable to Erickson Incorporated             |                   |                           |                               |  |              |
| Noncontrolling interest                           | —                 | —                         | 634                           | 54   | 688          |
| Total stockholders' equity (deficit)              | 149,057           | 266,670                   | (3,169                        | ) (305,861                                   | ) 106,697    |
| Total liabilities and stockholders' equity        | \$ 624,699        | \$ 307,631                | \$ 18,381                     | \$ (305,860                                  | ) \$ 644,851 |



Table of ContentsCondensed Consolidating Balance Sheet  
December 31, 2014

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
|---|-------------------|---------------------------|-------------------------------|--|--------------|
| Assets  |                   |                           |                               |  |              |
| Current assets:   |                   |                           |                               |  |              |
| Cash and cash equivalents   | \$7               | \$274                     | \$ 4,816                      | \$—  | \$5,097      |
| Restricted cash   | 136               | —                         | 431                           | —  | 567          |
| Accounts receivable, net  | 13,117            | 26,199                    | 4,990                         | 44   | 44,350       |
| Prepaid expenses and other current assets                                     | 6,506             | 1,171                     | 1,103                         | —  | 8,780        |
| Income tax receivable   | 320               | —                         | 335                           | 22   | 677          |
| Deferred tax assets   | 1,440             | —                         | (210 )                        | —  | 1,230        |
| Total current assets  | 21,526            | 27,644                    | 11,465                        | 66   | 60,701       |
| Aircraft support parts, net   | 106,721           | 30,482                    | 435                           | (45 )  | 137,593      |
| Aircraft, net   | 82,799            | 42,405                    | 3,017                         | —  | 128,221      |
| Property, plant and equipment, net  | 70,732            | 47,762                    | 2,141                         | —  | 120,635      |
| Other intangible assets, net  | 2,205             | 15,726                    | 2,122                         | —  | 20,053       |
| Goodwill  | —                 | 210,356                   | 5,647                         | (762 )                                       | 215,241      |
| Other non-current assets  | 323,332           | 4,337                     | 501                           | (305,093 )                                   | 23,077       |
| Total assets  | \$607,315         | \$378,712                 | \$ 25,328                     | \$(305,834 )                                 | \$705,521    |
| Liabilities and stockholders' equity<br>(deficit)                             |                   |                           |                               |  |              |
| Current liabilities:  |                   |                           |                               |  |              |
| Accounts Payable  | \$6,021           | \$11,465                  | \$ 2,358                      | \$—  | \$19,844     |
| Current portion of long-term debt   | 4,144             | —                         | —                             | —  | 4,144        |
| Accrued and other current liabilities   | (54,577 )         | 49,166                    | 24,998                        | (553 )                                       | 19,034       |
| Income tax payable  | (397 )            | —                         | 137                           | 575  | 315          |
| Deferred tax liabilities  | 884               | —                         | —                             | —  | 884          |
| Total current liabilities   | (43,925 )         | 60,631                    | 27,493                        | 22   | 44,221       |
| Long-term debt, less current portion  | 12,751            | —                         | —                             | —  | 12,751       |
| Long-term revolving credit facilities   | 89,339            | —                         | —                             | —  | 89,339       |
| Long-term notes payable   | 355,000           | —                         | —                             | —  | 355,000      |
| Other long-term liabilities   | 12,410            | 708                       | 63                            | —  | 13,181       |
| Uncertain tax positions   | 6,313             | —                         | —                             | —  | 6,313        |
| Deferred tax liabilities  | 5,061             | —                         | (1,358 )                      | —  | 3,703        |
| Total liabilities   | 436,949           | 61,339                    | 26,198                        | 22   | 524,508      |
| Stockholders' equity (deficit):   |                   |                           |                               |  |              |
| Common stock  | 1                 | —                         | 1,675                         | (1,675 )                                     | 1            |
| Additional paid-in capital  | 181,018           | 297,994                   | 33                            | (298,027 )                                   | 181,018      |
| Retained earnings (accumulated deficit)                                       | (8,993 )          | 19,379                    | (3,171 )                      | (5,403 )                                     | 1,812        |
| Accumulated other comprehensive loss  | (1,660 )          | —                         | (41 )                         | (843 )                                       | (2,544 )     |
| Total stockholders' equity (deficit)<br>attributable to Erickson Incorporated | 170,366           | 317,373                   | (1,504 )                      | (305,948 )                                   | 180,287      |
| Noncontrolling interest   | —                 | —                         | 634                           | 92   | 726          |
| Total stockholders' equity (deficit)  | 170,366           | 317,373                   | (870 )                        | (305,856 )                                   | 181,013      |
| Total liabilities and stockholders' equity                                    | \$607,315         | \$378,712                 | \$ 25,328                     | \$(305,834 )                                 | \$705,521    |





Table of ContentsCondensed Consolidating Statement of Operations  
Quarter Ended September 30, 2015

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
|---|-------------------|---------------------------|-------------------------------|--|--------------|
| Net revenues  | \$67,063          | \$28,449                  | \$ 11,625                     | \$(6,004 )                                   | \$101,133    |
| Cost of revenues  | 34,594            | 28,983                    | 10,423                        | (5,912 )                                     | 68,088       |
| Gross profit (loss)   | 32,469            | (534 )                    | 1,202                         | (92 )  | 33,045       |
| Operating expenses:   |                   |                           |                               |  |              |
| General and administrative  | 4,703             | 232                       | 548                           | —  | 5,483        |
| Research and development  | 425               | —                         | —                             | —  | 425          |
| Selling and marketing   | 1,523             | 1                         | 27                            | (93 )  | 1,458        |
| Total operating expenses  | 6,651             | 233                       | 575                           | (93 )  | 7,366        |
| Operating income (loss)   | 25,818            | (767 )                    | 627                           | 1  | 25,679       |
| Other income (expense):   |                   |                           |                               |  |              |
| Interest expense, net   | (9,105 )          | (104 )                    | (83 )                         | —  | (9,292 )     |
| Other income (expense), net   | (1,516 )          | 8                         | 232                           | —  | (1,276 )     |
| Total other income (expense)  | (10,621 )         | (96 )                     | 149                           | —  | (10,568 )    |
| Net income (loss) before income taxes<br>and noncontrolling interest                  | 15,197            | (863 )                    | 776                           | 1  | 15,111       |
| Income tax expense (benefit)  | (559 )            | —                         | 319                           | —  | (240 )       |
| Net income (loss)   | 15,756            | (863 )                    | 457                           | 1  | 15,351       |
| Less: Net income related to<br>noncontrolling interest                                | —                 | —                         | —                             | (278 )                                       | (278 )       |
| Net income (loss) attributable to<br>Erickson Incorporated and common<br>stockholders | \$15,756          | \$(863 )                  | \$ 457                        | \$(277 )                                     | \$15,073     |

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Condensed Consolidating Statement of Operations  
Quarter Ended September 30, 2014

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
|---|-------------------|---------------------------|-------------------------------|--|--------------|
| Net revenues  | \$64,553          | \$39,111                  | \$ 19,107                     | \$(4,433 )                                   | \$ 118,338   |
| Cost of revenues  | 29,191            | 34,940                    | 11,025                        | (4,314 )                                     | 70,842       |
| Gross profit  | 35,362            | 4,171                     | 8,082                         | (119 )                                       | 47,496       |
| Operating expenses:   |                   |                           |                               |  |              |
| General and administrative  | 5,450             | 186                       | 972                           | —  | 6,608        |
| Research and development  | 783               | —                         | —                             | —  | 783          |
| Selling and marketing   | 1,530             | 136                       | 31                            | (119 )                                       | 1,578        |
| Total operating expenses  | 7,763             | 322                       | 1,003                         | (119 )                                       | 8,969        |
| Operating income  | 27,599            | 3,849                     | 7,079                         | —  | 38,527       |
| Other income (expense):   |                   |                           |                               |  |              |
| Interest expense, net   | (8,874 )          | ) —                       | (128 )                        | ) —  | (9,002 )     |
| Other income (expense), net   | (1,227 )          | ) 316                     | 87                            | (7 )   | (831 )       |
| Total other income (expense)  | (10,101 )         | ) 316                     | (41 )                         | (7 )   | (9,833 )     |
| Net income before income taxes and<br>noncontrolling interest               | 17,498            | 4,165                     | 7,038                         | (7 )   | 28,694       |
| Income tax expense  | 9,580             | —                         | 2,173                         | —  | 11,753       |
| Net income  | 7,918             | 4,165                     | 4,865                         | (7 )   | 16,941       |
| Less: Net income related to<br>noncontrolling interest                      | —                 | —                         | —                             | (79 )  | (79 )        |
| Net income attributable to Erickson<br>Incorporated and common stockholders | \$7,918           | \$4,165                   | \$ 4,865                      | \$(86 )                                      | \$ 16,862    |

Table of ContentsCondensed Consolidating Statement of Operations  
Nine Months Ended September 30, 2015

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
|---|-------------------|---------------------------|-------------------------------|--|--------------|
| Net revenues  | \$ 120,886        | \$ 100,427                | \$ 37,802                     | \$(22,501 )                                  | \$ 236,614   |
| Cost of revenues  | 83,055            | 97,798                    | 35,939                        | (22,328 )                                    | 194,464      |
| Gross profit  | 37,831            | 2,629                     | 1,863                         | (173 )                                       | 42,150       |
| Operating expenses:   |                   |                           |                               |  |              |
| General and administrative  | 15,478            | 585                       | 2,019                         | —  | 18,082       |
| Research and development  | 1,886             | —                         | —                             | —  | 1,886        |
| Selling and marketing   | 4,568             | 55                        | 93                            | (173 )                                       | 4,543        |
| Impairment of goodwill  | —                 | 49,823                    | —                             | —  | 49,823       |
| Other asset impairment  | 3,441             | 2,749                     | 953                           | —  | 7,143        |
| Total operating expenses  | 25,373            | 53,212                    | 3,065                         | (173 )                                       | 81,477       |
| Operating income (loss)   | 12,458            | (50,583 )                 | (1,202 )                      | —  | (39,327 )    |
| Other income (expense):   |                   |                           |                               |  |              |
| Interest expense, net   | (27,306 )         | (290 )                    | (283 )                        | —  | (27,879 )    |
| Other income (expense), net   | (3,626 )          | 170                       | 528                           | (4 )   | (2,932 )     |
| Total other income (expense)  | (30,932 )         | (120 )                    | 245                           | (4 )   | (30,811 )    |
| Net loss before income taxes and<br>noncontrolling interest               | (18,474 )         | (50,703 )                 | (957 )                        | (4 )   | (70,138 )    |
| Income tax expense (benefit)  | (760 )            | —                         | 593                           | —  | (167 )       |
| Net loss  | (17,714 )         | (50,703 )                 | (1,550 )                      | (4 )   | (69,971 )    |
| Less: Net income related to<br>noncontrolling interest                    | —                 | —                         | —                             | (46 )  | (46 )        |
| Net loss attributable to Erickson<br>Incorporated and common stockholders | \$(17,714 )       | \$(50,703 )               | \$(1,550 )                    | \$(50 )                                      | \$(70,017 )  |

Table of ContentsCondensed Consolidating Statement of Operations  
Nine Months Ended September 30, 2014

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
|---|-------------------|---------------------------|-------------------------------|--|--------------|
| Net revenues  | \$ 115,997        | \$ 126,569                | \$ 44,520                     | \$(13,679 )                                  | \$ 273,407   |
| Cost of revenues  | 74,483            | 109,923                   | 34,155                        | (13,560 )                                    | 205,001      |
| Gross profit  | 41,514            | 16,646                    | 10,365                        | (119 )                                       | 68,406       |
| Operating expenses:   |                   |                           |                               |  |              |
| General and administrative  | 16,935            | 794                       | 2,670                         | —  | 20,399       |
| Research and development  | 2,839             | —                         | —                             | —  | 2,839        |
| Selling and marketing   | 5,168             | 482                       | 91                            | (119 )                                       | 5,622        |
| Impairment of goodwill  | —                 | 21,272                    | —                             | —  | 21,272       |
| Total operating expenses  | 24,942            | 22,548                    | 2,761                         | (119 )                                       | 50,132       |
| Operating income (loss)   | 16,572            | (5,902 )                  | 7,604                         | —  | 18,274       |
| Other income (expense):   |                   |                           |                               |  |              |
| Interest income (expense), net  | (26,342 )         | 19                        | (543 )                        | —  | (26,866 )    |
| Other income (expense), net   | (2,539 )          | 339                       | 91                            | (84 )  | (2,193 )     |
| Total other income (expense)  | (28,881 )         | 358                       | (452 )                        | (84 )  | (29,059 )    |
| Net income (loss) before income taxes<br>and noncontrolling interest                  | (12,309 )         | (5,544 )                  | 7,152                         | (84 )  | (10,785 )    |
| Income tax expense (benefit)  | (6,335 )          | —                         | 3,296                         | —  | (3,039 )     |
| Net income (loss)   | (5,974 )          | (5,544 )                  | 3,856                         | (84 )  | (7,746 )     |
| Less: Net income related to<br>noncontrolling interest                                | —                 | —                         | —                             | (95 )  | (95 )        |
| Net income (loss) attributable to<br>Erickson Incorporated and common<br>stockholders | \$(5,974 )        | \$(5,544 )                | \$ 3,856                      | \$(179 )                                     | \$(7,841 )   |

Condensed Consolidating Statement of Cash Flows  
Quarter Ended September 30, 2015

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
|---|-------------------|---------------------------|-------------------------------|--|--------------|
| Cash flows from operating activities:   |                   |                           |                               |  |              |
| Net income (loss)   | \$ 15,756         | \$(863 )                  | \$ 457                        | \$ 1   | \$ 15,351    |
| Adjustments to reconcile net income<br>(loss) to net cash provided by (used in )<br>operating activities: |                   |                           |                               |  |              |
| Depreciation and amortization   | 7,322             | 4,628                     | 218                           | —  | 12,168       |
| Deferred income taxes   | (1,226 )          | —                         | 16                            | —  | (1,210 )     |
| Non-cash interest expense on debt   | 237               | —                         | —                             | —  | 237          |
| Stock-based compensation  | 114               | —                         | —                             | —  | 114          |
| Amortization of debt issuance costs   | 683               | —                         | —                             | —  | 683          |
| Gain on early extinguishment of debt  | (153 )            | —                         | —                             | —  | (153 )       |
| Gain on sale of equipment   | (2 )              | (3 )                      | (46 )                         | —  | (51 )        |
| Changes in operating assets and<br>liabilities:   |                   |                           |                               |  |              |
| Accounts receivable   | (10,873 )         | 1,808                     | 1,930                         | —  | (7,135 )     |

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|   |       |     |       |     |       |
|---|-------|-----|-------|-----|-------|
| Inventory                                 | 678   | —   | —     | —   | 678   |
| Prepaid expenses and other current assets | 2,292 | 578 | 620   | —   | 3,490 |
| Income tax receivable                     | 65    | (64 | ) (41 | ) — | (40 ) |

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|  |         |          |          |     |          |
|--|---------|----------|----------|-----|----------|
| Aircraft support parts, net  | (805    | ) 482    | 432      | —   | 109      |
| Other non-current assets   | 356     | (794     | ) 13     | (1  | ) (426   |
| Assets held for sale   | 2,000   | —        | —        | —   | 2,000    |
| Accounts payable   | 34      | 898      | (95      | ) — | 837      |
| Accrued and other current liabilities                                  | 13,813  | (1,911   | ) (4,004 | ) 1 | 7,899    |
| Income tax payable   | 215     | —        | 340      | —   | 555      |
| Uncertain tax position   | (184    | ) —      | —        | —   | (184     |
| Other long-term liabilities  | (1,030  | ) (62    | ) —      | (1  | ) (1,093 |
| Net cash provided by (used in )operating activities                    | 29,292  | 4,697    | (160     | ) — | 33,829   |
| Cash flows from investing activities:                                  |         |          |          |     |          |
| Restricted cash  | 11      | —        | —        | —   | 11       |
| Purchases of aircraft and property, plant and equipment                | (4,354  | ) (4,424 | ) (12    | ) — | (8,790   |
| Proceeds from sale-leaseback of assets                                 | 5,078   | —        | —        | —   | 5,078    |
| Acquisition of business, net of cash acquired                          | 1       | —        | (1       | ) — | —        |
| Net cash provided by (used in) investing activities                    | 736     | (4,424   | ) (13    | ) — | (3,701   |
| Cash flows from financing activities:                                  |         |          |          |     |          |
| Shares withheld for payment of taxes                                   | (11     | ) —      | —        | —   | (11      |
| Repayments of subordinated notes                                       | (1,378  | ) —      | —        | —   | (1,378   |
| Repayments of credit facilities  | (67,263 | ) 1      | —        | —   | (67,262  |
| Borrowings from credit facilities                                      | 40,937  | —        | —        | —   | 40,937   |
| Other long-term borrowings   | (36     | ) —      | —        | —   | (36      |
| Payments under capital leases  | (65     | ) (206   | ) —      | —   | (271     |
| Debt issuance costs  | (10     | ) —      | —        | —   | (10      |
| Net cash used in financing activities                                  | (27,826 | ) (205   | ) —      | —   | (28,031  |
| Effect of foreign currency exchange rates on cash and cash equivalents | (2,200  | ) —      | 35       | —   | (2,165   |
| Net increase (decrease) in cash and cash equivalents                   | 2       | 68       | (138     | ) — | (68      |
| Cash and cash equivalents at beginning of period                       | 16      | 41       | 1,709    | —   | 1,766    |
| Cash and cash equivalents at end of period                             | \$18    | \$109    | \$1,571  | \$— | \$1,698  |

