

Erickson Air-Crane Inc.
Form 10-Q
November 07, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013.

Or

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

For the transition period from _____ to _____

Commission File Number 001-35482

ERICKSON AIR-CRANE INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of	93-1307561 (I.R.S. Employer
incorporation or organization)	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)	

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

As of November 1, 2013, 13,787,914 shares of common stock, par value \$0.0001, were outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(in thousands, except share and per share data)****(Unaudited)**

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,302	\$ 1,468
Restricted cash	2,853	3,781
Accounts receivable net of allowances for doubtful accounts of \$742 and \$460 in 2013 and 2012, respectively	71,346	24,446
Prepaid expenses and other current assets	5,831	1,426
Income tax receivable	1,610	1,048
Deferred tax assets	9,656	8,208
Total current assets	96,598	40,377
Aircraft support parts, net	124,939	93,041
Aircraft, net	128,707	66,673
Property, plant, and equipment, net	91,926	54,675
Other intangible assets, net	23,597	
Goodwill	252,520	
Other non-current assets	35,117	2,057
Total assets	\$ 753,404	\$ 256,823
Liabilities and stockholders equity (deficit)		
Current liabilities:		
Accounts payable	\$ 28,179	\$ 8,746
Current portion of long-term debt		71,202
Accrued and other current liabilities	50,144	19,662
Income tax payable	2,528	6,275
Total current liabilities	80,851	105,885
Long-term debt, less current portion	16,060	26,674

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Long-term revolving credit facilities	54,513	
Long-term notes payable	355,000	
Other long-term liabilities	11,000	1,415
Uncertain tax positions	18,286	
Deferred tax liabilities	22,416	17,481
Total liabilities	558,126	151,455
Stockholders' equity (deficit):		
Common stock; \$0.0001 par value; 110,000,000 shares authorized; 13,786,290 and 9,726,785 issued and outstanding at September 30, 2013 and December 31, 2012, respectively	1	1
Additional paid-in capital	179,845	101,833
Retained earnings (accumulated deficit)	13,803	2,447
Accumulated other comprehensive income (loss)	579	71
Total stockholders' equity (deficit) attributable to Erickson Air-Crane Incorporated	194,228	104,352
Noncontrolling interest	1,050	1,016
Total stockholders' equity (deficit)	195,278	105,368
Total liabilities and stockholders' equity	\$ 753,404	\$ 256,823

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

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands, except share and per share data)

(Unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net revenues	\$ 120,226	\$ 76,261	\$ 225,756	\$ 141,747
Cost of revenues	74,041	39,719	152,808	90,845
Gross profit	46,185	36,542	72,948	50,902
Operating expenses:				
General and administrative	10,107	3,973	26,486	11,405
Research and development	1,154	995	3,116	3,425
Selling and marketing	1,642	1,097	5,507	4,177
Total operating expenses	12,903	6,065	35,109	19,007
Operating income (loss)	33,282	30,477	37,839	31,895
Other income (expense):				
Interest income (expense), net	(8,665)	(1,524)	(16,516)	(5,537)
Interest income (expense) related to tax contingencies	(560)		(871)	
Amortization of debt issuance costs	(599)	(297)	(1,386)	(852)
Unrealized foreign exchange gain (loss)	159	(13)	299	28
Loss on early extinguishment of debt			(215)	
Realized foreign exchange gain (loss)	(68)	(108)	(218)	207
Gain on disposal of equipment	20		41	
Other income (expense), net	95	1	(267)	920
Total other income (expense)	(9,618)	(1,941)	(19,133)	(5,234)
Net income (loss) before income taxes and noncontrolling interest	23,664	28,536	18,706	26,661
Income tax expense (benefit)	9,176	10,902	7,009	10,168
Net income (loss)	14,488	17,634	11,697	16,493
	37	(78)	(341)	(315)

Less: Net (income) loss related to noncontrolling interest				
Net income (loss) attributable to Erickson Air-Crane Incorporated	14,525	17,556	11,356	16,178
Dividends on Redeemable Preferred Stock				2,794
Net income (loss) attributable to common stockholders	\$ 14,525	\$ 17,556	\$ 11,356	\$ 13,384
Net income (loss)	\$ 14,488	\$ 17,634	\$ 11,697	\$ 16,493
Other comprehensive income (loss):				
Foreign currency translation adjustment	727	158	542	117
Comprehensive income (loss)	15,215	17,792	12,239	16,610
Comprehensive (income) loss attributable to noncontrolling interest	(14)	(97)	(375)	(311)
Comprehensive income (loss) attributable to Erickson Air-Crane Incorporated	\$ 15,201	\$ 17,695	\$ 11,864	\$ 16,299
Net income (loss) per share attributable to common stockholders				
Basic	\$ 1.26	\$ 1.80	\$ 1.10	\$ 2.21
Diluted	\$ 1.05	\$ 1.80	\$ 1.02	\$ 2.21
Weighted average shares outstanding				
Basic	11,562,465	9,756,478	10,356,507	6,051,346
Diluted	13,813,514	9,756,478	11,122,050	6,051,346