Table of ContentsCondensed Consolidating Statement of Cash Flows  
Quarter Ended September 30, 2014

|  | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
|--|-------------------|---------------------------|-------------------------------|--|--------------|
| Cash flows from operating activities:  |                   |                           |                               |  |              |
| Net income   | \$7,918           | \$4,165                   | \$ 4,865                      | \$(7 )                                       | \$16,941     |
| Adjustments to reconcile net income to<br>net cash provided by operating activities: |                   |                           |                               |  |              |
| Depreciation and amortization  | 6,926             | 3,034                     | 204                           | —  | 10,164       |
| Deferred income taxes  | 8,782             | —                         | (315                          | ) —  | 8,467        |
| Non-cash interest expense on debt  | 96                | —                         | —                             | —  | 96           |
| Stock-based compensation   | 220               | —                         | —                             | —  | 220          |
| Gain on sale of equipment  | —                 | —                         | (62                           | ) —  | (62 )        |
| Amortization of debt issuance costs  | 613               | —                         | —                             | —  | 613          |
| Gain on involuntary conversion   | —                 | (308                      | ) —                           | —  | (308 )       |
| Changes in operating assets and<br>liabilities:                                      |                   |                           |                               |  |              |
| Accounts receivable  | (8,619            | ) 9,438                   | (3,921                        | ) 7  | (3,095 )     |
| Prepaid expenses and other current assets  | (5,023            | ) (366                    | ) (612                        | ) —  | (6,001 )     |
| Income tax receivable, net   | —                 | —                         | 3                             | —  | 3            |
| Aircraft support parts, net  | (5,200            | ) 4,294                   | (17                           | ) —  | (923 )       |
| Other non-current assets   | 1,174             | (72                       | ) 4                           | —  | 1,106        |
| Accounts payable   | (2,907            | ) (4,009                  | ) 24                          | —  | (6,892 )     |
| Accrued and other current liabilities  | 20,525            | (8,448                    | ) 214                         | —  | 12,291       |
| Income tax payable   | 41                | (4                        | ) 456                         | —  | 493          |
| Other long-term liabilities  | (366              | ) —                       | —                             | —  | (366 )       |
| Net cash provided by operating activities  | 24,180            | 7,724                     | 843                           | —  | 32,747       |
| Cash flows from investing activities:  |                   |                           |                               |  |              |
| Purchases of aircraft and property, plant<br>and equipment                           | (7,295            | ) (8,103                  | ) (171                        | ) —  | (15,569 )    |
| Restricted cash  | 7                 | 365                       | 202                           | —  | 574          |
| Net cash provided by (used in) investing<br>activities                               | (7,288            | ) (7,738                  | ) 31                          | —  | (14,995 )    |
| Cash flows from financing activities:  |                   |                           |                               |  |              |
| Repayments of credit facilities  | (69,716           | ) —                       | —                             | —  | (69,716 )    |
| Borrowings from credit facilities  | 53,862            | —                         | —                             | —  | 53,862       |
| Other long-term borrowings   | 51                | —                         | —                             | —  | 51           |
| Debt issuance costs  | (72               | ) —                       | —                             | —  | (72 )        |
| Net cash used in financing activities  | (15,875           | ) —                       | —                             | —  | (15,875 )    |
| Effect of foreign currency exchange rates<br>on cash and cash equivalents            | (1,474            | ) —                       | (288                          | ) —  | (1,762 )     |
| Net increase (decrease) in cash and cash<br>equivalents                              | (457              | ) (14                     | ) 586                         | —  | 115          |
| Cash and cash equivalents at beginning<br>of period                                  | 483               | 75                        | 1,886                         | —  | 2,444        |
| Cash and cash equivalents at end of<br>period  | \$26              | \$61                      | \$ 2,472                      | \$—  | \$2,559      |





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| Condensed Consolidating Statement of Cash Flows   |                   |                           |                               |  |              |
|---|-------------------|---------------------------|-------------------------------|--|--------------|
| Nine Months Ended September 30, 2015  |                   |                           |                               |  |              |
|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
| Cash flows from operating activities:   |                   |                           |                               |  |              |
| Net loss  | \$(17,714 )       | \$(50,703 )               | \$(1,550 )                    | \$(4 )                                       | \$(69,971 )  |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                   |                           |                               |  |              |
| Depreciation and amortization   | 18,220            | 12,027                    | 637                           | —  | 30,884       |
| Impairment of goodwill  | —                 | 49,823                    | —                             | —  | 49,823       |
| Other asset impairment  | 3,441             | 2,749                     | 953                           | —  | 7,143        |
| Deferred income taxes   | (2,853 )          | —                         | (44 )                         | —  | (2,897 )     |
| Non-cash interest expense on debt   | 643               | —                         | —                             | —  | 643          |
| Stock-based compensation  | 211               | —                         | —                             | —  | 211          |
| Amortization of debt issuance costs   | 1,937             | —                         | —                             | —  | 1,937        |
| Gain on early extinguishment of debt  | (153 )            | —                         | —                             | —  | (153 )       |
| Gain on sale of equipment   | (93 )             | (6 )                      | (22 )                         | —  | (121 )       |
| Changes in operating assets and liabilities   |                   |                           |                               |  |              |
| Accounts receivable   | (13,857 )         | 4,345                     | (2,099 )                      | 4  | (11,607 )    |
| Inventory   | (7,988 )          | —                         | —                             | —  | (7,988 )     |
| Prepaid expenses and other current assets   | 2,555             | 607                       | 470                           | —  | 3,632        |
| Income tax receivable   | 235               | (234 )                    | 5                             | 22   | 28           |
| Aircraft support parts, net   | (518 )            | 994                       | (326 )                        | —  | 150          |
| Other non-current assets  | 856               | 1,541                     | (138 )                        | (1 )   | 2,258        |
| Assets held for sale  | 2,000             | —                         | —                             | —  | 2,000        |
| Accounts payable  | 1,068             | 611                       | (817 )                        | —  | 862          |
| Accrued and other current liabilities   | 27,386            | (14,769 )                 | (758 )                        | 554  | 12,413       |
| Income tax payable  | 256               | 2                         | 614                           | (574 )                                       | 298          |
| Uncertain tax position  | 170               | —                         | —                             | —  | 170          |
| Other long-term liabilities   | 2,712             | (187 )                    | —                             | (1 )   | 2,524        |
| Net cash provided by (used in) operating activities                                       | 18,514            | 6,800                     | (3,075 )                      | —  | 22,239       |
| Cash flows from investing activities:   |                   |                           |                               |  |              |
| Restricted cash   | 11                | —                         | 124                           | —  | 135          |
| Proceeds from sale-leaseback of aircraft  | 5,078             | —                         | —                             | —  | 5,078        |
| Purchases of aircraft and property, plant and equipment                                   | (14,124 )         | (6,421 )                  | (84 )                         | —  | (20,629 )    |
| Acquisition of business, net of cash acquired   | 1                 | —                         | (1 )                          | —  | —            |
| Net cash provided by (used in) investing activities                                       | (9,034 )          | (6,421 )                  | 39                            | —  | (15,416 )    |
| Cash flows from financing activities:   |                   |                           |                               |  |              |
| Shares withheld for payment of taxes  | (43 )             | —                         | —                             | —  | (43 )        |
| Repayments of subordinated notes  | (3,378 )          | —                         | —                             | —  | (3,378 )     |
| Repayments of credit facilities   | (140,445 )        | 1                         | —                             | —  | (140,444 )   |
| Borrowings from credit facilities   | 138,490           | —                         | —                             | —  | 138,490      |

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|   |        |        |      |     |        |   |
|---|--------|--------|------|-----|--------|---|
| Other long-term borrowings  | (120   | ) —    | —    | —   | (120   | ) |
| Payments under capital leases   | (66    | ) (545 | ) —  | —   | (611   | ) |
| Debt issuance costs   | (147   | ) —    | —    | —   | (147   | ) |
| Net cash used in financing activities                                     | (5,709 | ) (544 | ) —  | —   | (6,253 | ) |
| Effect of foreign currency exchange rates<br>on cash and cash equivalents | (3,760 | ) —    | (209 | ) — | (3,969 | ) |

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|  |      |       |   |         |   |     |         |   |
|--|------|-------|---|---------|---|-----|---------|---|
| Net decrease in cash and cash equivalents        | 11   | (165  | ) | (3,245  | ) | —   | (3,399  | ) |
| Cash and cash equivalents at beginning of period | 7    | 274   |   | 4,816   |   | —   | 5,097   |   |
| Cash and cash equivalents at end of period       | \$18 | \$109 |   | \$1,571 |   | \$— | \$1,698 |   |

Condensed Consolidating Statement of Cash Flows  
Nine Months Ended September 30, 2014

|  | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Entries and Eliminations | Consolidated |       |     |          |       |
|--|----------------|------------------------|----------------------------|--|--------------|-------|-----|----------|-------|
| Cash flows from operating activities:  |                |                        |                            |  |              |       |     |          |       |
| Net income (loss)  | \$(5,974       | )                      | \$(5,544                   | )                                      | \$ 3,856     | \$(84 | )   | \$(7,746 | )     |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                |                        |                            |  |              |       |     |          |       |
| Depreciation and amortization  | 18,580         |                        | 7,919                      |  | 599          | —     |     | 27,098   |       |
| Impairment of goodwill   | —              |                        | 21,272                     |  | —            | —     |     | 21,272   |       |
| Deferred income taxes  | (8,048         | )                      | —                          |  | (225         | )     | —   | (8,273   | )     |
| Non-cash interest expense on debt  | 226            |                        | —                          |  | —            | —     |     | 226      |       |
| Stock-based compensation   | 616            |                        | —                          |  | —            | —     |     | 616      |       |
| Gain on sale of equipment  | (121           | )                      | (25                        | )                                      | (107         | )     | —   | (253     | )     |
| Amortization of debt issuance costs  | 1,827          |                        | —                          |  | —            | —     |     | 1,827    |       |
| Gain on involuntary conversion   | —              |                        | (308                       | )                                      | —            | —     |     | (308     | )     |
| Changes in operating assets and liabilities:   |                |                        |                            |  |              |       |     |          |       |
| Accounts receivable  | (9,978         | )                      | 15,344                     |  | (6,912       | )     | 21  | (1,525   | )     |
| Prepaid expenses and other current assets  | (6,182         | )                      | (430                       | )                                      | (295         | )     | —   | (6,907   | )     |
| Income tax receivable, net   | 41             |                        | (3                         | )                                      | 911          |       | —   | 949      |       |
| Aircraft support parts, net  | (12,959        | )                      | (189                       | )                                      | (490         | )     | —   | (13,638  | )     |
| Other non-current assets   | 1,319          |                        | 2,681                      |  | 232          |       | —   | 4,232    |       |
| Accounts payable   | (499           | )                      | (5,294                     | )                                      | (368         | )     | —   | (6,161   | )     |
| Accrued and other current liabilities  | 4,682          |                        | (10,342                    | )                                      | 1,610        |       | —   | (4,050   | )     |
| Income tax payable   | 31             |                        | —                          |  | 1,179        |       | —   | 1,210    |       |
| Other long-term liabilities  | 192            |                        | —                          |  | —            |       | —   | 192      |       |
| Net cash provided by (used in) operating activities  | (16,247        | )                      | 25,081                     |  | (10          | )     | (63 | )        | 8,761 |
| Cash flows from investing activities:  |                |                        |                            |  |              |       |     |          |       |
| Purchases of aircraft and property, plant and equipment  | (26,918        | )                      | (25,373                    | )                                      | (416         | )     | —   | (52,707  | )     |
| Proceeds from sale-leaseback of aircraft   | 24,660         |                        | —                          |  | —            |       | —   | 24,660   |       |
| Restricted cash  | 7              |                        | 365                        |  | 1,969        |       | —   | 2,341    |       |
| Dividends paid to noncontrolling interest  | —              |                        | —                          |  | (136         | )     | 63  | (73      | )     |
| Net cash provided by (used in) investing activities  | (2,251         | )                      | (25,008                    | )                                      | 1,417        |       | 63  | (25,779  | )     |
| Cash flows from financing activities:  |                |                        |                            |  |              |       |     |          |       |
| Proceeds from shareholders, net  | 414            |                        | —                          |  | —            |       | —   | 414      |       |
| Repayments of credit facilities  | (148,839       | )                      | —                          |  | —            |       | —   | (148,839 | )     |
| Borrowings from credit facilities  | 166,993        |                        | —                          |  | —            |       | —   | 166,993  |       |

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|   |        |     |   |   |        |
|---|--------|-----|---|---|--------|
| Other long-term borrowings                | 444    | —   | — | — | 444    |
| Debt issuance costs                       | (339)  | ) — | — | — | (339)  |
| Shares withheld for payment of taxes      | (166)  | ) — | — | — | (166)  |
| Net cash provided by financing activities | 18,507 | —   | — | — | 18,507 |

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|  |      |      |         |     |         |   |
|--|------|------|---------|-----|---------|---|
| Effect of foreign currency exchange rates on cash and cash equivalents | (559 | ) —  | (252    | ) — | (811    | ) |
| Net increase (decrease) in cash and cash equivalents                   | (550 | ) 73 | 1,155   | —   | 678     |   |
| Cash and cash equivalents at beginning of period                       | 576  | (12  | ) 1,317 | —   | 1,881   |   |
| Cash and cash equivalents at end of period                             | \$26 | \$61 | \$2,472 | \$— | \$2,559 |   |

## Note 14. Income Taxes

The Company's effective tax rate for the three months ended September 30, 2015 was (1.6)% and differs from the federal statutory rate of 35% due to the full valuation allowance position in the U.S. and other foreign jurisdictions. The effective tax rate for the three months ended September 30, 2015 includes withholding taxes for which no net deferred tax assets will be recognized in 2015 due to the full valuation allowance position, as well as tax expense for deferred tax liabilities associated with indefinite lived assets, which liabilities cannot be offset against deferred tax assets to reduce the amount of the valuation allowance.

For the three months ended September 30, 2014, the Company's effective tax rate was 41.0% and differed from the statutory rate primarily due to differing tax rates in foreign jurisdictions and the distribution of income it earned in those jurisdictions.

The Company recognizes deferred tax assets if realization of such assets is more likely than not. In order to make this determination the Company evaluates factors for each jurisdiction 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. The cumulative loss incurred in the U.S. over the twelve quarter period ending March 31, 2015 was significant negative objective evidence against the Company's ability to realize a benefit from its U.S. deferred tax assets which include net operating loss, tax credit carryforwards and other deferred tax assets. Such objective evidence limited the ability of the Company to consider in its evaluation other subjective evidence such as the Company's projections for future growth. On the basis of its evaluation the Company determined that its U.S. deferred tax assets were not more likely than not to be realized and that a full valuation allowance against net U.S. deferred tax assets was appropriate.

As of September 30, 2015, for foreign jurisdictions, the Company believes it is more likely than not that it will realize all of its deferred tax assets, including its net operating loss carryforwards, with the exception of those related to Brazil, Italy and Malaysia where the Company recorded a full valuation allowance against net deferred tax assets in those jurisdictions.

As of September 30, 2015, there have been no material changes to the Company's uncertain tax position as provided at December 31, 2014. The Company's unrecognized tax benefits and related interest and penalties during the three months ended September 30, 2015 increased by \$0.3 million primarily due to the uncertain tax positions associated with certain tax matters in Greece. The ending balance for the unrecognized tax benefits was approximately \$9.5 million at September 30, 2015 and included penalties of approximately \$3.0 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).

The IRS has completed the information gathering phase of their income tax examination of the 2012 tax year and has started the information gathering phase of their examination of the 2013 tax year. To date, no official adjustment or assessment has been made for both tax years. The Italian tax authorities have examined our fiscal years 2008 to 2010 and all assessments issued by the taxing authorities have been appealed to the appropriate level of the Italian court. The Malaysian tax authorities have examined our fiscal years 2008 to 2011 and have proposed adjustments relating to

certain withholding tax liabilities which were not significant. The Greek tax authorities have completed their tax examination of the Company and the Company is currently in discussion with the Greek Tax Office on various tax matters. In July, the Company was notified that the Peru taxing authorities would be examining the Company's 2014 tax year and the audit is in the information gathering phase.

As of September 30, 2015, the Company is not aware of any adjustments that will have a material impact on the Company's consolidated financial position, results of operations, or cash flows from the aforementioned income tax examinations. All material uncertain tax positions associated with the examinations have been taken into account in the ending balance of the unrecognized tax benefits at September 30, 2015. The Company is not under income or withholding tax examination by tax authorities in any other jurisdictions.

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## Note 15. 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. On January 1, 2015, as a part of a reorganization, the Company established reportable operating segments to assess performance by type of customer and end market: Government Aviation Services, Commercial Aviation Services, and Manufacturing & MRO.

**Government Aviation Services.** The Company’s Government Aviation Services revenue is derived primarily from contracts with the United States Department of Defense, international governments, and other government organizations, and third parties that contract with such government agencies and organizations, that use its services for defense and security, and transportation and other government-related activities.

**Commercial Aviation Services.** The Company’s Commercial Aviation Services revenue is derived primarily from firefighting, timber harvesting, infrastructure construction, oil and gas services, and other commercial services.

**Manufacturing & MRO.** The Company’s Manufacturing & MRO revenue is derived primarily from manufacturing; maintenance, repair, and overhaul services; as well as aircraft sales.

The following table sets forth information about the Company’s operations by its three reportable segments:

Revenue by Reportable Segment (in thousands):

|                              | Three Months Ended September 30, |           | Nine Months Ended September 30, |           |
|------------------------------|----------------------------------|-----------|---------------------------------|-----------|
|                              | 2015                             | 2014      | 2015                            | 2014      |
| Net revenues:                |                                  |           |                                 |           |
| Government Aviation Services | \$22,879                         | \$36,055  | \$84,145                        | \$119,466 |
| Commercial Aviation Services | 68,425                           | 78,697    | 128,997                         | 144,242   |
| Manufacturing & MRO          | 9,829                            | 3,586     | 23,472                          | 9,699     |
| Total net revenues           | \$101,133                        | \$118,338 | \$236,614                       | \$273,407 |

Gross Profit by Reportable Segment (in thousands):

|                              | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|------------------------------|----------------------------------|----------|---------------------------------|----------|
|                              | 2015                             | 2014     | 2015                            | 2014     |
| Gross Profit:                |                                  |          |                                 |          |
| Government Aviation Services | \$1,297                          | \$4,005  | \$7,735                         | \$18,593 |
| Commercial Aviation Services | 29,316                           | 42,689   | 28,362                          | 47,990   |
| Manufacturing & MRO          | 2,432                            | 802      | 6,053                           | 1,823    |
| Total gross profit           | \$33,045                         | \$47,496 | \$42,150                        | \$68,406 |

Assets by Reportable Segment (in thousands):

|                              | September 30, | December 31, |
|------------------------------|---------------|--------------|
|                              | 2015          | 2014         |
| Assets:                      |               |              |
| Government Aviation Services | \$176,597     | \$232,775    |
| Commercial Aviation Services | 61,419        | 56,456       |
| Manufacturing & MRO          | 22,827        | 16,207       |
| Corporate <sup>(1)</sup>     | 14,232        | 13,633       |
| Assets held for sale         | 5,959         | —            |
| Fixed Assets <sup>(2)</sup>  | 363,817       | 386,450      |
| Total assets                 | \$644,851     | \$705,521    |

(1) Corporate assets are comprised primarily of cash, deferred tax assets, and deferred offering costs.

(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 loss for the three months ended September 30, 2015 and 2014 is as follows (in thousands):

|  | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|--|----------------------------------|----------|---------------------------------|----------|
|  | 2015                             | 2014     | 2015                            | 2014     |
| Reconciliation to operating income (loss): |                                  |          |                                 |          |
| Government Aviation Services gross profit  | \$1,297                          | \$4,005  | \$7,735                         | \$18,593 |
| Commercial Aviation Services gross profit  | 29,316                           | 42,689   | 28,362                          | 47,990   |
| Manufacturing & MRO gross profit           | 2,432                            | 802      | 6,053                           | 1,823    |
| Operating expenses, net <sup>(1)</sup>     | (7,366)                          | (8,969)  | (81,477)                        | (50,132) |
| Total operating income (loss)              | \$25,679                         | \$38,527 | \$(39,327)                      | \$18,274 |

Corporate expenses include corporate sales and marketing expenses, research and development, stock-based (1) compensation expense, certain tax expenses, various nonrecurring charges including intangible asset impairments, and other separately managed general and administrative costs.