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

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PREFERRED STOCK AND
STOCKHOLDERS EQUITY (DEFICIT)

(in thousands, except share data)

(Unaudited)

	Preferred Stock (see Note 10)		Common Stock Class A		Common Stock		Total Stockholders Equity (Deficit)			Noncontrolling Interest Amount	Total Stockholders Equity (Deficit)	
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Other Comprehensive Income (Loss)			
Balance at December 31,	34,999.5	\$ 66,161	1,000	\$ 1		\$	\$	\$ (9,988)	\$ (36)	\$ (10,023)	\$ 878	\$ (9,145)
Issuance of convertible preferred stock		2,795						(2,795)		(2,795)		(2,795)
Conversion of convertible preferred stock to common stock											(297)	
Conversion of convertible preferred stock to common stock	(34,999.5)	(68,956)	(1,000)	(1)	4,802,970	0.5	68,956			68,956		68,956
Conversion of convertible preferred stock to common stock					4,800,000	0.5	31,454			31,454		31,454
Conversion of convertible preferred stock to common stock					214,933		2,118			2,118		2,118
Conversion of convertible preferred stock to common stock					(91,118)		(695)			(695)		(695)

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Income						15,230		15,230	406	15	
Income tax expense							107	107	29		
Comprehensive income (loss)										15	
Balance at											
December 31,											
Retained Earnings	\$	\$	9,726,785	\$	1	\$ 101,833	\$ 2,447	\$ 71	\$ 104,352	\$ 1,016	\$ 105
Accumulated Other Comprehensive Income											
Preferred Stock	4,008,439	78,044									
Controlling Interest											
Minority Interest										(341)	
Units			86,010								
Share-based Compensation						665		665			
Conversion of Preferred Stock to Common	(4,008,439)	(78,044)	4,008,439		78,044			78,044		78	
Dividends withheld											
Payment of			(34,944)		(697)			(697)			
Components of Comprehensive Income (loss):											
Income								11,356	11,356	341	11
Income tax expense								508	508	34	
Comprehensive income (loss)											12
Balance at											
December 30,											
Retained Earnings	\$	\$	13,786,290	\$	1	\$ 179,845	\$ 13,803	\$ 579	\$ 194,228	\$ 1,050	\$ 195

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

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ERICKSON AIR-CRANE INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash flows from operating activities:				
Net income (loss)	\$ 14,488	\$ 17,634	\$ 11,697	\$ 16,493
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	11,566	7,670	25,439	16,413
Deferred income taxes	8,460	10,333	4,665	8,790
Non-cash interest expense on debt	579	641	1,776	2,539
Amortization of debt issuance costs	599	297	1,386	852
Non-cash interest on tax contingencies	561		872	
Stock-based compensation	255	433	665	1,729
Write-off of debt issuance costs related to the early extinguishment of debt			215	
Non-cash interest income on loans	(58)		(99)	
Gain on sale of equipment	(20)		(41)	
Changes in operating assets and liabilities, excluding effects of acquisitions of businesses:				
Accounts receivable	(12,799)	(19,747)	(26,482)	(23,432)
Prepaid expenses and other current assets	(380)	1,468	(2,018)	2,227
Income tax receivable	(246)	(19)	(561)	(543)
Aircraft support parts, net	(9,999)	(5,556)	(23,193)	(17,137)
Other non-current assets	(1,622)		(4,303)	
Accounts payable	4,736	113	(20,740)	(494)
Accrued and other current liabilities	(3,273)	11,031	2,739	10,855
Income tax payable	25	360	1,256	1,319
Other long-term liabilities	(1,119)	156	164	(520)
Uncertain tax positions	463		732	
Net cash provided by (used in) operating activities	12,216	24,814	(25,831)	19,091
Cash flows from investing activities:				

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Acquisition of businesses, net of cash acquired (see Note 6)	(22,998)		(231,868)	
Restricted cash	45,953	1,238	942	1,442
Purchases of aircraft and property, plant, and equipment	(7,733)	(1,052)	(32,366)	(4,341)
Purchases of intangible assets	(2,200)		(2,200)	
Decrease (increase) in other assets		(321)	(35)	(26)
Dividends paid to noncontrolling interest			(341)	(297)
Net cash provided by (used in) investing activities	13,022	(135)	(265,868)	(3,222)
Cash flows from financing activities:				
Proceeds from issuance of common stock, net of expenses				31,454
Repayments of subordinated notes			(27,572)	
Repayments of credit facilities	(30,382)	(76,183)	(214,799)	(238,014)
Borrowings from credit facilities	49,535	51,726	197,387	192,487
Borrowing of notes			400,000	
Repayments of notes	(45,000)		(45,000)	
Debt issuance costs	(691)	(274)	(14,667)	(274)
Shares withheld for payment of taxes	(84)		(697)	
Net cash provided by (used in) financing activities	(26,622)	(24,731)	294,652	(14,347)
Effect of foreign currency exchange rates on cash and cash equivalents	865	14	881	(20)
Net increase (decrease) in cash and cash equivalents	(519)	(38)	3,834	1,502
Cash and cash equivalents at beginning of period	5,821	1,808	1,468	268
Cash and cash equivalents at end of period	\$ 5,302	\$ 1,770	\$ 5,302	\$ 1,770
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	\$ 1,972	\$ 851	\$ 11,820	\$ 2,813
Net cash paid (received) during period for income taxes	\$ 526	\$ 176	\$ 971	\$ 496

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

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Description of the Business

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

As of September 30, 2013, the Company owned a fleet of 20 heavy lift helicopters, comprised of 13 S-64E and seven S-64F model Aircranes, and 36 medium and light lift aircraft of varying model types, comprised of 28 rotor wing aircraft and eight fixed-wing aircraft. As of September 30, 2013, the Company leased a fleet of 34 medium and light lift aircraft of varying types, comprised of 29 rotary wing aircraft and five fixed-wing aircraft. The Company's fleet operations span the globe, including a presence in North America, South America, Europe, the Middle East, Africa, Asia, and Australia. As of September 30, 2013, 14 of the owned aircraft and 21 of the leased aircraft were deployed outside of North America.

The Company owns the Type Certificate and Production Certificate for the S-64 Airplane which gives it the authorization to convert and remanufacture the S-64 Airplane for its own use or to sell to third parties. The Company holds a Type Certificate issued by the European Aviation Safety Agency (EASA) certifying the S-64F model which allows the Airplane to be sold to third parties in the European Union. The Company also holds a Repair Station Certificate which allows the Company to repair and overhaul airframes and components for Airplanes and certain other aircraft. During the quarter ended September 30, 2013, the Company purchased a Type Certificate from Pratt & Whitney for engines used in the S-64 Airplane.

Fiscal 2013

On May 2, 2013, the Company closed its \$400.0 million aggregate principal note offering of 8.25% second priority senior secured obligations due 2020 (the Notes). Net proceeds from the offering were approximately \$386.4 million after deducting the initial purchasers' commissions and estimated transaction fees and expenses. The Company used the net proceeds of the offering to (i) finance a portion of the purchase price for the EHI acquisition (see Note 6 Acquisitions), (ii) refinance its 2015 Subordinated Notes and 2016 Subordinated Notes, (iii) refinance its prior senior secured asset-based revolving credit facility, comprised of the Term Debt and Revolving Line of Credit, (iv) pay related fees and expenses and (v) record the remaining cash to the balance sheet. A total of \$46.0 million of the net proceeds were deposited in escrow on May 2, 2013, consisting of \$45.0 million of aggregate principal and \$1.0 million related to anticipated interest, to be used toward the acquisition of Air Amazonia, the aerial services business of Brazil-based HRT Participações em Petróleo, S.A. (HRT). These proceeds of the offering were not released from escrow to consummate the Air Amazonia acquisition before July 31, 2013, and as a result, pursuant to the terms of the Notes, an aggregate principal amount of Notes equal to \$45.0 million were redeemed, on a pro rata basis, on August 5, 2013 pursuant to a special mandatory redemption, at a price equal to 100% of the principal amount of the Notes being

redeemed, plus accrued and unpaid interest to, but not including, August 5, 2013. The Company completed the acquisition of Air Amazonia on September 3, 2013, funding the purchase price with borrowings from its senior secured asset-based credit facility also entered into on May 2, 2013 (the Revolving Credit Facility). See Note 6 Acquisitions for further information.

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

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

Fiscal 2012

In April 2012, the Company completed its initial public offering of common stock in which a total of 4,800,000 shares of common stock were sold and issued, including 1,050,000 shares purchased by the existing stockholders of the Company, at an issue price of \$8.00 per share. The Company raised a total of \$38.4 million in gross proceeds from the initial public offering, or approximately \$31.5 million in net proceeds after deducting underwriting discounts and commissions of \$2.1 million and offering costs of \$4.8 million. Upon the closing of the initial public offering, all shares of the Company's redeemable preferred stock (Redeemable Preferred Stock) and Class A common stock then outstanding automatically converted into an aggregate of 4,802,970 shares of the Company's common stock. Proceeds received from the initial public offering were used to pay down indebtedness.

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.

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

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

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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, 2012 included in the Company's annual report on Form 10-K filed with the SEC on March 8, 2013.