Net Revenues by Geographic Area (in thousands):

|                    | Three Months Ended September 30, |           | Nine Months Ended September 30, |           |
|--------------------|----------------------------------|-----------|---------------------------------|-----------|
|                    | 2015                             | 2014      | 2015                            | 2014      |
| Net revenues:      |                                  |           |                                 |           |
| North America      | \$60,717                         | \$62,848  | \$104,769                       | \$111,078 |
| Middle East        | 13,514                           | 18,602    | 46,640                          | 60,041    |
| Europe             | 11,000                           | 13,462    | 14,905                          | 22,399    |
| Asia               | 1,675                            | 3,787     | 12,670                          | 15,723    |
| South America      | 7,236                            | 16,067    | 28,339                          | 34,616    |
| Africa             | 6,991                            | 3,572     | 20,763                          | 18,444    |
| Australia          | —                                | —         | 8,528                           | 11,106    |
| Total net revenues | \$101,133                        | \$118,338 | \$236,614                       | \$273,407 |

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

#### Note 16. 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

Arizona Environmental Matter

In August 2012, Erickson Helicopters, Inc. f/k/a Evergreen Helicopters, Inc. (Erickson's wholly-owned subsidiary, "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

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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 2014 or during the nine months period ended September 30, 2015. 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 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. 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. Trial is currently scheduled for January 2016. 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.

In addition to the foregoing litigation, the Company is subject to ongoing litigation and claims as part of its normal business operations. The Company makes a provision for a liability when it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company recognizes expenses for legal costs in connection with defending a loss contingency as those costs are incurred. In the Company’s opinion, none of these claims will have a material adverse effect on it.

**Note 17. 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, one of the Company's directors, for expenses and other costs totaling zero during the three months ended September 30, 2015 and 2014. For the nine months ended September 30, 2015 and 2014, the Company reimbursed ZM Funds and Mr. Morgan for expenses and other costs totaling zero and \$0.2 million, 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 December 31, 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 nine months ended September 30, 2014.

During the nine months period ending September 30, 2015 and 2014, the Company incurred \$0.1 million and \$0.3 million, respectively, in legal costs associated with stockholder lawsuit filed against the Company, the members of its board of directors, EAC Acquisition Corp., and the ZM Funds and certain of their affiliates. See Note 16 "Commitments and Contingencies" for further discussion.

During the third quarter of 2015, the Company generated enough cash to retire some of its subordinated debt. Through the assistance of 10th Lane Partners, LLC, an entity controlled by Q&U investments, LLC and affiliated with Mr. Morgan, the Company was able to repurchase a subordinated note with a face value of \$0.4 million for \$0.2 million.

**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

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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 18. Derivative Instruments and Hedging Activities

The Company enters into foreign currency forward contracts when considered necessary. 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 (loss). Outstanding balances of foreign currency forward contracts in asset positions are included in prepaid expenses and other assets if maturing within one year, or other non-current assets if maturing beyond one year within the consolidated balance sheet. Outstanding balances of foreign currency forward contracts in liability positions 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 consolidated balance sheet.

The Company was not party to any foreign currency forward contracts as of September 30, 2015 or December 31, 2014.

Note 19. Variable Interest Entities

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 September 30, 2015, EuAC consolidated assets and liabilities were \$2.9 million and \$0.7 million, respectively. At December 31, 2014, EuAC consolidated VIE assets and liabilities were \$4.1 million and \$1.9 million, respectively. As of September 30, 2015 and December 31, 2014, \$0.8 million and \$0.7 million, respectively, of net income related to noncontrolling interest is reflected in stockholders' equity in the accompanying consolidated balance sheets.

In the third quarter of 2014 through its Brazilian subsidiary Air Amazonia, the Company had entered into a purchase agreement to acquire a 60% interest in Costa Do Sol Taxi Aero Corporation ("Costa Do Sol") and obtained control of the entity effective December 1, 2014.

The Company believes that Costa Do Sol 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 Costa Do Sol.

At September 30, 2015 and December 31, 2014, Costa Do Sol consolidated assets and liabilities were \$0.6 million and \$0.9 million, respectively. As of September 30, 2015 and December 31, 2014, the net loss related to noncontrolling interest reflected in stockholders' equity in the accompanying consolidated balance sheets was \$0.1 million and zero, respectively.

Note 20. Seasonality

The Company's flight hours and related revenues are substantially reduced in winter or monsoon seasons. The global deployment of the Company's aircraft 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.

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## Note 21. Earnings (Loss) Per Share

The Company calculates basic earnings (loss) per share by dividing net income (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 earnings (loss) per share.

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

|   | Three Months Ended<br>September 30, |            | Nine Months Ended September<br>30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2015                                | 2014       | 2015                               | 2014       |
| Net income (loss) attributable to common shareholders                                 | \$15,073                            | \$16,862   | \$(70,017 )                        | \$(7,841 ) |
| Basic weighted average shares outstanding   | 13,834,938                          | 13,802,212 | 13,830,002                         | 13,797,093 |
| Dilutive effect of stock-based awards   | —                                   | 14,838     | —                                  | —          |
| Dilutive weighted average shares outstanding  | 13,834,938                          | 13,817,050 | 13,830,002                         | 13,797,093 |
| Basic earnings (loss) per share   | \$1.09                              | \$1.22     | \$(5.06 )                          | \$(0.57 )  |
| Diluted earnings (loss) per share   | \$1.09                              | \$1.22     | \$(5.06 )                          | \$(0.57 )  |
| Antidilutive common stock equivalents excluded from diluted earnings (loss) per share | 227,989                             | 10,496     | 221,050                            | 11,777     |

## Note 22. 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 26,698 shares available for grant under the Long Term Incentive Plan as of September 30, 2015. 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 nine months ended September 30, 2015:

|  | Restricted<br>Stock<br>Award Units | Weighted-Average<br>Grant Date<br>Fair Value |
|--|------------------------------------|--|
| Outstanding unvested at December 31, 2014  | 55,603                             | \$ 13.59                                     |
| Vested                                     | (27,213 )                          | 12.13  |
| Forfeited                                  | (18,890 )                          | 14.15  |
| Outstanding unvested at September 30, 2015 | 9,500                              | \$ 16.64                                     |

During the three months ended September 30, 2015 and September 30, 2014, the Company granted zero restricted stock units. During the nine months ended September 30, 2015 and September 30, 2014, the Company granted zero and 15,500 restricted stock units, respectively.

On July 2, 2015, the Company's stockholders approved and adopted the CEO Plan and Stock Option Agreement ("the Plan"). The Plan provides the Company's CEO the option to purchase 165,000 shares of common stock. On July 29, 2015, such option was granted for a weighted average exercise price of \$6.05 per share. The option becomes exercisable at a rate of 20% on March 2, 2016, and 5% on the last day of each quarter thereafter beginning June 30, 2016 for a total of sixteen additional increments. The weighted average fair value of the option granted was \$2.15 per share using the Black-Scholes model and the following assumptions: risk free interest rate of 1.05%; expected

dividend yield of 0%; expected life of 10 years; and volatility of 61.8%. As of September 30, 2015, no options were vested or exercisable.

The Company recognized stock-based compensation expense during the three and nine months ended September 30, 2015 and 2014 as follows (in thousands):

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|                                   | Three Months Ended    |        | Nine Months Ended September |        |
|-----------------------------------|-----------------------|--------|-----------------------------|--------|
|                                   | September 30,<br>2015 | 2014   | 30,<br>2015                 | 2014   |
| Stock-based compensation expense: |                       |        |                             |        |
| Cost of revenues                  | \$—                   | \$ 18  | \$ 14                       | \$ 48  |
| Operating expenses                | 114                   | 202    | 197                         | 568    |
| Total                             | \$ 114                | \$ 220 | \$ 211                      | \$ 616 |

Unrecognized stock-based compensation expense related to outstanding unvested restricted stock unit awards and the CEO stock option award as of September 30, 2015 is expected to be recognized over a weighted average period of 2.2 years, as follows (in thousands):

|            | Unamortized<br>Compensation<br>Expense |
|------------|--|
| 2015       | \$ 84                                  |
| 2016       | 133                                    |
| 2017       | 70                                     |
| 2018       | 67                                     |
| 2019       | 63                                     |
| Thereafter | 16                                     |
| Total      | \$ 433                                 |

## Note 23. Costs and Estimated Earnings on Uncompleted Contract

Information related to an uncompleted contract is as follows (in thousands):

|  | Three Months Ended    |      | Nine Months Ended September |      |
|--|-----------------------|------|-----------------------------|------|
|  | September 30,<br>2015 | 2014 | 30,<br>2015                 | 2014 |
| Costs incurred on uncompleted contract | \$ 1,110              | \$—  | \$ 1,110                    | \$—  |
| Estimated earnings                     | 563                   | —    | 563                         | —    |
|  | 1,673                 | —    | 1,673                       | —    |
| Less: billings to date                 | (466                  | ) —  | (466                        | ) —  |
|  | \$ 1,207              | \$—  | \$ 1,207                    | \$—  |

As of September 30, 2015, the Company has \$1.2 million of costs and estimated earnings in excess billings related to the uncompleted contract included in accounts receivable in the accompanying balance sheet. Revenues and costs related to the uncompleted project are included in the Company's Manufacturing & MRO segment in the accompanying statement of comprehensive income (loss). See Note 15.

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

## 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 or other comparable 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

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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 have recorded goodwill impairment charges in our second quarter of 2014 and first quarter of 2015 associated with EHI and our Government Aviation Services segment, and may record similar charges in the future; 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.

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.

**OVERVIEW OF THE BUSINESS**

We are a leading global provider of aviation services to a worldwide mix of commercial and government customers. Our 2013 acquisitions have expanded the type of aircraft and services we can provide to our customers. We currently operate a diverse fleet of 75 rotor-wing and fixed-wing aircraft. 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 select aircraft, related components, and other aftermarket support and maintenance, repair, and overhaul services. 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. Our diverse fleet has a lift capacity of up to 25,000 pounds.

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 Airplane 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.

#### Aircraft Fleet

As of September 30, 2015, we operated a fleet of 75 Aircraft, 51 of which were providing aerial services for our customers during the quarter and eight of which were classified as held for sale. 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. We intend to actively manage our aircraft fleet mix to capture new opportunities and maximize returns. Our aircraft can be deployed into our various aviation services segments. We

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maintain a master fleet schedule and attempt to maximize aircraft utilization and revenues by minimizing our aircraft idle time, or “white space”.

Our overall fleet utilization (calculated as the number of days on contract as a percentage of total available days) decreased to 46.9% in the third quarter of 2015 from 54.2% in the third quarter of 2014, primarily as a result of decreased utilization of our medium and light rotor wing aircraft and fixed wing aircraft.

The following table presents the changes in aircraft employed in our fleet as of September 30, 2015:

|   | Aircraft | Total Aircraft<br>Employed |
|---|----------|----------------------------|
| Aircraft in our fleet at December 31, 2014  |          | 86                         |
| Aircraft leased                             | 3        |                            |
| Aircraft returned to lessor                 | (5       | )                          |
| Net aircraft exchanged                      | (2       | )                          |
| Aircraft sold                               | (7       | )                          |
| Aircraft in our fleet at September 30, 2015 |          | 75                         |

**Our Operating Revenue**

**Government Aviation Services.** Our Government Aviation Services revenue is derived primarily from contracts with the United States Department of Defense, international governments, and other government organizations, and third parties that contract with such government agencies and organizations, that use our services for defense and security, and transportation and other government-related activities.

**Commercial Aviation Services.** Our Commercial Aviation Services revenue is derived primarily from firefighting, timber harvesting, infrastructure construction, oil and gas services, and other commercial services.

**Manufacturing & MRO.** Our Manufacturing & MRO revenues are derived primarily from manufacturing, maintenance, repair, and overhaul services, as well as aircraft sales.

**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; external commissions; 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.

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, and South American contracts having both revenues and expenses paid in the local currency; in addition, some of our contracts provide

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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 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 Aviation Services 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 with respect to some of the new DoD contracts on which we bid. 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 Aviation Services segment 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.

**Oil and Gas Commodity Prices.** With the changes in crude oil prices we may see increased downward pricing pressure from our existing and prospective customers, which we believe may negatively impact our margins as well as limit our ability to obtain future work.

**Costs Associated with our Financing Arrangements.** We are a 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 September 30, 2015 and December 31, 2014. 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; or

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

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 September 30, 2015, included within our other non-current assets balance was \$4.9 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. To date, no formal tax assessments have been made, and we are continuing to pursue various options to settle this dispute. As of September 30, 2015, there have been no material changes to our uncertain tax position as provided at December 31, 2014. Our unrecognized tax benefits and related interest and penalties during the three months ended September 30, 2015 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 \$8.5 million at September 30, 2015 and included penalties of approximately \$2.9 million. Our policy is to recognize interest and penalties related to uncertain tax positions in other income (expense).

Fluctuations in our Mix of Services. We derive the majority of our total revenues from aviation services. 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 different segments of our business. Changes in the composition of daily standby fees relative to the number of hours flown could impact our total revenues.

We expect to reduce the scope of firefighting services we provide to the U.S. Forest Service. We believe this will enable us to utilize our Airplanes for other longer-term Commercial Aviation Services opportunities in emerging markets, which would help us more effectively balance the seasonality of our business and increase the year-round utilization of our Airplanes.

Expenses Associated with Expansion. As part of our business strategy, we may acquire businesses or specific assets or engage in other strategic transactions. Such transactions may result in expenses that impact our financial results, including expenses



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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 September 30, 2015 Compared to Three Months Ended September 30, 2014

The following table presents our consolidated operating results for the three months ended September 30, 2015 compared to the three months ended September 30, 2014:

| (Dollars in thousands)                              | Three<br>Months<br>Ended<br>September<br>30, 2015 | % of<br>Revenues | Three<br>Months<br>Ended<br>September<br>30, 2014 | % of<br>Revenues | Change     | % Change |
|---|---|------------------|---|------------------|------------|----------|
| Net revenues:                                       |   |                  |   |                  |            |          |
| Government Aviation Services                        | \$22,879  | 22.6             | \$36,055  | 30.5             | \$(13,176) | (36.5)   |
| Commercial Aviation Services                        | 68,425  | 67.7             | 78,697  | 66.5             | (10,272)   | (13.1)   |
| Manufacturing & MRO                                 | 9,829   | 9.7              | 3,586   | 3.0              | 6,243      | 174.1    |
| Total revenues                                      | 101,133   | 100.0            | 118,338   | 100.0            | (17,205)   | (14.5)   |
| Cost of revenues:                                   |   |                  |   |                  |            |          |
| Government Aviation Services <sup>(1)</sup>         | 21,582  | 94.3             | 32,050  | 88.9             | (10,468)   | (32.7)   |
| Commercial Aviation Services <sup>(1)</sup>         | 39,109  | 57.2             | 36,008  | 45.8             | 3,101      | 8.6      |
| Manufacturing & MRO <sup>(1)</sup>                  | 7,397   | 75.3             | 2,784   | 77.6             | 4,613      | 165.7    |
| Total cost of revenues                              | 68,088  | 67.3             | 70,842  | 59.9             | (2,754)    | (3.9)    |
| Gross profit:                                       |   |                  |   |                  |            |          |
| Government Aviation Services <sup>(1)</sup>         | \$1,297   | 5.7              | \$4,005   | 11.1             | (2,708)    | (67.6)   |
| Commercial Aviation Services <sup>(1)</sup>         | 29,316  | 42.8             | 42,689  | 54.2             | (13,373)   | (31.3)   |
| Manufacturing & MRO <sup>(1)</sup>                  | 2,432   | 24.7             | 802   | 22.4             | 1,630      | 203.2    |
| Gross profit  | 33,045  | 32.7             | 47,496  | 40.1             | (14,451)   | (30.4)   |
| Operating expenses:                                 |   |                  |   |                  |            |          |
| General and administrative                          | 5,483   | 5.4              | 6,608   | 5.6              | (1,125)    | (17.0)   |
| Research and development                            | 425   | 0.4              | 783   | 0.7              | (358)      | (45.7)   |
| Selling and marketing                               | 1,458   | 1.4              | 1,578   | 1.3              | (120)      | (7.6)    |
| Total operating expenses                            | 7,366   | 7.3              | 8,969   | 7.6              | (1,603)    | (17.9)   |
| Operating income                                    | 25,679  | 25.4             | 38,527  | 32.6             | (12,848)   | (33.3)   |
| Other expense:                                      |   |                  |   |                  |            |          |
| Interest expense, net                               | (9,292)   | (9.2)            | (9,002)   | (7.6)            | (290)      | 3.2      |
| Other expense, net                                  | (1,276)   | (1.3)            | (831)   | (0.7)            | (445)      | 53.5     |
| Total other expense                                 | (10,568)  | (10.4)           | (9,833)   | (8.3)            | (735)      | 7.5      |
| Net income before taxes and noncontrolling interest | 15,111  | 14.9             | 28,694  | 24.2             | (13,583)   | (47.3)   |
| Income tax expense (benefit)                        | (240)   | (0.2)            | 11,753  | 9.9              | (11,993)   | (102.0)  |
| Net income  | 15,351  | 15.2             | 16,941  | 14.3             | (1,590)    | (9.4)    |
| Less: Net income related to noncontrolling interest | (278)   | (0.3)            | (79)  | (0.1)            | (199)      | 251.9    |
| Net income attributable to Erickson Incorporated    | \$15,073  | 14.9             | \$16,862  | 14.2             | \$(1,789)  | (10.6)   |

(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.



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## Revenues

Consolidated revenues decreased by \$17.2 million to \$101.1 million in the third quarter of 2015 from \$118.3 million in the third quarter of 2014. The decrease in revenues was attributable to a \$13.2 million decrease in Government Aviation Services revenues coupled with a \$10.3 million decrease in Commercial Aviation Services revenues partially offset by a \$6.2 million increase in Manufacturing & MRO compared to the third quarter of 2014.

| (Dollars in thousands)       | Three<br>Months<br>Ended<br>September<br>30, 2015 | % of<br>Revenues | Three<br>Months<br>Ended<br>September<br>30, 2014 | % of<br>Revenues | Change      | % Change |
|------------------------------|---|------------------|---|------------------|-------------|----------|
| Net revenues:                |   |                  |   |                  |             |          |
| Government Aviation Services | \$22,879  | 22.6             | \$36,055  | 30.5             | \$(13,176 ) | (36.5 )  |
| Commercial Aviation Services | 68,425  | 67.7             | 78,697  | 66.5             | (10,272 )   | (13.1 )  |
| Manufacturing & MRO          | 9,829   | 9.7              | 3,586   | 3.0              | 6,243       | 174.1    |
| Total Revenues               | \$101,133   | 100.0            | \$118,338   | 100.0            | \$(17,205 ) | (14.5 )  |

## Government Aviation Services Revenues

Government Aviation Services revenues decreased \$13.2 million, to \$22.9 million for the third quarter of 2015 from \$36.1 million in the third quarter of 2014 due to decreased demand and the end of existing contracts, which we were unable to replace with new contracts, from our customers in the Department of Defense market. The decrease was primarily driven by a reduction in the scope of Department of Defense activity in Afghanistan, coupled with the end of our contracts in the Philippines and other locations.

## Commercial Aviation Services Revenues

Commercial Aviation Services revenues decreased \$10.3 million, to \$68.4 million in the third quarter of 2015 from \$78.7 million in the third quarter of 2014 primarily due to a lower oil and gas revenues due to a true-up payment related to the Air Amazonia contract realized in the third quarter of 2014, in addition to a weaker international fire season, and lower infrastructure construction and timber harvesting revenues in North America.

## Manufacturing &amp; MRO Revenues

Manufacturing & MRO revenues increased \$6.2 million, to \$9.8 million in the third quarter of 2015 from \$3.6 million in the third quarter of 2014. This increase was driven primarily by higher revenues generated from aircraft and related asset sales in the third quarter of 2015 of \$2.6 million compared to \$1.2 million in 2014, coupled with increased part sales supporting our legacy programs as well the Bell 214 program.

## Cost of Revenues

Consolidated cost of revenues decreased by \$2.8 million, or 3.9%, to \$68.1 million for the third quarter of 2015 from \$70.8 million for the third quarter of 2014. The decrease was attributable to a decrease of \$10.5 million in Government Aviation Services costs, partially offset by an increase of \$4.6 million in Manufacturing & MRO costs and an increase in Commercial Aviation Services costs of \$3.1 million when compared to the third quarter of 2014.

| (Dollars in thousands)                      | Three<br>Months<br>Ended<br>September<br>30, 2015 | % of<br>Revenues | Three<br>Months<br>Ended<br>September<br>30, 2014 | % of<br>Revenues | Change      | % Change |
|---|---|------------------|---|------------------|-------------|----------|
| Cost of revenues:                           |   |                  |   |                  |             |          |
| Government Aviation Services <sup>(1)</sup> | \$21,582  | 94.3             | \$32,050  | 88.9             | \$(10,468 ) | (32.7 )  |
| Commercial Aviation Services <sup>(1)</sup> | 39,109  | 57.2             | 36,008  | 45.8             | 3,101       | 8.6      |
| Manufacturing & MRO <sup>(1)</sup>          | 7,397   | 75.3             | 2,784   | 77.6             | 4,613       | 165.7    |
| Total cost of revenues                      | \$68,088  | 67.3             | \$70,842  | 59.9             | \$(2,754 )  | (3.9 )   |

(1)Percent of net revenues of applicable segment

Government Aviation Services Cost of Revenues

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Costs of revenues for our Government Aviation Services segment are primarily comprised of venue costs. For the third quarter of 2015, these costs were \$21.6 million, or 94.3% of revenues, as compared to \$32.1 million, or 88.9% in the third quarter of 2014. The decrease of \$10.5 million was primarily correlated to decreased revenues for defense and security and transport and other government-related services. Costs as a percentage of revenues increased by 540 basis points primarily due to reduced revenue covering the fixed costs present in the business as well as the loss of higher margin contracts.

**Commercial Aviation Services Cost of Revenues**

Costs of revenues for our Commercial Aviation Services segment are primarily comprised of venue costs associated with firefighting, timber harvesting, infrastructure construction, and oil and gas services. For the third quarter of 2015, these costs were \$39.1 million, or 57.2% of revenues, as compared to \$36.0 million, or 45.8% of net revenues in the third quarter of 2014. Costs as a percentage of revenues increased to 57.2% from 45.8%, primarily due to the highly fixed nature of the costs in our business as well as the weakening of the Canadian currency.

**Manufacturing & MRO Cost of Revenues**

Costs of revenues for our Manufacturing and MRO segment are primarily comprised of direct and indirect costs associated with manufacturing and MRO sales as well as sales of aircraft and related parts. For the third quarter of 2015, these costs were \$7.4 million, or 75.3% of revenues for the segment, as compared to \$2.8 million, or 77.6% in the third quarter of 2014. The increase of \$4.6 million was primarily due to sales of the aircraft and aircraft support components. Cost of revenues as a percentage of revenues decreased to 75.3% from 77.6%, primarily due to higher margin sales realized in both our MRO business as well as parts sales.

**Gross Profit**

Consolidated gross profit decreased by \$14.5 million, or 30.4%, to \$33.0 million in the third quarter of 2015 from \$47.5 million in the third quarter of 2014. A combination of a decrease in Commercial Aviation Services gross profit of \$13.4 million, and a decrease in Government Aviation Services gross profit of \$2.7 million were partially offset by an increase in Manufacturing & MRO gross profit of \$1.6 million.

| (Dollars in thousands)                      | Three<br>Months<br>Ended<br>September<br>30, 2015 | % of<br>Revenues | Three<br>Months<br>Ended<br>September<br>30, 2014 | % of<br>Revenues | Change      | % Change |
|---|---|------------------|---|------------------|-------------|----------|
| Gross profit:                               |   |                  |   |                  |             |          |
| Government Aviation Services <sup>(1)</sup> | \$1,297   | 5.7              | \$4,005   | 11.1             | \$(2,708 )  | (67.6 )  |
| Commercial Aviation Services <sup>(1)</sup> | 29,316  | 42.8             | 42,689  | 54.2             | (13,373 )   | (31.3 )  |
| Manufacturing & MRO <sup>(1)</sup>          | 2,432   | 24.7             | 802   | 22.4             | 1,630       | 203.2    |
| Total gross profit                          | \$33,045  | 32.7             | \$47,496  | 40.1             | \$(14,451 ) | (30.4 )  |

(1) Percentage of net revenues of applicable segment

**Government Aviation Services.** Primarily as a result of the factors discussed above, Government Aviation Services gross profit decreased by \$2.7 million, or 67.6%, to \$1.3 million in the third quarter of 2015 from \$4.0 million in the third quarter of 2014. Gross profit margin was 5.7% in the third quarter of 2015 compared to 11.1% in the third quarter of 2014.

**Commercial Aviation Services.** Primarily as a result of the factors discussed above, Commercial Aviation Services gross profit decreased by \$13.4 million to \$29.3 million in the third quarter of 2015 from \$42.7 million in the third quarter of 2014. Gross profit margin was 42.8% in the third quarter of 2015 compared to 54.2% in the third quarter of 2014.

Manufacturing & MRO. Primarily as a result of the factors discussed above, Manufacturing and MRO gross profit increased by \$1.6 million to \$2.4 million in the third quarter of 2015 from \$0.8 million in the third quarter of 2014. Gross profit margin was 24.7% in the third quarter of 2015 compared to 22.4% in the third quarter of 2014.

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## Operating Expenses

| (Dollars in thousands)     | Three<br>Months<br>Ended<br>September<br>30, 2015 | % of<br>Revenues | Three<br>Months<br>Ended<br>September<br>30, 2014 | % of<br>Revenues | Change      | % Change |
|----------------------------|---|------------------|---|------------------|-------------|----------|
| Operating expenses:        |   |                  |   |                  |             |          |
| General and administrative | \$5,483   | 5.4              | \$6,608   | 5.6              | \$(1,125 )  | (17.0 )  |
| Research and development   | 425   | 0.4              | 783   | 0.7              | (358 )      | (45.7 )  |
| Selling and marketing      | 1,458   | 1.4              | 1,578   | 1.3              | (120 )      | (7.6 )   |
| Total operating expenses   | 7,366   | 7.3              | 8,969   | 7.6              | (1,603 )    | (17.9 )  |
| Operating income           | \$25,679  | 25.4             | \$38,527  | 32.6             | \$(12,848 ) | (33.3 )  |

Operating expenses decreased by \$1.6 million, to \$7.4 million in the third quarter of 2015 from \$9.0 million in the third quarter of 2014. General and administrative costs decreased by \$1.1 million primarily driven by reductions in headcount as well as cost savings initiatives enacted company wide. Selling and marketing costs also decreased by \$0.1 million as a result of these same cost savings initiatives. Research and development costs decreased to \$0.4 million in the third quarter of 2015 from \$0.8 million in the third quarter of 2014, primarily due to reductions in headcount.

## Other Expense

| (Dollars in thousands) | Three<br>Months<br>Ended<br>September<br>30, 2015 | % of<br>Revenues | Three<br>Months<br>Ended<br>September<br>30, 2014 | % of<br>Revenues | Change   | % Change |
|------------------------|---|------------------|---|------------------|----------|----------|
| Other expense:         |   |                  |   |                  |          |          |
| Interest expense, net  | \$(9,292 )  | (9.2 )           | \$(9,002 )  | (7.6 )           | \$(290 ) | 3.2      |
| Other expense, net     | (1,276 )  | (1.3 )           | (831 )  | (0.7 )           | (445 )   | 53.5     |
| Total other expense    | \$(10,568 )                                       | (10.4 )          | \$(9,833 )  | (8.3 )           | \$(735 ) | 7.5      |

Total other expense increased by \$0.7 million to \$10.6 million in the third quarter of 2015 from \$9.8 million in the third quarter of 2014. Interest expense, net increased by \$0.3 million to \$9.3 million in the third quarter of 2015, from \$9.0 million in the third quarter of 2014, primarily due to an increase in our average outstanding borrowings. Other expense, net increased by \$0.4 million to \$1.3 million in the third quarter of 2015 from \$0.8 million in the third quarter of 2014 due to the factors described below.

| (Dollars in thousands)                  | Three Months Ended September<br>30, |          |          |
|---|-------------------------------------|----------|----------|
|   | 2015                                | 2014     | Change   |
| Other income (expense), net:            |                                     |          |          |
| Unrealized foreign exchange gain (loss) | \$84                                | \$(518 ) | \$602    |
| Realized foreign exchange gain          | 57                                  | 93       | (36 )    |
| Amortization of debt issuance costs     | (683 )                              | (613 )   | (70 )    |
| Loss on early extinguishment of debt    | 153                                 | —        | 153      |
| Gain on involuntary conversion          | —                                   | 308      | (308 )   |
| Gain on disposal of equipment           | 51                                  | 62       | (11 )    |
| Other expense, net                      | (938 )                              | (163 )   | (775 )   |
| Total other expense, net                | \$(1,276 )                          | \$(831 ) | \$(445 ) |

Total other expense, net increased by \$0.4 million to \$1.3 million in the third quarter of 2015 from \$0.8 million in the third quarter of 2014. The increase in net expense was primarily due to costs incurred in 2015 related to the reduction in scope of our operations in Brazil.





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## Income Tax Expense (Benefit)

| (Dollars in thousands)                              | Three<br>Months<br>Ended<br>September<br>30, 2015 | % of<br>Revenues | Three<br>Months<br>Ended<br>September<br>30, 2014 | % of<br>Revenues | Change      | % Change |
|---|---|------------------|---|------------------|-------------|----------|
| Net income before taxes and noncontrolling interest | \$15,111  | 14.9             | \$28,694  | 24.2             | \$(13,583 ) | (47.3 )  |
| Income tax expense (benefit)                        | (240 )  | (0.2 )           | 11,753  | 9.9              | (11,993 )   | (102.0 ) |
| Net income  | \$15,351  | 15.2             | \$16,941  | 14.3             | \$(1,590 )  | (9.4 )   |

Income tax expense decreased by \$12.0 million to a \$0.2 million benefit for the third quarter of 2015, as compared to \$11.8 million income tax expense for the third quarter of 2014, due to the full valuation allowance position taken in 2015 against our deferred tax asset in the US., Brazil, and Italy.

## Net Income Attributable to Erickson Incorporated

| (Dollars in thousands)   | Three<br>Months<br>Ended<br>September<br>30, 2015 | % of<br>Revenues | Three<br>Months<br>Ended<br>September<br>30, 2014 | % of<br>Revenues | Change     | % Change |
|--|---|------------------|---|------------------|------------|----------|
| Net income   | \$15,351  | 15.2             | \$16,941  | 14.3             | \$(1,590 ) | (9.4 )   |
| Less: Net income related to noncontrolling interest                      | (278 )  | (0.3 )           | (79 )   | (0.1 )           | (199 )     | 251.9    |
| Net income attributable to Erickson Incorporated and common stockholders | \$15,073  | 14.9             | \$16,862  | 14.2             | \$(1,789 ) | (10.6 )  |

Net income attributable to Erickson decreased by \$1.8 million to \$15.1 million in the third quarter of 2015 from \$16.9 million in the third quarter of 2014, primarily due to the changes in revenues, expenses, and taxes discussed above.

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Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

The following table presents our consolidated operating results for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014:

| (Dollars in thousands)                              | Nine Months<br>Ended<br>September<br>30, 2015 | % of<br>Revenues | Nine Months<br>Ended<br>September<br>30, 2014 | % of<br>Revenues | Change     | % Change |
|---|---|------------------|---|------------------|------------|----------|
| Net revenues:                                       |   |                  |   |                  |            |          |
| Government Aviation Services                        | \$84,145                                      | 35.6             | \$119,466                                     | 43.7             | \$(35,321) | (29.6)   |
| Commercial Aviation Services                        | 128,997                                       | 54.5             | 144,242                                       | 52.8             | (15,245)   | (10.6)   |
| Manufacturing & MRO                                 | 23,472  | 9.9              | 9,699   | 3.5              | 13,773     | 142.0    |
| Total revenues                                      | 236,614                                       | 100.0            | 273,407                                       | 100.0            | (36,793)   | (13.5)   |
| Cost of revenues:                                   |   |                  |   |                  |            |          |
| Government Aviation Services <sup>(1)</sup>         | 76,410  | 90.8             | 100,873                                       | 84.4             | (24,463)   | (24.3)   |
| Commercial Aviation Services <sup>(1)</sup>         | 100,635                                       | 78.0             | 96,252  | 66.7             | 4,383      | 4.6      |
| Manufacturing & MRO <sup>(1)</sup>                  | 17,419  | 74.2             | 7,876   | 81.2             | 9,543      | 121.2    |
| Total cost of revenues                              | 194,464                                       | 82.2             | 205,001                                       | 75.0             | (10,537)   | (5.1)    |
| Gross profit:                                       |   |                  |   |                  |            |          |
| Government Aviation Services <sup>(1)</sup>         | 7,735   | 9.2              | \$18,593                                      | 15.6             | (10,858)   | (58.4)   |
| Commercial Aviation Services <sup>(1)</sup>         | 28,362  | 22.0             | 47,990  | 33.3             | (19,628)   | (40.9)   |
| Manufacturing & MRO <sup>(1)</sup>                  | 6,053   | 25.8             | 1,823   | 18.8             | 4,230      | 232.0    |
| Gross profit  | 42,150  | 17.8             | 68,406  | 25.0             | (26,256)   | (38.4)   |
| Operating expenses:                                 |   |                  |   |                  |            |          |
| General and administrative                          | 18,082  | 7.6              | 20,399  | 7.5              | (2,317)    | (11.4)   |
| Research and development                            | 1,886   | 0.8              | 2,839   | 1.0              | (953)      | (33.6)   |
| Selling and marketing                               | 4,543   | 1.9              | 5,622   | 2.1              | (1,079)    | (19.2)   |
| Impairment of goodwill                              | 49,823  | 21.1             | 21,272  | 7.8              | 28,551     | 134.2    |
| Other asset impairment                              | 7,143   | 3.0              | —   | —                | 7,143      | NM       |
| Total operating expenses                            | 81,477  | 34.4             | 50,132  | 18.3             | 31,345     | 62.5     |
| Operating income (loss)                             | (39,327)                                      | (16.6)           | 18,274  | 6.7              | (57,601)   | (315.2)  |
| Other expense:                                      |   |                  |   |                  |            |          |
| Interest expense, net                               | (27,879)                                      | (11.8)           | (26,866)                                      | (9.8)            | (1,013)    | 3.8      |
| Other expense, net                                  | (2,932)                                       | (1.2)            | (2,193)                                       | (0.8)            | (739)      | 33.7     |
| Total other expense                                 | (30,811)                                      | (13.0)           | (29,059)                                      | (10.6)           | (1,752)    | 6.0      |
| Net loss before taxes and noncontrolling interest   | (70,138)                                      | (29.6)           | (10,785)                                      | (3.9)            | (59,353)   | NM       |
| Income tax benefit                                  | (167)   | (0.1)            | (3,039)                                       | (1.1)            | 2,872      | (94.5)   |
| Net loss  | (69,971)                                      | (29.6)           | (7,746)                                       | (2.8)            | (62,225)   | NM       |
| Less: Net income related to noncontrolling interest | (46)  | —                | (95)  | —                | 49         | (51.6)   |
| Net loss attributable to Erickson Incorporated      | \$(70,017)                                    | (29.6)           | \$(7,841)                                     | (2.9)            | \$(62,176) | 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.

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## Revenues

Consolidated revenues decreased by \$36.8 million to \$236.6 million in the nine months ended September 30, 2015 from \$273.4 million in the nine months ended September 30, 2014. The decrease in revenues was attributable to a \$35.3 million decrease in Government Aviation Services revenues coupled with a \$15.2 million decrease in Commercial Aviation Services revenues partially offset by a \$13.8 million increase in Manufacturing & MRO compared to the nine months ended September 30, 2014.

| (Dollars in thousands)       | Nine Months                    |                  | Nine Months                    |                  | Change      | % Change |
|------------------------------|--------------------------------|------------------|--------------------------------|------------------|-------------|----------|
|                              | Ended<br>September<br>30, 2015 | % of<br>Revenues | Ended<br>September<br>30, 2014 | % of<br>Revenues |             |          |
| Net revenues:                |                                |                  |                                |                  |             |          |
| Government Aviation Services | \$84,145                       | 35.6             | \$119,466                      | 43.7             | \$(35,321 ) | (29.6 )  |
| Commercial Aviation Services | 128,997                        | 54.5             | 144,242                        | 52.8             | (15,245 )   | (10.6 )  |
| Manufacturing & MRO          | 23,472                         | 9.9              | 9,699                          | 3.5              | 13,773      | 142.0    |
| Total revenues               | \$236,614                      | 100.0            | \$273,407                      | 100.0            | \$(36,793 ) | (13.5 )  |

## Government Aviation Services Revenues

Government Aviation Services revenues decreased \$35.3 million, or 29.6%, to \$84.1 million for the nine months ended September 30, 2015 from \$119.5 million in the nine months ended September 30, 2014 due to decreased demand and the end of existing contracts, which we were unable to replace with new contracts, from our customers in the Department of Defense market. The decrease was primarily driven by the reduction in the scope of Department of Defense activity in Afghanistan, coupled with the end of our contracts in the Philippines and other locations.

## Commercial Aviation Services Revenues

Commercial Aviation Services revenues decreased \$15.2 million, or 10.6%, to \$129.0 million in the nine months ended September 30, 2015 from \$144.2 million in the nine months ended September 30, 2014 primarily due to a decrease in oil and gas services in South America, coupled with lower firefighting revenues in Europe and Australia and a decrease in timber harvesting.

## Manufacturing &amp; MRO Revenues

Manufacturing & MRO revenues increased \$13.8 million, or 142.0%, to \$23.5 million in the nine months ended September 30, 2015 from \$9.7 million in the nine months ended September 30, 2014. This increase was driven by an increase in revenues generated from aircraft and related asset sales in 2015 of \$7.1 million compared to \$2.2 million in 2014. Sales of other aircraft support components also contributed to the increase in 2015 compared to 2014 largely due to the Bell 214 program which began in early 2015.

## Cost of Revenues

Consolidated cost of revenues decreased by \$10.5 million, or 5.1%, to \$194.5 million for the nine months ended September 30, 2015 from \$205.0 million for the nine months ended September 30, 2014. The decrease was attributable to a decrease of \$24.5 million in Government Aviation Services costs, partially offset by an increase of \$9.5 million in Manufacturing & MRO costs and an increase of \$4.4 million in Commercial Aviation Services costs compared to 2014.

| (Dollars in thousands)                      | Nine Months                    |                  | Nine Months                    |                  | Change      | % Change |
|---|--------------------------------|------------------|--------------------------------|------------------|-------------|----------|
|   | Ended<br>September<br>30, 2015 | % of<br>Revenues | Ended<br>September<br>30, 2014 | % of<br>Revenues |             |          |
| Cost of revenues:                           |                                |                  |                                |                  |             |          |
| Government Aviation Services <sup>(1)</sup> | \$76,410                       | 90.8             | \$100,873                      | 84.4             | \$(24,463 ) | (24.3 )  |
| Commercial Aviation Services <sup>(1)</sup> | 100,635                        | 78.0             | 96,252                         | 66.7             | 4,383       | 4.6      |
| Manufacturing & MRO <sup>(1)</sup>          | 17,419                         | 74.2             | 7,876                          | 81.2             | 9,543       | 121.2    |

|                        |           |      |           |      |             |        |
|------------------------|-----------|------|-----------|------|-------------|--------|
| Total cost of revenues | \$194,464 | 82.2 | \$205,001 | 75.0 | \$(10,537 ) | (5.1 ) |
|------------------------|-----------|------|-----------|------|-------------|--------|

(1)Percent of net revenues of applicable segment

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Table of Contents**Government Aviation Services Cost of Revenues**

Costs of revenues for our Government Aviation Services segment are primarily comprised of venue costs. For the nine months ended September 30, 2015, these costs were \$76.4 million, or 90.8% of revenues, as compared to \$100.9 million, or 84.4% in the nine months ended September 30, 2014. The decrease of \$24.5 million was primarily correlated to decreased revenues for defense and security and transport and other government-related services. Costs as a percentage of revenues increased by 640.0 basis points primarily due to reduced revenues covering the fixed costs present in the business as well the loss of higher margin contracts.

**Commercial Aviation Services Cost of Revenues**

Costs of revenues for our Commercial Aviation Services segment are primarily comprised of venue costs associated with firefighting, timber harvesting, infrastructure construction, and oil and gas services. For the nine months ended September 30, 2015, these costs were \$100.6 million, or 78.0% of revenues, as compared to \$96.3 million, or 66.7% of revenues in the nine months ended September 30, 2014. The increase of \$4.4 million was primarily due to increased costs for firefighting, oil and gas services and infrastructure construction. Costs as a percentage of revenues increased to 78.0% from 66.7%, primarily due to the highly fixed nature of the costs in our business, and the weakening of both the Australian and Canadian currencies.

**Manufacturing & MRO Cost of Revenues**

Costs of revenues for our Manufacturing and MRO segment are primarily comprised of direct and indirect costs associated with manufacturing and MRO sales. For the nine months ended September 30, 2015, these costs were \$17.4 million, or 74.2% of revenues for the segment, as compared to \$7.9 million, or 81.2% in the nine months ended September 30, 2014. The increase of \$9.5 million was primarily due to sales of the aircraft and aircraft support components. Cost of revenues as a percentage of revenues decreased to 74.2% from 81.2%, primarily due to higher margin parts sales and by the Bell 214 program.

**Gross Profit**

Consolidated gross profit decreased by \$26.3 million, or 38.4%, to \$42.2 million in the nine months ended September 30, 2015 from \$68.4 million in the nine months ended September 30, 2014. A combination of a decrease in Commercial Aviation Services gross profit of \$19.6 million and a decrease in Government Aviation Services gross profit of \$10.9 million were partially offset by an increase in Manufacturing & MRO gross profit of \$4.2 million.

| (Dollars in thousands)                      | Nine Months                    |                  | Nine Months                    |                  | Change      | % Change |
|---|--------------------------------|------------------|--------------------------------|------------------|-------------|----------|
|   | Ended<br>September<br>30, 2015 | % of<br>Revenues | Ended<br>September<br>30, 2014 | % of<br>Revenues |             |          |
| Gross profit:                               |                                |                  |                                |                  |             |          |
| Government Aviation Services <sup>(1)</sup> | \$7,735                        | 9.2              | \$18,593                       | 15.6             | \$(10,858 ) | (58.4 )  |
| Commercial Aviation Services <sup>(1)</sup> | 28,362                         | 22.0             | 47,990                         | 33.3             | (19,628 )   | (40.9 )  |
| Manufacturing & MRO <sup>(1)</sup>          | 6,053                          | 25.8             | 1,823                          | 18.8             | 4,230       | 232.0    |
| Total gross profit                          | \$42,150                       | 17.8             | \$68,406                       | 25.0             | \$(26,256 ) | (38.4 )  |

(1)Percentage of net revenues of applicable segment

**Government Aviation Services.** Primarily as a result of the factors discussed above, Government Aviation Services gross profit decreased by \$10.9 million, or 58.4%, to \$7.7 million in the nine months ended September 30, 2015 from \$18.6 million in the nine months ended September 30, 2014. Gross profit margin was 9.2% in the nine months ended September 30, 2015 compared to 15.6% in the nine months ended September 30, 2014.

**Commercial Aviation Services.** Primarily as a result of the factors discussed above, Commercial Aviation Services gross profit decreased by \$19.6 million, to a \$28.4 million loss in the nine months ended September 30, 2015 from \$48.0 million profit in the nine months ended September 30, 2014. Gross profit margin was 22.0% in the nine months

ended September 30, 2015 compared to 33.3% in the nine months ended September 30, 2014.

Manufacturing & MRO. Primarily as a result of the factors discussed above, Manufacturing and MRO gross profit increased by \$4.2 million, or 232.0%, to \$6.1 million in the nine months ended September 30, 2015 from \$1.8 million in the nine months ended September 30, 2014. Gross profit margin was 25.8% in the nine months ended September 30, 2015 compared to 18.8% in the nine months ended September 30, 2014.

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## Operating Expenses

| (Dollars in thousands)     | Nine Months                    |                  | Nine Months                    |                  | Change     | % Change |
|----------------------------|--------------------------------|------------------|--------------------------------|------------------|------------|----------|
|                            | Ended<br>September<br>30, 2015 | % of<br>Revenues | Ended<br>September<br>30, 2014 | % of<br>Revenues |            |          |
| Operating expenses:        |                                |                  |                                |                  |            |          |
| General and administrative | \$18,082                       | 7.6              | \$20,399                       | 7.5              | \$(2,317)  | (11.4)   |
| Research and development   | 1,886                          | 0.8              | 2,839                          | 1.0              | (953)      | (33.6)   |
| Selling and marketing      | 4,543                          | 1.9              | 5,622                          | 2.1              | (1,079)    | (19.2)   |
| Impairment of goodwill     | 49,823                         | 21.1             | 21,272                         | 7.8              | 28,551     | 134.2    |
| Other asset impairment     | 7,143                          | 3.0              | —                              | —                | 7,143      | NM       |
| Total operating expenses   | 81,477                         | 34.4             | 50,132                         | 18.3             | 31,345     | 62.5     |
| Operating income (loss)    | \$(39,327)                     | (16.6)           | \$18,274                       | 6.7              | \$(57,601) | (315.2)  |

Operating expenses increased by \$31.3 million, to \$81.5 million in the nine months ended September 30, 2015 from \$50.1 million in the nine months ended September 30, 2014. The increase was primarily due to goodwill impairment loss associated with our Government Aviation Services segment of \$49.8 million in 2015 compared to \$21.3 million in 2014, coupled with \$7.1 million in other asset impairments related to aircraft that were reclassified to available for sale and written down to their fair values. General and administrative costs decreased \$2.3 million while selling and marketing costs decreased \$1.1 million. These decreases were primarily due to headcount reductions as well as the cost saving initiatives previously discussed. Research and development costs decreased to \$1.9 million in the nine months ended September 30, 2015 from \$2.8 million in the nine months ended September 30, 2014, primarily due to the lower costs associated with our composite main rotor blade program and reductions in headcount.

## Other Expense

| (Dollars in thousands) | Nine Months                    |                  | Nine Months                    |                  | Change    | % Change |
|------------------------|--------------------------------|------------------|--------------------------------|------------------|-----------|----------|
|                        | Ended<br>September<br>30, 2015 | % of<br>Revenues | Ended<br>September<br>30, 2014 | % of<br>Revenues |           |          |
| Other expense:         |                                |                  |                                |                  |           |          |
| Interest expense, net  | \$(27,879)                     | (11.8)           | \$(26,866)                     | (9.8)            | \$(1,013) | 3.8      |
| Other expense, net     | (2,932)                        | (1.2)            | (2,193)                        | (0.8)            | (739)     | 33.7     |
| Total other expense    | \$(30,811)                     | (13.0)           | \$(29,059)                     | (10.6)           | \$(1,752) | 6.0      |

Total other expense increased by \$1.8 million to \$30.8 million of net expense in the nine months ended September 30, 2015 from \$29.1 million of net expense in the nine months ended September 30, 2014. Interest expense, net increased by \$1.0 million to \$27.9 million in the nine months ended September 30, 2015, from \$26.9 million in the nine months ended September 30, 2014, primarily due to an increase in our average outstanding borrowings. Other expense, net increased by \$0.7 million to \$2.9 million in the nine months ended September 30, 2015 from \$2.2 million in the nine months ended September 30, 2014 due to the factors described below.

| (Dollars in thousands)               | Nine Months Ended September |         |        |
|--------------------------------------|-----------------------------|---------|--------|
|                                      | 2015                        | 2014    | Change |
| Other income (expense), net:         |                             |         |        |
| Unrealized foreign exchange loss     | \$(295)                     | \$(274) | \$(21) |
| Realized foreign exchange gain       | 4                           | 51      | (47)   |
| Amortization of debt issuance costs  | (1,937)                     | (1,827) | (110)  |
| Gain on early extinguishment of debt | 153                         | —       | 153    |
| Gain on involuntary conversion       | —                           | 308     | (308)  |
| Gain on disposal of equipment        | 121                         | 253     | (132)  |
| Other expense, net                   | (978)                       | (704)   | (274)  |

|                     |           |   |           |   |         |   |
|---------------------|-----------|---|-----------|---|---------|---|
| Total other expense | \$ (2,932 | ) | \$ (2,193 | ) | \$ (739 | ) |
|---------------------|-----------|---|-----------|---|---------|---|

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Other expense, net increased by \$0.7 million to \$2.9 million in the nine months ended September 30, 2015 from \$2.2 million in the nine months ended September 30, 2014. The increase in net expense was primarily due to costs incurred in 2015 related to the reduction in scope of our operations in Brazil.

## Income Tax Benefit

| (Dollars in thousands)                            | Nine Months                    |                  | Nine Months                    |                  | Change      | % Change |
|---|--------------------------------|------------------|--------------------------------|------------------|-------------|----------|
|   | Ended<br>September<br>30, 2015 | % of<br>Revenues | Ended<br>September<br>30, 2014 | % of<br>Revenues |             |          |
| Net loss before taxes and noncontrolling interest | \$(70,138 )                    | (29.6 )          | \$(10,785 )                    | (3.9 )           | \$(59,353 ) | NM       |
| Income tax benefit                                | (167 )                         | (0.1 )           | (3,039 )                       | (1.1 )           | 2,872       | (94.5 )  |
| Net loss  | \$(69,971 )                    | (29.6 )          | \$(7,746 )                     | (2.8 )           | \$(62,225 ) | NM       |

Income tax benefit decreased by \$2.9 million to \$0.2 million for the nine months ended September 30, 2015, as compared to \$3.0 million for the nine months ended September 30, 2014, due to the full valuation allowance position taken by us in the U.S., Brazil, and Italy that was primarily driven by the \$49.8 million goodwill impairment recognized in the first quarter of 2015.

## Net Loss Attributable to Erickson Incorporated

| (Dollars in thousands)   | Nine Months                    |                  | Nine Months                    |                  | Change      | % Change |
|--|--------------------------------|------------------|--------------------------------|------------------|-------------|----------|
|  | Ended<br>September<br>30, 2015 | % of<br>Revenues | Ended<br>September<br>30, 2014 | % of<br>Revenues |             |          |
| Net loss   | \$(69,971 )                    | (29.6 )          | \$(7,746 )                     | (2.8 )           | \$(62,225 ) | NM       |
| Less: Net income related to noncontrolling interest                    | (46 )                          | —                | (95 )                          | —                | 49          | (51.6 )  |
| Net loss attributable to Erickson Incorporated and common stockholders | \$(70,017 )                    | (29.6 )          | \$(7,841 )                     | (2.9 )           | \$(62,176 ) | NM       |

Net loss attributable to Erickson increased by \$62.2 million to \$70.0 million in the nine months ended September 30, 2015 from \$7.8 million in the nine months ended September 30, 2014, primarily due to the changes in revenues, expenses, and taxes discussed above. As there were no dividends during the nine months ended September 30, 2015 or 2014, net loss attributable to common stockholders was also \$70.0 million for the nine months ended September 30, 2015 and \$7.8 million for the nine months ended September 30, 2014.

## 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 we cannot generate sufficient cash from operations to comply with our debt service obligations, we will need to refinance these 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 these debt service obligations

or capital expenditures out of our cash from operations or our Revolving Credit Facility.

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

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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 September 30, 2015 Compared to Three Months Ended September 30, 2014

The following chart is a condensed presentation of our statement of cash flows for the three months ended September 30, 2015 and September 30, 2014 (in thousands):

| (Dollars in thousands)                               | Three Months Ended September |          |          |
|--|------------------------------|----------|----------|
|  | 2015                         | 2014     | Change   |
| Net cash provided by operating activities            | \$33,829                     | \$32,747 | \$1,082  |
| Net cash used in investing activities                | (3,701)                      | (14,995) | 11,294   |
| Net cash used in financing activities                | (28,031)                     | (15,875) | (12,156) |
| Foreign-currency effect on cash and cash equivalents | (2,165)                      | (1,762)  | (403)    |
| Net increase (decrease) in cash and cash equivalents | (68)                         | 115      | (183)    |
| Cash and cash equivalents at beginning of period     | 1,766                        | 2,444    | (678)    |
| Cash and cash equivalents at end of period           | \$1,698                      | \$2,559  | \$(861)  |

## Sources and Uses of Cash

At September 30, 2015, we had cash and cash equivalents of \$1.7 million compared to \$5.1 million at December 31, 2014. At September 30, 2015, we had restricted cash of \$0.3 million compared to \$0.6 million at December 31, 2014. 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 provided by operating activities. For the quarter ended September 30, 2015 net cash provided by operating activities before the change in operating assets and liabilities was \$27.1 million, which included net income of \$15.4 million and non-cash adjustments reconciling net income to net cash provided by operating activities of \$11.8 million (depreciation and amortization of \$12.2 million, amortization of debt issuance costs of \$0.7 million, stock-based compensation of \$0.1 million and non-cash interest on debt of \$0.2 million, partially offset by a \$1.2 million net decrease in deferred income taxes, \$0.2 million gain on the early extinguishment of debt and \$0.1 million gain on sale of equipment). The change in operating assets and liabilities was a \$6.7 million source of cash primarily consisting of the following: a \$7.9 million increase in accrued and other liabilities, \$3.5 million decrease in prepaid expenses and other current assets, a \$2.0 million decrease in assets held for sale, and an \$0.8 million increase in accounts payable, a \$0.7 million decrease in inventory related to the Bell 214 support program, and \$0.6 million increase in income taxes payable, partially offset by a \$7.1 million increase in accounts receivable, a \$1.1 million decrease in other long term liabilities, and a \$0.4 million increase in other non-current assets. As a result of these factors, operating activities provided \$33.8 million of cash during the quarter ended September 30, 2015.

For the quarter ended September 30, 2014 net cash used in operating activities before the change in operating assets and liabilities was \$36.1 million, which included net income of \$16.9 million and non-cash adjustments reconciling net income to net cash provided by operating activities of \$19.2 million (depreciation and amortization of \$10.2 million, net increase in deferred income taxes of \$8.5 million, amortization of debt issuance costs of \$0.6 million, and stock-based compensation of \$0.2 million, partially offset by a gain on involuntary conversion of \$0.3 million). The change in operating assets and liabilities was a \$3.4 million use of cash primarily consisting of the following: a \$6.9 million decrease in accounts payable, a \$6.0 million increase in prepaid expenses, a \$3.1 million increase in accounts receivable (primarily attributable to increased revenues), a \$0.9 million increase in Aircraft support parts, net (primarily attributable to increases in inventory levels needed in preparation for the active fire season), a \$0.4 million decrease in other long term liabilities, partially offset by a \$12.3 million increase in accrued and other liabilities, a \$1.1 million decrease in other non-current assets, and a \$0.5 million increase in income taxes payable. As a result of these factors, operating activities provided \$32.7 million of cash during the three months ended September 30, 2014.

Net cash used by investing activities. Net cash used in investing activities was \$3.7 million for the quarter ended September 30, 2015 compared to \$15.0 million for the quarter ended September 30, 2014. In the quarter ended September 30, 2015, we used net cash of \$8.8 million for purchases of aircraft and property, plant and equipment, and had \$5.1 million of proceeds received from the sale-leaseback of assets. In the quarter ended September 30, 2014, we used net cash of \$15.6 million for purchases of aircraft and property, plant, and equipment, and releases of restricted cash of \$0.6 million.

Net cash used in financing activities. During the quarter ended September 30, 2015, financing activities used \$28.0 million of cash compared \$15.9 million during the quarter ended September 30, 2014. For the third quarter of 2015, repayments of credit

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facilities of \$67.3 million exceeded borrowings from credit facilities of \$40.9 million, using \$26.3 million of net cash, and repayments of subordinated notes used \$1.4 million. In the quarter ended September 30, 2014, net cash used by financing activities of \$15.9 million was primarily net borrowing on the revolving credit facility of \$15.9 million.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

The following chart is a condensed presentation of our statement of cash flows for the nine months ended September 30, 2015 and September 30, 2014 (in thousands):

| (Dollars in thousands)                               | Nine Months Ended September 30, |           |          |   |
|--|---------------------------------|-----------|----------|---|
|  | 2015                            | 2014      | Change   |   |
| Net cash provided by operating activities            | \$22,239                        | \$8,761   | \$13,478 |   |
| Net cash used in investing activities                | (15,416                         | ) (25,779 | ) 10,363 |   |
| Net cash provided by (used in) financing activities  | (6,253                          | ) 18,507  | (24,760  | ) |
| Foreign-currency effect on cash and cash equivalents | (3,969                          | ) (811    | ) (3,158 | ) |
| Net increase (decrease) in cash and cash equivalents | (3,399                          | ) 678     | (4,077   | ) |
| Cash and cash equivalents at beginning of period     | 5,097                           | 1,881     | 3,216    |   |
| Cash and cash equivalents at end of period           | \$1,698                         | \$2,559   | \$(861   | ) |

## Sources and Uses of Cash

At September 30, 2015, we had cash and cash equivalents of \$1.7 million compared to \$5.1 million at December 31, 2014. At September 30, 2015, we had restricted cash of \$0.3 million compared to \$0.6 million at December 31, 2014. 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 provided by operating activities. For the nine months ended September 30, 2015 net cash provided by operating activities before the change in operating assets and liabilities was \$17.5 million, which included net loss of \$70.0 million and non-cash adjustments reconciling net loss to net cash used by operating activities of \$87.5 million (impairment of goodwill of \$49.8 million, depreciation and amortization of \$30.9 million, other asset impairment of \$7.1 million, amortization of debt issuance costs of \$1.9 million, non-cash interest on debt of \$0.6 million, and stock-based compensation of \$0.2 million, partially offset by a \$2.9 million net decrease in deferred income taxes, \$0.2 million gain on the early extinguishment of debt and gains on sale of equipment of \$0.1 million). The change in operating assets and liabilities was a \$4.7 million source of cash primarily consisting of the following: a \$12.4 million increase in accrued and other liabilities, a \$3.6 million decrease in prepaid expenses and other assets, a \$2.5 million increase in other long term liabilities, a \$2.3 million decrease in other non-current assets, a \$2.0 million decrease in assets held for sale, and a \$0.9 million increase in accounts payable, partially offset by an \$11.6 million increase in accounts receivable, and an \$8.0 million net increase in inventory related to the Bell 214 support program. As a result of these factors, operating activities provided \$22.2 million of cash during the nine months ended September 30, 2015.

For the nine months ended September 30, 2014 net cash provided by operating activities before the change in operating assets and liabilities was \$34.5 million, which included net loss of \$7.7 million and non-cash adjustments reconciling net loss to net cash provided by operating activities of \$42.2 million (impairment of goodwill of \$21.3 million, depreciation and amortization of \$27.1 million, amortization of debt issuance costs of \$1.8 million, stock-based compensation of \$0.6 million, and non-cash interest on debt of \$0.2 million, partially offset by an \$8.3 million net decrease in deferred income taxes, \$0.3 million gain on involuntary conversion and gains on sale of equipment of \$0.3 million). The change in operating assets and liabilities was a \$25.7 million use of cash primarily consisting of the following: a \$13.6 million increase in Aircraft support parts, net (primarily attributable to increases in inventory levels needed in preparation for the active fire season), a \$6.9 million increase in prepaid expenses and other current assets, a \$6.2 million decrease in accounts payable, a \$4.1 million decrease in accrued in other liabilities, and a \$1.5 million increase in accounts receivable, partially offset by a \$4.2 million decrease in other noncurrent assets, a \$1.2 million increase in income taxes payable, a \$0.9 million decrease in income taxes receivable, and a \$0.2

million increase in other long-term liabilities. As a result of these factors, operating activities provided \$8.8 million of cash during the nine months ended September 30, 2014.

Net cash used in investing activities. Net cash used in investing activities was \$15.4 million for nine months ended September 30, 2015 compared to \$25.8 million for the nine months ended September 30, 2014. In the nine months ended September 30, 2015, we used net cash of \$20.6 million for purchases of aircraft and property, plant and equipment and had \$5.1 million of proceeds received from the sale-leaseback of assets. In the nine months ended September 30, 2014, we used net cash

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of \$52.7 million for purchases of aircraft and property, plant, and equipment, the sale-leaseback of an Airplane provided \$24.7 million, and the release of restricted cash provided \$2.3 million.

Net cash provided by (used in) financing activities. During the nine months ended September 30, 2015, financing activities used \$6.3 million of cash compared \$18.5 million of cash provided during the nine months ended September 30, 2014. For the nine months ended September 30, 2015, repayments of credit facilities of \$140.4 million exceeded borrowings from credit facilities of \$138.5 million, using \$2.0 million of net cash, repayments of subordinated notes used \$3.4 million and repayment under capital lease leases used \$0.6 million. In the nine months ended September 30, 2014, net cash provided by financing activities of \$18.5 million was primarily net borrowings on the revolving credit facility of \$18.2 million.

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-Q.

2020 Senior Notes

The outstanding balance under the 2020 Senior Notes at September 30, 2015 and December 31, 2014 was \$355.0 million. 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.

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.

Revolving Credit Facility

The maximum amount that we may borrow under the Revolving Credit Facility is \$140.0 million. The outstanding balance under the Revolving Credit Facility at September 30, 2015 and December 31, 2014 was \$87.4 million and \$89.3 million, respectively. The interest rate under the Revolving Credit Facility is 225-450 basis points over LIBOR/Prime base rate depending on our senior leverage ratio. The proceeds under the Revolving Credit Facility are primarily used for general corporate purposes. We were in compliance with the financial covenants as of September 30, 2015 and December 31, 2014.

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

Effective June 30, 2015, the Revolving Credit Facility was amended to, among other things, limit the requirement to be compliant with the fixed charge coverage ratio to periods when the availability is less than 12.5% of the maximum revolver amount. The Revolving Credit Facility contains certain financial covenants, including a minimum fixed charge coverage ratio of 1.10:1.00. The fixed charge coverage ratio has multiple inputs, including, but not limited to, bank EBITDA, capital expenditures, and cash paid for interest, taxes, and principal debt payments. The Revolving Credit Facility also imposes an annual growth capital expenditures limit of approximately \$10.0 million for the fiscal year of 2015, escalating to \$20.0 million for fiscal 2016, and to \$25.0 million in subsequent years, which is subject to standard carry-over provisions for 2016 and beyond.

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.

The weighted average interest rate for borrowings under the Revolving Credit Facility for the three and nine months period ended September 30, 2015 was 5.02% and 5.03%, respectively. The interest rate at September 30, 2015 and December 31, 2014 was 4.79% and 5.02%, respectively. As of September 30, 2015 and December 31, 2014 we had \$0.6 million and \$4.7 million in outstanding standby letters of credit under the Revolving Credit Facility, respectively, and maximum borrowing availability was \$52.0 million and \$46.0 million as of September 30, 2015 and December 31, 2014, respectively.



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2020 Subordinated Notes

The outstanding balance under our 2020 Subordinated Notes is \$14.1 million as of September 30, 2015. 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 agreed to pay, in cash, quarterly installments of interest only (in arrears) until March 31, 2015, after which date we will 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.

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 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 and right-sizing of our business.

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.



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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.

| (Dollars in thousands)  | Three Months Ended September<br>30, |           | Nine Months Ended September<br>30, |            |
|---|-------------------------------------|-----------|------------------------------------|------------|
|   | 2015                                | 2014      | 2015                               | 2014       |
| <b>EBITDA, Adjusted EBITDA and Adjusted EBITDAR Reconciliation:</b> |                                     |           |                                    |            |
| Net income (loss) attributable to Erickson Incorporated             | \$ 15,073                           | \$ 16,862 | \$(70,017 )                        | \$(7,841 ) |
| Interest expense, net   | 9,292                               | 9,002     | 27,879                             | 26,866     |
| Tax expense (benefit)   | (240 )                              | 11,753    | (167 )                             | (3,039 )   |
| Depreciation and amortization                                       | 12,168                              | 10,164    | 30,884                             | 27,098     |
| Amortization of debt issuance costs                                 | 683                                 | 613       | 1,937                              | 1,827      |
| EBITDA  | \$ 36,976                           | \$ 48,394 | \$(9,484 )                         | \$ 44,911  |
| Acquisition and integration related expenses                        | 60                                  | 236       | 60                                 | 1,658      |
| Non-cash unrealized mark-to-market foreign exchange (gains) losses  | (84 )                               | 518       | 295                                | 274        |
| Non-cash charges from awards to employees of equity interests       | 114                                 | 220       | 211                                | 616        |
| Gain on early extinguishment of debt                                | (153 )                              | —         | (153 )                             | —          |
| Non-cash goodwill impairment loss                                   | —                                   | —         | 49,823                             | 21,272     |
| Non-cash other asset impairment losses                              | —                                   | —         | 7,143                              | —          |
| Restructuring costs   | 898                                 | 667       | 1,686                              | 1,081      |
| Gain on sale of equipment   | (51 )                               | (62 )     | (121 )                             | (253 )     |
| Adjusted EBITDA   | \$ 37,760                           | \$ 49,973 | \$ 49,460                          | \$ 69,559  |
| Aircraft lease expenses   | 4,071                               | 5,160     | 12,710                             | 15,273     |
| Adjusted EBITDAR  | \$ 41,831                           | \$ 55,133 | \$ 62,170                          | \$ 84,832  |

**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 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 September 30, 2015, we had letters of credit with various expiration dates

extending into 2016 valued at approximately \$0.9 million outstanding, including \$0.6 million outstanding under our Revolving Credit Facility and \$0.2 million (€0.2 million) outstanding under a performance bond issued by Banca Di Credito Cooperativo Di Cambiano that we have secured with \$0.2 million (€0.2 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 September 30, 2015 and December 31, 2014, there were no advances outstanding under these types of arrangement.

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**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 10, 2015. We believe that there have been no significant changes to our critical accounting policies during the nine months period ended September 30, 2015.

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 September 30, 2015 we had total indebtedness of \$464.8 million (excluding \$0.9 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 revolving credit facility, the applicable interest rate on our borrowings is 225—450 basis points over LIBOR/Prime base rate depending on our 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 September 30, 2015 by approximately \$0.3 million (after a normalized 40% tax rate).

**Aircraft Fuel**

Our results of operations are affected by changes in the price and availability of aircraft fuel. For the quarter ended September 30, 2015, a deviation of 10% in the average price per gallon of fuel would have impacted our cost of revenues by less than \$0.1 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. 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 September 30, 2015 would have resulted in an estimated pre-hedged decrease of \$0.4 million in our net income (after a normalized 40% tax rate).

**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.

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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 September 30, 2015. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at September 30, 2015, our disclosure controls and procedures were effective.

There have been no changes in internal control over financial reporting that occurred during the quarter ended September 30, 2015 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

World Fuel Claim

In December 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. 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, we filed our Amended Answer which included certain counterclaims against World Fuel and certain cross claims against Mr. Delford Smith. Discovery in this matter is ongoing. Trial is currently scheduled for January 2016. At this time, we are not able to determine the likelihood of any outcome in this matter, nor are we able to estimate the amount or range of loss or the impact on its financial condition in the event of an unfavorable outcome.

In addition to the foregoing litigation, we are subject to ongoing litigation and claims as part of our normal business operations. We do not expect any of the claims will have a material adverse effect on our business.

ITEM 1A. RISK FACTORS

Our business is subject to numerous risks and uncertainties. You should carefully consider the following risk factors and all other information contained in this quarterly report on Form 10-Q and the reports we file with the SEC from time to time. Any of these risks could harm our business, results of operations, financial condition and prospects. In addition, risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, results of operations, financial condition and prospects.

Risks Relating to our Indebtedness

Our indebtedness and significant debt service obligations could adversely affect our financial condition and impair our ability to grow and operate our business.

We are a highly leveraged company and, as a result, have significant debt service obligations. Our Notes and Revolving Credit Facility mature on May 1, 2020 and May 2, 2018, respectively, and these borrowings are secured by liens on substantially all of our and the guarantors’ existing and future assets. Our substantial indebtedness could require us to dedicate a significant portion of our cash flow from operations to debt payments, thereby increasing our vulnerability to generally adverse economic and industry conditions, or limit our flexibility in planning for or reacting to changes in our business and future business opportunities. If we are unable to repay our outstanding indebtedness, or refinance it on favorable terms, if at all, we may need to seek financing through the issuance of additional debt or equity securities. We may be unable to repay our borrowings under our Notes and Revolving Credit Facility when due, refinance this indebtedness on favorable terms, if at all, or obtain other financing on favorable terms, if at all, which would adversely affect our business, financial condition and results of operations and impair our ability to grow and operate our business.

Our substantial indebtedness could also:

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- make it more difficult for us to satisfy our obligations with respect to our indebtedness, including our obligations under the indenture to purchase notes tendered as a result of a change in control;
- increase our vulnerability to generally adverse economic and industry conditions;
- limit our ability to fund future working capital, capital expenditures, research and development and other general corporate requirements;
- require us to dedicate a substantial portion of our cash flow from operations to service payments on our debt;
- increase the price volatility of our common stock;



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limit our flexibility to react to changes in our business and the industry in which we operate; place us at a competitive disadvantage to any of our competitors that have less debt; and limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds.

Effective June 30, 2015, the Revolving Credit Facility was amended to, among other things, limit the requirement to be compliant with the fixed charge coverage ratio to periods when the availability is less than 12.5% of the maximum revolver amount. The Revolving Credit Facility requires that we maintain a fixed charge coverage ratio of at least 1.10:1.00, and imposes an annual growth capital expenditures limit of \$10.0 million for the fiscal year of 2015, escalating to \$20.0 million for the fiscal year 2016, and to \$25.0 million in subsequent years, which is subject to standard carry-over provisions for 2016 and beyond.

Failure to comply with these covenants is an event of default under the facility and as a result our ability to draw down borrowings under our Revolving Credit Facility depends in part on our compliance with these covenants.

An inability to draw down on our Revolving Credit Facility could have a material adverse effect on our ability to make capital expenditures, on our results of operations and on our liquidity. Further, failure to maintain the financial ratios required under our Revolving Credit Facility would constitute an event of default, allowing the lenders under our Revolving Credit Facility to declare the entire balance of any and all sums payable under the Revolving Credit Facility immediately due and payable. If a payment default or acceleration were to occur under our Revolving Credit Facility, holders of 2020 Senior Notes would be permitted to accelerate the maturity of the 2020 Senior Notes.

Our ability to meet our debt service obligations and seek any potential re-financing of our indebtedness, including the debt existing at the time of the issuance of Notes as well as any future debt that we may incur, will depend upon our ability to generate cash in the future from operations, financings or asset sales, which are subject to general economic conditions, industry cycles, seasonality and other factors, some of which may be beyond our control. If we cannot repay or refinance our debt as it becomes due, we may be forced to sell assets or take other disadvantageous actions, including (i) reducing financing in the future for working capital, capital expenditures and general corporate purposes or (ii) dedicating an unsustainable level of our cash flow from operations to the payment of principal and interest on our indebtedness. In addition, our ability to withstand competitive pressures and to react to changes in our industry could be impaired.

We may be unable to access public or private debt markets to fund our operations and contractual commitments at competitive rates, on commercially reasonable terms, or in sufficient amounts, if at all.

We depend, in part, upon borrowings under our credit facilities to fund our operations and contractual commitments. If we were called upon to fund all outstanding commitments, we may not have sufficient funds to do so. A number of factors could cause us to incur increased borrowing costs and to have greater difficulty accessing public and private markets for debt. These factors include general economic conditions, disruptions or declines in the global capital markets, and our financial performance, outlook, or credit ratings. An adverse change in any or all of these factors may materially adversely affect our ability to fund our operations and contractual or financing commitments. If our business does not perform as expected, including if we generate less revenue than anticipated from our operations or encounter significant unexpected costs, we may fail to comply with the financial covenants under our Revolving Credit Facility. If we do not comply with our financial covenants and we do not obtain a waiver or amendment, our lenders may accelerate payment of all amounts outstanding which would immediately become due and payable, together with accrued interest. Any default may require us to seek additional capital or modifications to our credit facilities, which may not be available or which may be costly. Additionally, our suppliers may require us to pay cash in advance or obtain letters of credit as a condition to selling us their products and services. Any of these risks and uncertainties could have a material adverse effect on our business, financial position, results of operations, and cash flows.

### Operational Risks Relating to our Business

The helicopter services business is highly competitive.

Each of our segments faces significant competition. We compete for most of our work with other helicopter operators and, for some operations, with fixed-wing operators and ground-based alternatives. Many of our contracts are awarded after competitive bidding, and competition for those contracts is generally intense. The principal aspects of

competition are safety, price, reliability, availability, and service.

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We have several major competitors and numerous small competitors operating in our aerial services markets. In the firefighting market, we compete heavily with both helicopter and fixed-wing operators. Our competitors may at times undercut our prices, especially if they are at risk of having too many idle aircraft. In the timber harvesting market, we compete with other heavy-lift helicopter operators, medium-lift helicopter operators, and ground-based solutions. In the manufacturing and MRO market, our competitors may have more extensive or more specialized engineering, manufacturing, and marketing capabilities than we do in some areas. In addition, some of our largest customers could develop the capability to manufacture products or provide services similar to products that we manufacture or services that we provide. Furthermore, we are facing increased international competition and cross-border consolidation of competition.

We may not be able to compete successfully against our current or future competitors and the competitive pressures we face may result in reduced revenues and market share. If we are unable to adjust our costs relative to our pricing, our profitability will suffer. In addition, some of our competitors may have greater financial and other resources than we do, and may therefore be able to react to market conditions and compete more effectively than we do.

We depend on a small number of large customers for a significant portion of our revenues.

We derive a significant amount of our revenue from a small number of major customers.

Several of our largest customers are governmental agencies or entities that may be subject to budget or other financial constraints. The economies of Greece and Italy in particular have been adversely affected by global financial pressures. In light of the ongoing European sovereign debt crisis, there are heightened risks associated with our future revenue attributable to, and our accounts receivable from, the Hellenic Fire Brigade, now contracted through NAMSA, and the Italian Ministry of Civil Protection. Similarly, in light of anticipated troop withdrawals in Afghanistan, there is a heightened risk of a decline in our future revenue attributable to our contract with Fluor.

Should we lose one of our major customers for any reason, we may be unable to identify new opportunities sufficient to avoid a reduction in revenues and our business and financial condition could suffer.

In addition, contracts with the majority of our significant customers are multi-year contracts; however, many of these contracts are subject to a cancellation notice period of 90 days or less, and all of these contracts are periodically up for renewal or rebid. Renewal, or a successful rebid, is not guaranteed. Should we lose one of our major customers for any reason, we may be unable to identify new opportunities sufficient to avoid a reduction in our revenues and operating earnings, which would have a material adverse effect on our business, financial condition, results of operations, and cash flows. If one or more of these customers is disproportionately impacted by factors that affect its ability to pay us or to enter into new contracts with us, including general economic factors, our operations could be materially and adversely affected.

Several of our material contracts provide for differentiating factors in their award process which include small business status, performance records, safety records, and other factors. Several of these factors have been instrumental in us winning new work and continuing contracts. Should our ability to utilize these differentiating factors become compromised, our operating results may be materially impacted.

Our helicopter operations involve significant risks, which may result in hazards that may not be covered by our insurance or may increase the cost of our insurance.

The operation of helicopters inherently involves a high degree of risk. Hazards such as aircraft accidents, mechanical failures, collisions, fire, and adverse weather may result in loss of life, serious injury to employees and other persons, damage to property, losses of equipment and revenues, revocation of necessary governmental approvals and suspension or reduction of operations. The aerial services we provide and the missions we fly, which include firefighting and timber harvesting in confined spaces, can be hazardous. In addition, we ship our helicopters to various locations, which expose them to various risks when in transit, including risks relating to piracy, inclement weather and improper shipment. We maintain hull and liability insurance on our aircraft, which insures us against physical loss of, or damage to, our aircraft and against certain legal liabilities to others. In addition, we carry war risk, expropriation, confiscation, and nationalization insurance for our aircraft involved in international operations. In some instances, we are covered by indemnity agreements from our customers in lieu of, or in addition to, our insurance. In addition, we maintain product liability insurance for aircraft and aircraft components we manufacture. Our insurance will not cover any losses incurred pursuant to any performance provisions under agreements with our customers.

Our insurance and indemnification arrangements may not cover all potential losses and are subject to deductibles, retentions, coverage limits, and coverage exceptions and, as a result, severe casualty losses or the expropriation or confiscation of significant assets could materially and adversely affect our financial condition or results of operations. The insured value of one of our aircraft is typically lower than its replacement cost, and our aircraft are not insured for loss of use. The occurrence of an

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event that impairs the use of an aircraft but that is not fully covered by insurance could have a material adverse effect on our business, financial condition, results of operations, and cash flows. The loss of an aircraft, which we believe would take us at least six months to replace, could negatively impact our operations.

Failure to maintain our safety record would seriously harm our ability to attract new customers and maintain our existing customers, and would increase our insurance costs.

A favorable safety record is one of the primary factors a customer reviews in selecting an aviation provider. If we fail to maintain our safety and reliability record, our ability to attract new customers and maintain our current customers will be materially and adversely affected. In addition, safety violations could lead to increased regulatory scrutiny; increase our insurance rates and expense, which is a significant operating cost; or increase the difficulty of maintaining our existing insurance coverage in the future, which would adversely affect our operations. Because of the inherent risks in our helicopter operations, no safety program can guarantee accidents will not occur.

Our failure to timely collect our receivables could adversely affect our cash flows and results of operations.

We provide services to our customers for which we are customarily not paid in advance. We rely on the creditworthiness of our customers to collect on our receivables in a timely manner after we have billed for services previously provided. While we generally provide services pursuant to a written contract which determines the terms and conditions of payment to us by our customers, occasionally customers may dispute a bill and delay, contest, or not pay our receivable. Our failure to timely collect our receivables could adversely affect our cash flows and results of operations and could cause us to fail to comply with the financial covenants in our Revolving Credit Facility.

Factors beyond our control, including weather and seasonal fluctuations, may reduce aircraft flight hours, which would affect our revenues and operations.

A significant portion of our operating revenue is dependent on actual flight hours, and a substantial portion of our direct costs are fixed. Flight hours could be negatively impacted by factors beyond our control and fluctuate depending on cyclical weather-related and seasonal limitations, which would affect our revenues and operations. In addition, our aircraft are not currently equipped to fly at night, reinforcing the seasonality of our business with more activity in the Northern Hemisphere during the summer months and less activity during the winter months. Poor visibility, high winds, and heavy precipitation can restrict the operation of helicopters and significantly reduce our flight hours. Reduced flight hours can have a material adverse effect on our business, financial condition, results of operations, and cash flows. We budget for our operations based on historical weather information, but unexpectedly poor weather could materially affect our results of operations.

Some of our backlog may be deferred or may not be realized.

Backlog represents the amount of revenue that we expect to derive from signed contracts, including oral contracts that have been subsequently memorialized in writing, or anticipated exercises of customer extension options. For contracts that include a guaranteed number of hours, the value of the guaranteed hours is included in backlog. For CPH contracts, which depend on hours flown by our customers, we calculate the contribution to backlog based on contracted minimum hours. We calculate the contribution to backlog for some timber harvesting contracts based on our estimate of the cubic meters of high grade timber we expect to deliver under the contract based on our experience.

As a result, our estimates of backlog for some of our timber harvesting contracts could be affected by variables beyond our control and may not be entirely realized, if at all. In addition, given the nature of our customers and our industry, there is a risk that our backlog may not be fully realized in the future. Failure to realize sales from our existing or future backlog would negatively impact our business, financial condition, results of operations or cash flows.

Some of our arrangements with customers are short-term, ad hoc, or “call when needed” and may not be renewed. We generate a portion of our revenues from arrangements with customers with terms of less than six months, ad hoc arrangements, and “call when needed” contracts. There is a risk that customers may not continue to seek the same level of services from us as they have in the past or that they will not renew these arrangements or terminate them at short notice. Under “call when needed” contracts, we pre-negotiate rates for providing services that customers may request that we perform (but which we are not typically obligated to perform) depending on their needs. The rates we charge for these contingent services are higher than the rates under stand-by arrangements, and we attempt to schedule our aircraft to maximize our revenue from these types of contracts. The ultimate value we derive from such contracts is

subject to factors beyond our control, such as the severity and duration of fire seasons. In the past, several of our larger contracts have not been renewed for reasons unrelated to our performance, such as the financial condition of our customers or their decision to internalize the services we provided to them. If we are unable to retain or replace customers experiencing similar circumstances, our business and financial condition could suffer.

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If an accident or sale made an aircraft unavailable to us, our business could suffer.

An accident or sale could make an aircraft unavailable to us temporarily or permanently. A sale of an aircraft that is part of our fleet would also reduce the number of aircraft available to provide Aerial Services. The purchase price of a used aircraft is generally lower than the purchase price of a remanufactured aircraft. Although we would expect to be able to maintain the level of our operations if we sell an aircraft from our fleet through more efficient scheduling of our fleet or by allocating aircraft remanufactured in our plant to aerial services operations, we may not always have the ability to maintain our desired level of Aerial Services operations with a reduced fleet and our results of operations could be adversely affected.

Foreign, domestic, federal, state and local government spending and mission priorities may change in a manner that materially and adversely affects our future revenues and limits our growth prospects.

Our business depends upon continued government expenditures on programs that we support. These expenditures have not remained constant over time. Current foreign and domestic government spending levels on programs that we support may not be sustainable as a result of changes in government leadership, policies, or priorities.

Additionally, our business, prospects, financial condition, or operating results could be materially harmed by the following:

- budgetary constraints affecting government spending generally, or specific departments or agencies in particular, and changes in fiscal policies or available funding;
- changes in government programs or requirements;
- reductions in military and defense spending;
- realignment of funds to address changed government priorities;
- government shutdowns (such as those which occurred during the U.S. Government's 1996 and 2013 fiscal years) and other potential delays in government appropriations processes;
- delays in the payment of our invoices by government authorities;
- adoption of new laws or regulations; and
- general economic conditions.

These or other factors could cause government agencies and departments to reduce their purchases under contracts, exercise their right to terminate contracts, or not exercise options to renew contracts, any of which could cause us to lose revenue. A significant decline in overall government spending or a shift in expenditures away from agencies or programs that we support could cause a material decline in our revenues and harm our financial results.

Product liability and product warranty risks could adversely affect our operating results.

We produce, repair, and overhaul complex aircraft and critical parts for aircraft. Failure of our aircraft or parts could give rise to substantial product liability and other damage claims. We maintain insurance to address this risk, but our insurance coverage may not be adequate for some claims and there is no guarantee that insurance will continue to be available on terms acceptable to us, if at all.

Additionally, aircraft and parts we manufacture for sale are subject to strict contractually established specifications using complex manufacturing processes. If we fail to meet the contractual requirements for a part, we may be subject to warranty costs to repair or replace the part itself and additional costs related to the investigation and inspection of non-complying parts. These costs are generally not insured. We establish warranty reserves that represent our estimate of the costs we expect to incur to fulfill our warranty requirements. We base our estimate for warranty reserves on our historical experience and other assumptions. If actual results materially differ from these estimates, our results of operations could be materially adversely affected.

Because we own the S-64 Type Certificate, we are obligated to issue directives to operators of our aircraft and to identify defects in or required replacements for our aircraft. We could be liable to operators of our aircraft if we fail to fulfill our obligation to issue directives, even if our aircraft or components of our aircraft are no longer under warranty. We also purchased the Type Certificate during 2013 for engines used in the S-64 Aircranes.

Our failure to attract and retain qualified personnel could adversely affect us.

Our pilots and maintenance and manufacturing personnel are highly trained and qualified. Our ability to attract and retain qualified pilots, mechanics, and other highly trained personnel will be an important factor in determining our future success. Our aircraft, and the aerial services we provide, require pilots with high levels of flight experience. The market for these experienced and highly trained personnel is extremely competitive. Accordingly, we cannot assure that we will be successful in our efforts to attract and retain such persons. Some of our pilots and mechanics, and those of our competitors, are members of



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the U.S. military reserves and could be called to active duty. If significant numbers of such persons were called to active duty, it would reduce the supply of such workers, possibly curtailing our operations and likely increasing our labor costs. Because of our small size relative to many of our competitors, we may be unable to attract qualified personnel as easily as our competitors.

The occurrence of events for which the risk is allocated to us under our contracts could negatively impact our results of operations.

Many of our contracts are fixed price agreements which could subject us to losses if we have cost overruns. Under these contracts, we typically are responsible for normal maintenance, repair, and fuel costs. In addition, some of our Aerial Services contracts have performance penalty provisions, subjecting us to the risk of unexpected down time caused by mechanical failures, extreme weather or otherwise, which could cause our net income to suffer. Risks associated with estimating our costs and revenues are exacerbated for long-term contracts, which include most of our material contracts.

Our contracts for remanufacture of aircraft and major overhauls or components typically contain penalty provisions that require us to make payments to customers, or provide interim aerial services to them at no cost, if we are unable to timely deliver aircraft or components. Such contracts may also include a repurchase obligation by us if certain performance or other criteria are not met.

Our customers may seek to shift risk to us.

We give to and receive from our customers indemnities relating to damages caused or sustained by us in connection with our operations. Our customers' changing views on risk allocation could cause us to accept greater risk to win new business or could result in us losing business if we are not prepared to take such risks. To the extent that we accept such additional risk, and seek to insure against it, our insurance premiums could rise.

We may be required to provide components or services to owners or operators of the S-64 or the CH-54, which could limit our operational flexibility and divert resources from more productive uses.

Because we own the S-64 Type Certificate, we may be required to supply components or provide MRO services to customers who own or operate the S-64 or the CH-54, the military version of the S-64. This could limit our operational flexibility, divert resources from more productive uses, and adversely affect our ability to execute on our growth plans.

Our dependence on a small number of manufacturers for some of our aircraft components and the costs associated with the purchase or manufacture of new components pose significant risks to our business.

We rely on over 200 supplier business units or locations for significant or critical components. A small number of manufacturers make some of the key components for our aircraft, and in some instances there is only a single manufacturer, although other manufacturers could be used if necessary for all of our components. If these manufacturers experience production delays, or if the cost of components increases, our operations could suffer. If a manufacturer ceases production of a required component, we could incur significant costs in purchasing the right to manufacture those components or in developing and certifying a suitable replacement, and in manufacturing those components.

Many key components and parts of our aircraft have not been manufactured since originally introduced. A significant portion of our inventory was acquired in bulk on the surplus market. For some aviation components, our operating cost includes the overhaul and repair of these components but does not include the purchase of a new component. It may be difficult to locate a supplier willing and able to manufacture replacement components at a reasonable cost or at all. As we exhaust our inventory, the purchase of any new components, or the manufacture by us of new components, could materially increase our operating cost or delay our operations; we routinely monitor levels of out-of-production parts and design and certify replacement parts to mitigate this risk.

Failure to develop new technologies, and to adequately protect our intellectual property rights, could adversely affect our operations.

Our success has resulted in part from our development of new applications for our aircraft, such as our fire tank and snorkel for firefighting services, and we believe our growth will continue to depend on the development of new products or applications. Competitors may develop similar applications for their aircraft, which would increase our competition in providing aerial services. In addition, our growth strategy depends, in part, on our ability to develop

new products and applications. A number of factors, including FAA certifications, could result in our being unable to capitalize on the development costs for such products or applications. Not all of our products and applications have been, or may be, patented or otherwise legally protected. We rely upon intellectual property law, trade secret protection, and confidentiality and license agreements with our employees, clients, consultants, partners, and others to protect our new and existing intellectual property rights. Any of these parties may

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breach these agreements and we may not have adequate remedies for any specific breach. If we are not able to adequately protect the inventions and intellectual property we have developed, in the U.S. and in foreign countries, or if any of our trade secrets, know-how, or other technologies were to be disclosed to or independently developed by a competitor, our business, financial condition, and results of operations could be materially adversely affected.

We may have to engage in litigation to defend our trademarks, trade secrets, and other intellectual property rights. Even if we are successful, such litigation could result in substantial costs and be a distraction to management. If we are not successful in such litigation, we may lose valuable intellectual property rights.

Any of our patents may be challenged, invalidated, circumvented, or rendered unenforceable. Our patents may be subject to reexamination proceedings affecting their scope. We cannot assure that we will be successful should one or more of our patents be challenged for any reason. If our patent claims are rendered invalid or unenforceable, or narrowed in scope, the patent coverage afforded our products could be impaired, which could significantly impede our ability to market our products, negatively affect our competitive position, and harm our business and operating results. Further, we are a party to licenses that grant us rights to intellectual property, including trade secrets, that is necessary or useful to our business. One or more of our licensors may allege that we have breached our license agreement with them, and accordingly seek to terminate our license. If successful, this could result in our loss of the right to use the licensed intellectual property, which could adversely affect our ability to commercialize our technologies, products, or services, as well as harm our competitive business position and our business prospects.

Our business is subject to risks associated with international operations, including operations in emerging markets. We purchase products from and supply products to businesses located outside of the United States. We also have significant operations outside the United States. A number of risks inherent in international operations could have a material adverse effect on our international operations and, consequently, on our results of operations, including:

- the uncertain ability of select non-U.S. customers to finance purchases and our inability in certain jurisdictions to evaluate accurately the creditworthiness of potential customers due to fewer transparency and disclosure requirements;
- currency fluctuations, which can reduce our revenues for transactions denominated in non-U.S. currency or make our services relatively more expensive if denominated in U.S. currency;
- difficulties in staffing and managing multi-national operations;
- political and financial instability in several of the countries in which we operate, including Greece and Italy;
- the exit or closure of any foreign operations or venues as a result of uncertain local business or legal conditions;
- significant receivables from international customers;
- risks associated with transporting our aircraft, including risks associated with piracy and adverse weather;
- fluctuations in the costs associated with transporting our aircraft, pilots, and crews, which are significant operating costs for us;
- limitations on our ability to enforce legal rights and remedies;
- uncertainties regarding required approvals or legal structures necessary to operate aircraft or provide our products and services in a given jurisdiction;
- changes in regulatory structures or trade policies;
- tariff and tax regulations including permanent establishment determinations by foreign governments;
- ensuring compliance with the FCPA;
- difficulties in obtaining export and import licenses; and
- the risk of government-financed competition.

Part of our growth strategy is to enter new markets, including emerging market countries such as China and in South America. Emerging market countries have less developed economies that are more vulnerable to economic and political problems and may experience significant fluctuations in gross domestic product, interest rates, and currency exchange rates, as well as civil disturbances, government instability, nationalization and expropriation of private assets, and the imposition of taxes or other charges by government authorities. The occurrence of any of these events and the resulting economic instability that may arise could adversely affect our operations in those countries, or the

ability of our customers in those countries to meet their obligations. As a result, customers that operate in emerging market countries may be more likely to default than customers that operate in developed countries. In addition, legal systems in emerging market countries may be less developed, which could make it more difficult for us to enforce our legal rights in those countries. In particular, we have focused on expanding our presence in developing markets such as China and Malaysia, and the laws and regulations governing aviation sales and services may require approvals that are uncertain and enforcement of joint venture or other contractual relationships may be uncertain. For these and other reasons, our growth plans may be materially and adversely affected by adverse economic and political developments in emerging market countries.

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We are subject to many different forms of taxation in various jurisdictions throughout the world, which could lead to disagreements with tax authorities regarding the application of tax laws.

We are subject to many different forms of taxation including, but not limited to, income tax, withholding tax, commodity tax and payroll-related taxes. Tax law and administration is extremely complex and often requires us to make subjective determinations. The tax authorities in the various jurisdictions where we conduct business might not agree with the determinations that are made by us with respect to the application of tax law. Such disagreements could result in lengthy legal disputes and, ultimately, in the payment of substantial funds to the government authorities of foreign and local jurisdictions where we conduct business or provide goods or services, which could have a material adverse effect on our business, financial condition or results of operations.

Our estimate of tax related assets, liabilities, recoveries and expenses incorporates significant assumptions. These assumptions include, but are not limited to, the tax laws in various jurisdictions, the effect of tax treaties between jurisdictions, taxable income projections, and the benefits of various restructuring plans. To the extent that such assumptions differ from actual results, we may have to record additional income tax expenses and liabilities.

We are exposed to foreign currency risks.

Our consolidated financial statements are presented in U.S. dollars. However, a significant portion of our revenue and operating expenses are denominated in currencies consisting primarily of Canadian Dollars, Australian Dollars, the Euro, Peruvian Nuevo Sol, and the Brazilian Real. The functional currencies of several of our subsidiaries are non-U.S. currencies. There can be no assurances that our foreign currency risk management strategies will be effective and that foreign currency fluctuations will not adversely affect our results of operations and financial condition. See Critical Accounting Policies and Estimates and Quantitative and Qualitative Disclosures About Market Risk sections in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

If our employees unionize, our expenses could increase and our results of operations would suffer.

Except for statutory protections for a small number of Italian pilots and our Brazilian employees, none of our employees work under collective bargaining, union or similar agreements. Unionization efforts have been made from time to time within our industry, with varying degrees of success. If our employees unionize, our expenses could increase and our results of operations may suffer.

Fuel shortages or fluctuations in the price of fuel could adversely affect our operations.

Our aerial operations depend on the use of jet fuel. Fuel costs have historically been subject to wide price fluctuations, and fuel availability is subject to shortage and is affected by demand for heating oil, gasoline, and other petroleum products. Fuel shortages and increases in the price of fuel, or decreases in the price of fuel when we have entered into hedging agreements, could adversely affect our operations.

Our production may be interrupted due to equipment failures or other events affecting our factories.

Our manufacturing and testing processes depend on sophisticated and high-value equipment. Unexpected failures of this equipment could result in production delays, revenue loss, and significant repair costs. In addition, our factories rely on the availability of electrical power and natural gas, transportation for raw materials and finished product, and employee access to our workplace that are subject to interruption in the event of severe weather conditions or other natural or man made events. While we maintain backup resources to the extent practicable, a severe or prolonged equipment outage or other interruptive event affecting areas where we have significant manufacturing operations may result in loss of manufacturing days or in shipping delays which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We rely on information technology, and if we are unable to protect against service interruptions, data corruption, cyber-based attacks or network security breaches, our operations could be disrupted and our business could be negatively affected.

We rely on information technology networks and systems to process, transmit and store electronic and financial information; to coordinate our business across our global operation bases; and to communicate within our company and with customers, suppliers, partners and other third-parties. These information technology systems may be susceptible to damage, disruptions or shutdowns, hardware or software failures, power outages, computer viruses, cyber attacks, telecommunication failures, user errors or catastrophic events. If our information technology systems suffer severe damage, disruption or shutdown, and our business continuity plans do not effectively resolve the issues

in a timely manner, our operations could be disrupted and our business could be negatively affected. In addition, cyber attacks could lead to potential unauthorized access and disclosure of

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confidential information, and data loss and corruption. There is no assurance that we will not experience these service interruptions or cyber attacks in the future.

General economic conditions and recent market events may expose us to new risks.

Recent events in the financial markets and the economic downturn have contributed to severe volatility in the securities markets, a severe liquidity crisis in the global financial markets, and unprecedented government intervention. These conditions have affected our results of operations and may continue to affect them. In such an environment, significant additional risks may exist for us. The recent instability in the financial markets has led the U.S. government to take a number of unprecedented actions designed to support certain financial and other institutions and segments of the financial market that have experienced extreme volatility, and in some cases, a lack of liquidity. There can be no assurance that this intervention will improve market conditions, that such conditions will not continue to deteriorate, or that further government intervention will or will not occur. If economic conditions worsen, we face risks that may include:

- declines in revenues and profitability from reduced or delayed orders by our customers, in particular with respect to infrastructure construction projects which may be delayed or canceled;
- supply problems associated with any financial constraints faced by our suppliers;
- reductions in credit availability to us or in general;
- increases in corporate tax rates to finance government spending programs; and
- reductions in spending by governmental entities for services such as infrastructure construction and firefighting.

The economic downturn and continued credit crisis and related turmoil in the global financial system may have an adverse impact on our business and our financial condition. We cannot predict our ability to obtain financing, and this could limit our ability to fund our future growth and operations. In addition, the creditworthiness of some of our customers may be affected, which may affect our ability to collect on our accounts receivable from such customers. Existing stockholders exert significant influence over us. Their interests may not coincide with other stockholders and they may make decisions with which other stockholders may disagree.

Entities affiliated with ZM Equity Partners, LLC own a significant percentage of our outstanding common stock, and one of our directors are managing directors of Centre Lane Partners, LLC, an affiliate of ZM Equity Partners, LLC. As a result, these stockholders, acting individually or together, could exert significant influence over all matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions. In addition, this concentration of ownership could delay or prevent a change in control of our company or make some transactions more difficult or impossible without the support of these stockholders. The interests of these stockholders may not always coincide with our interests as a company or the interests of other stockholders. Accordingly, these stockholders could cause us to enter into transactions or agreements that other stockholders would not approve or make other decisions with which other stockholders disagree.

**Regulatory Risks Relating to Our Business**

We are subject to FAA regulation and similar international regulation, and our failure to comply with these regulations, or the adoption of any new laws, policies, or regulations, may have a material adverse effect on our business, financial condition, results of operations, and cash flows.

The aerial services business is heavily regulated by governmental entities in the United States and in other countries in which we operate. We operate in the United States under laws and regulations administered by the DOT, principally through the FAA. The FAA promulgates rules relating to the general operation of our aircraft, the process by which our aircraft are maintained, the components and systems that are installed in our aircraft, the qualification of our flight crews and maintenance personnel, and the specialized operations that we undertake, including the carrying of loads and the use of various chemicals. We are regularly inspected by FAA personnel to ensure compliance. Additionally, we are sometimes subject to government inquiries and investigations of our business due to, among other things, our business relationships with the U.S. government and the heavily regulated nature of our industry. Compliance with these rules is complex and costly, and the failure to comply could result in the imposition of fines, the grounding of

our aircraft as a result of the promulgation by the FAA of airworthiness directives or for other safety-related reasons, or other consequences detrimental to our operations and operating results. Our operations in other countries are similarly regulated under equivalent local laws and regulations.

Our aircraft manufacturing and MRO operations are also subject to regulation by the FAA and other governmental authorities. The FAA promulgates regulations applicable to the design and manufacture of aircraft and aircraft systems and components. It also sets and enforces standards for the repair of aircraft, systems, and components and for the qualification of personnel performing such functions. It regularly conducts inspections to ensure compliance and has the power to impose fines or other penalties for non-compliance or to shut down non-compliant operations. Our manufacturing and MRO operations are also



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subject to complex environmental, safety, and other regulations. Failure to comply with these applicable regulations could result in the imposition of fines or other penalties or in the shutting down of our operations, which could impair our ability to fulfill our contracts or otherwise negatively impact our reputation for safety and dependability.

The FAA must approve major changes in aircraft design such as fuel control systems or new rotor blades. Such approvals take time, require significant investment, and are not assured. Similar regulatory bodies in other countries may accept FAA certification or may impose their own individual requirements. The failure to obtain FAA or other required approval for such changes, or the imposition of unanticipated restrictions as a condition of approval, could increase our production costs or reduce the effectiveness of the system in question and could render our development effort less valuable or, in an extreme case, worthless.

The laws and regulations affecting our business are subject to change at any time and, because we operate under numerous jurisdictions, we are particularly exposed to the possibility of such changes.

Any change in laws or regulations applicable to our business could restrict our operations, increase our costs, or have other effects detrimental to our results of operations or competitive position.

Our business is affected by federal rules, regulations, and orders applicable to government contractors, and the award of government contracts may be challenged.

Some of our services are sold under U.S. or foreign government contracts or subcontracts. In addition, governmental contracts typically require a competitive bid process, and the award of a contract may be subject to challenge by bid participants. In addition, government contracts are terminable at any time for the convenience of the government.

From time to time, we are also subject to government inquiries and investigations of our business practices due to our participation in government programs. These inquiries and investigations are costly and consume internal resources.

Violation of applicable government rules and regulations could result in civil liability, the cancellation or suspension of existing contracts, or the ineligibility for future contracts or subcontracts funded in whole or in part with federal funds, any of which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our international sales and operations are subject to applicable laws relating to trade, export controls and foreign corrupt practices, the violation of which could adversely affect our operations.

We must comply with all applicable export control laws and regulations of the United States and other countries. United States laws and regulations applicable to us include the Arms Export Control Act, the International Traffic in Arms Regulations ("ITAR"), the Export Administration Regulations ("EAR"), and the trade sanctions laws and regulations administered by the United States Department of the Treasury's Office of Foreign Assets Control ("OFAC").

EAR restricts the export of dual-use products and technical data to certain countries, while ITAR restricts the export of defense products, technical data and defense services. The U.S. government agencies responsible for administering EAR and ITAR have significant discretion in the interpretation and enforcement of these regulations. We also cannot provide services to certain countries subject to United States trade sanctions unless we first obtain the necessary authorizations from OFAC. In addition, we are subject to the FCPA, and other anti-bribery laws that, generally, bar bribes or unreasonable gifts to foreign governments or officials.

Violations of these laws or regulations could result in significant additional sanctions including fines, more onerous compliance requirements, more extensive debarments from export privileges, loss of authorizations needed to conduct aspects of our international business and criminal penalties and may harm our ability to enter into contracts with the U.S. government. A future violation of ITAR or the other regulations enumerated above could materially affect our business, financial condition and results of operations.

Our business in countries with a history of corruption and transactions with foreign governments increases the compliance risks associated with our international activities.

Our international operations could expose us to trade and economic sanctions or other restrictions imposed by the United States or other governments or organizations. The U.S. Department of Justice ("DOJ") and other federal agencies and authorities have a broad range of civil and criminal penalties at their disposal to impose against corporations and individuals for violations of trading sanctions laws, the FCPA, and other federal statutes. Under trading sanctions laws, the government may seek to impose modifications to business practices, including cessation of business activities in sanctioned countries, and modifications to compliance programs, which may increase compliance costs,

and could subject us to fines, penalties and other sanctions. If any of the risks described above were to materialize, they could adversely impact our financial condition or results of operations.

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These laws also prohibit improper payments or offers of payments to foreign governments and their officials and political parties for the purpose of obtaining or retaining business. We have operations, deal with government entities and have contracts in countries known to experience corruption. Our activities in these countries create the risk of unauthorized payments or offers of payments by one of our employees, consultants, sales agents or associates that could be in violation of various laws including the FCPA, even though these parties are not always subject to our control. Our existing safeguards and procedures might prove to be less than fully effective, and our employees, consultants, sales agents or associates might engage in conduct for which we could be held responsible. Violations of the FCPA could result in severe criminal or civil sanctions, and we could be subject to other liabilities that could negatively affect our business, financial condition or results of operations.

Claims against us by governmental agencies or other parties related to environmental matters could adversely affect us.

In the late 1990s, environmental damage that resulted from hazardous substances at our Central Point, Oregon facility was identified. It was determined that the contamination migrated beyond the property boundary at our facility and impacted off-site water supply wells. A remediation was completed in the late 1990s. Based on the testing of the site in recent years, the contamination levels have been decreasing, though the remediation cannot be guaranteed. We are continuing to participate in monitoring and testing the remediation of the site and we incur ongoing costs for this monitoring and testing. Our obligations in respect of such contamination are subject to an indemnification agreement with our former owner. Under this agreement, our potential total liability in respect of remediation costs is capped at \$0.5 million, of which we have already paid \$0.4 million, with a total remaining liability of \$0.1 million. Although the agreement caps our total potential liability, the creditworthiness of the indemnitor is uncertain. If the indemnitor fails to honor the terms of the indemnification agreement, it is possible that we would have to bear the entire cost of the remediation, monitoring and testing. In addition, it is possible that government agencies or other parties could bring a claim against us resulting from the contamination and that defending and resolving such claims could adversely affect our financial condition and results of operations.

Environmental and other regulation and liability may increase our costs and adversely affect us.

We are subject to a variety of laws and regulations, including environmental and health and safety regulations. Because our operations are inherently hazardous, compliance with these regulations is challenging and requires constant attention and focus. We are subject to federal, state, and foreign environmental laws and regulations concerning, among other things, water discharges, air emissions, hazardous material and waste management, and environmental cleanup. Environmental laws and regulations continue to evolve, and we may become subject to increasingly stringent environmental standards in the future, particularly under air quality and water quality laws and standards related to climate change issues, such as reporting greenhouse gas emissions. We are required to comply with environmental laws and with the terms and conditions of multiple environmental permits. Our failure to comply with these regulations could subject us to fines and other penalties administered by the agencies responsible for environmental and safety compliance or by the FAA or other aviation-related agencies.

Our business is subject to laws limiting ownership or control of aircraft companies, which may increase our costs and adversely affect us.

Most of the countries in which we operate have laws requiring local ownership or control, or both, of certain kinds of companies that operate aircraft. We use various strategies to comply with these laws, including the formation of local subsidiaries that we do not wholly own and partnerships with local companies. FAA regulations may require that at least 75% of our voting securities be owned or controlled by United States citizens. The existence of these laws may restrict our operations; reduce our profit from, or control of, some foreign operations; or restrict the market for our securities.

### Risks Relating to Acquisitions

We may not realize the anticipated benefits of the EHI and Air Amazonia acquisitions or other acquisitions, joint ventures, strategic alliances, or divestitures.

As part of our business strategy, we may acquire businesses or specific assets, form joint ventures or strategic alliances, and divest operations. For example, we acquired EHI in May 2013 and Air Amazonia in September 2013.

Whether we realize the anticipated benefits from these transactions depends, in part, upon the integration between the

businesses or assets involved; the performance of the underlying products, capabilities, or technologies; whether we incur unknown or contingent liabilities; and the management of the operations. We have had limited experience with such integrations, and difficulties in integrating the operations and personnel of any acquired companies could disrupt our business operations, divert management's time and attention and impair relationships with and risk the possible loss of key employees and customers of the acquired business. Accordingly, our financial results could be adversely affected by unanticipated performance issues, transaction-related charges, amortization of expenses related to intangibles, charges for impairment of long-term assets, credit guarantees, partner performance, and indemnifications. In addition, our cash from operations, the 2020 Senior Notes offering and borrowings available under the Revolving Credit Facility may not be sufficient to fund any acquisitions or strategic transactions we choose

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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. Consolidations or joint ventures could also impact our results of operations or financial position. Divestitures may result in continued financial involvement in the divested businesses, such as through guarantees or other financial arrangements, following the transaction. Nonperformance by those divested businesses could affect our business, financial condition, results of operations or cash flows.

We do not have extensive operating history in passenger and cargo transportation or with the types of aircraft we acquired in the EHI and Air Amazonia acquisitions.

We have historically operated the S-64 Airplane, specializing in heavy-lift aerial services such as firefighting, timber harvesting, infrastructure construction and oil and gas exploration. We have limited experience in transporting passengers and cargo with medium and light-lift rotor wing aircraft and fixed wing aircraft. Failure to properly comply with Part 135 regulations and maintenance requirements could lead to the revocation of the certification, which could materially and adversely impact our business, financial condition, results of operations or cash flows.

We do not have an extensive operating history in South America, the Middle East and Africa, the geographic locations in which EHI and Air Amazonia historically operated.

Our acquisition of EHI and Air Amazonia has resulted in our operating in new international geographic locations. A number of risks inherent in international operations could have a material adverse effect on our international operations and, consequently, on our results of operations, including:

- the uncertain ability of select non-U.S. customers to finance purchases;
- our inability in certain jurisdictions to evaluate accurately the creditworthiness of potential customers due to fewer transparency and disclosure requirements;
- currency fluctuations, which can reduce our revenues for transactions denominated in non-U.S. currency or make our services relatively more expensive if denominated in U.S. currency;
- difficulties in staffing and managing multi-national operations;
- political and financial instability;
- risks associated with transporting our aircraft, including risks associated with piracy and adverse weather;
- fluctuations in the costs associated with transporting our aircraft, pilots, and crews, which are significant operating costs for us;
- limitations on our ability to enforce legal rights and remedies;
- uncertainties regarding required approvals or legal structures necessary to operate aircraft or provide our products and services in a given jurisdiction;
- restrictions on the repatriation of funds from our foreign operations;
- changes in regulatory structures or trade policies;
- tariff and tax regulations including permanent establishment determinations by foreign governments;
- ensuring compliance with the FCPA; and
- the risk of government-financed competition.

Emerging market countries have less developed economies that are more vulnerable to economic and political problems and may experience significant fluctuations in gross domestic product, interest rates, and currency exchange rates, as well as civil disturbances, government instability, nationalization and expropriation of private assets, and the imposition of taxes or other charges by government authorities. The occurrence of any of these events and the resulting economic instability that may arise could adversely affect our operations in those countries, or the ability of our customers in those countries to meet their obligations. As a result, customers that operate in emerging market countries may be more likely to default than customers that operate in developed countries. In addition, legal systems in emerging market countries may be less developed, which could make it more difficult for us to enforce our legal rights in those countries.

We do not have extensive operating history with DoD-related services of the type EHI historically provided.

Our acquisition of EHI has resulted in our providing helicopter services to DoD-related customers and projects, which we had not previously done. The DoD requires CARB certification in order to provide passenger and cargo

transportation services. Our failure to remain in compliance with applicable regulations and requirements could lead to the loss of DoD related business, which could result in a material adverse effect on our business, financial position, results of operations and cash flows.

DoD contracts and programs are subject to U.S. government defense budgets, which could be impacted by forces beyond our control such as:

- budgetary constraints affecting government spending generally or specific departments or agencies in particular, and changes in fiscal policies or available funding;

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changes in government programs or requirements;  
government shutdowns, the effects of sequestration that commenced on March 1, 2013, and other potential delays in government appropriations processes;  
adoption of new laws or regulations;  
threat of national risk and war; and  
general economic conditions.

These or other factors could cause government agencies and departments to reduce their purchases under contracts, exercise their right to terminate contracts, or not exercise options to renew contracts, any of which could cause us to lose revenue. A significant decline in overall government spending or a shift in expenditures away from agencies or programs that EHI has historically supported could cause a material decline in our revenues and harm our financial results.

The anticipated reduction in troops in Afghanistan in the near-term may adversely affect us.

The largest customer we acquired in the EHI transaction provides base and troop support services in Afghanistan to various departments of the U.S. government. The U.S. government has announced plans to reduce its military activities in Afghanistan starting in 2014 and beyond, although we do not know the exact timing and number of troops to be withdrawn at this time. This reduction has had and may 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 with respect to some of the new DoD contracts on which we bid. 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.

EIA, the former parent company of EHI, filed a Chapter 7 bankruptcy petition on December 31, 2013.

Failure to come to terms with EHI's vendors and suppliers may result in our being named as a defendant in lawsuits asserting potentially large claims. A settlement or judgment in which we are not the prevailing party could materially and adversely affect our business, financial condition, results of operations or cash flows.

EHI's practice of leasing a significant portion of the aircraft in its fleet may result in higher operating costs and contractual obligations for us.

In acquiring EHI, we acquired a company that leased a majority of its aircraft, which may result in higher operating costs and contractual obligations than if it owned these aircraft. Certain of these aircraft lessors require the aircraft to be returned in airworthy condition at the termination of the lease, which could result in higher capital expenditures. Failure to comply with the terms of the leases could result in significant fees and expenses or the foreclosure of an aircraft, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

EHI operates in certain dangerous and war-affected areas, which may result in hazards to our fleet and personnel. The operation of helicopters inherently involves a high degree of risk. Hazards such as aircraft accidents, mechanical failures, collisions, fire, adverse weather, explosions, military attacks and other military activities may result in loss of life, serious injury to employees and other persons, damage to property, losses of equipment and revenues, and suspension or reduction of operations. The aerial services we provide, which with our acquisition of EHI now include passenger and cargo transportation in dangerous and war-affected areas, can be hazardous. We maintain hull and liability insurance on our aircraft, including those acquired in the EHI acquisition, which insures against physical loss of, or damage to, the aircraft and against certain legal liabilities to others. In addition, we carry war risk, expropriation, confiscation, and nationalization insurance for the aircraft involved in international operations associated with EHI's historical operations. In some instances, we are covered by indemnity agreements from customers in lieu of, or in addition to, insurance. Our insurance will not cover any losses incurred pursuant to any performance provisions under agreements with our customers.

Our insurance and indemnification arrangements may not cover all potential losses and are subject to deductibles, retentions, coverage limits, and coverage exceptions and, as a result, severe casualty losses or the expropriation or confiscation of significant assets could materially and adversely affect our financial condition or results of operations.

The insured value of one aircraft is typically lower than its replacement cost, and the aircraft are not insured for loss of use. The occurrence of an event that is not fully covered by insurance could have a material adverse effect on our business, financial condition, results of operations, and cash flows.



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Air Amazonia operates solely in Brazil which is highly regulated regarding various matters. We may not be able to operate successfully in that country.

Following our acquisition of Air Amazonia, our business in Brazil is subject to political, economic, legal, operational and other risks that are inherent to operating in that country. The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in the monetary and credit policy and economic regulation, as well as in other governmental policies. The Brazilian government's actions to influence the economy, control inflation and other policies and regulations have often involved, among other measures, price and salary controls, currency devaluations, exchange controls and limits on imports and the freezing of bank accounts. Our business, financial condition and results of operations may be adversely affected by changes in government policies or regulations related to public charges and control over the foreign exchange rate, whether they are implemented at the federal, state or municipal level, as well as by other factors, such as:

- exchange rates and exchange control policies;
- inflation rates;
- interest rates;
- liquidity of domestic capital and credit markets;
- tax policies;
- price, social and political instability;
- changes in labor laws;
- changes in the tax regime, including charges applicable to specific industry sectors; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

ITEM 6. EXHIBITS

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

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: November 5, 2015

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

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## EXHIBIT INDEX

| Exhibit No. | Exhibit Title  | Filed Herewith | Form | Exhibit No. | File No. | Filing Date |
|-------------|--|----------------|------|-------------|----------|-------------|
| 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 | X              |      |             |          |             |
| 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 | X              |      |             |          |             |
| 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  | X              |      |             |          |             |
| 101.INS     | XBRL Instance Document   | X              |      |             |          |             |
| 101.SCH     | XBRL Taxonomy Extension Schema Document  | X              |      |             |          |             |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document  | X              |      |             |          |             |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document   | X              |      |             |          |             |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document  | X              |      |             |          |             |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document   | X              |      |             |          |             |

\*\* Furnished, not filed.