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The balance sheet at December 31, 2012 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.

Reclassification has been made to prior period amounts of deferred overhauls from aircraft support parts, net to property, plant, and equipment, net on the consolidated balance sheets and consolidated statements of cash flows to conform to current period presentation. (See Note 4 Aircraft Support Parts, net). Such reclassification had no effect on previously reported consolidated statements of stockholders' equity or statements of comprehensive income (loss).

Recent Accounting Pronouncements

In July 2013, the FASB issued accounting standards update (ASU) No. 2013-11 Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, to resolve the diversity in practice in the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013 for all unrecognized tax benefits that exist at the effective date. Early adoption is permitted and retrospective application is permitted. The Company has not elected early adoption or retrospective application of this ASU and the Company will continue to evaluate the impact adopting this standard will have on its consolidated financial statements.

In March 2013, the FASB issued ASU No. 2013-05 Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity, to resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. The standards update is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. As the Company has not ceased to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, the adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial position, results of operations, or cash flows.

In February 2013, the FASB issued ASU No. 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, requiring new disclosures for items reclassified out of accumulated other comprehensive income (AOCI), including (1) changes in AOCI balances by component and (2) significant items reclassified out of AOCI. The guidance does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. The standards update was effective for reporting periods beginning after December 15, 2012, to be applied prospectively. As this guidance only requires expanded disclosures, the adoption of this guidance did not have a significant impact on the Company's consolidated financial position, results of operations, or cash flows.

In January 2013, the FASB issued ASU No. 2013-01 Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, to clarify the scope of ASU 2011-11. This ASU would apply to derivatives including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or are subject to a master netting arrangement or similar agreement. The ASU was effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods to be applied retrospectively. As this guidance only requires expanded disclosures, the adoption of this guidance did not

have a significant impact on the Company's consolidated financial position, results of operations, or cash flows.

Note 3. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Trade accounts receivable	\$ 67,680	\$ 23,387
Other receivables	4,408	1,519
Less: Allowance for doubtful accounts	(742)	(460)
	\$ 71,346	\$ 24,446

The Company had bad debt expense of \$0.3 million in the three months ended September 30, 2013 and had a net recovery of bad debt expense of \$0.1 million in the three months ended September 30, 2012. The Company had bad debt expense of \$0.5 million in the nine months ended September 30, 2013 and had no net bad debt expense in the nine months ended September 30, 2012.

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

At September 30, 2013, four customers made up 45.1% of the Company's accounts receivable balance. At December 31, 2012, three customers made up 54.3% of the Company's accounts receivable balance.

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The following is a summary of customers that accounted for at least 10% of the total current and non-current trade receivables for the Company as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Fluor	14.1%	
NAMSA ⁽¹⁾	12.8%	
Army Contracting Command Rock Island	10.5%	
Hellenic Fire Brigade ⁽¹⁾	7.7%	23.9%
Italian Ministry of Civil Protection		15.5%
Helicorp (Australia)		14.9%
	45.1%	54.3%

- (1) On May 23, 2012, the Company entered into a three year agreement with the NATO Maintenance and Supply Agency (NAMSA), 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 NAMSA, the Company contracted directly with the Hellenic Fire Brigade to provide firefighting services in Greece. At September 30, 2013, 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, 2013 and 2012:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
U.S. Forest Service	26.7%	44.9%	18.0%	32.2%
Fluor ⁽¹⁾	14.0%		12.0%	
NAMSA (Greece)	6.8%	13.0%	4.4%	8.4%
Italian Ministry of Civil Protection	1.1%	14.1%	3.7%	14.3%
	48.6%	72.0%	38.1%	54.9%

- (1) Fluor was a customer serviced by EHI for the three months and nine months ended September 30, 2012. The Company entered into a collaborative agreement during the three months ended September 30, 2013 for the ongoing development and testing of composite main rotor blades for the Aircrane and the CH-54. The agreement calls for the parties to equally share costs associated with the completion of testing. Under the agreement, once the testing

and certifications are completed, the Company maintains the sole and exclusive right to sell the blades for the S-64E and S-64F helicopters to third parties. The purchaser of the intellectual property received the sole and exclusive right to sell the composite blades for the CH-54A and CH-54B helicopters to third parties. The initial sale of the intellectual property to the counterparty of the collaborative agreement was recorded in net revenues on the Company's consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2013. The Company's portion of ongoing project costs, to the extent they qualify for capitalization on the Company's consolidated balance sheets, are included as aircraft support parts, net and property, plant, and equipment, net. The Company's portion of these costs that are to be expensed as incurred are classified on the Company's consolidated statements of comprehensive income (loss) as research and development expense.

Note 4. Aircraft Support Parts, net

Aircraft support parts, net consists of aircraft parts and work-in-process which are valued at the lower of cost or market utilizing the first-in first-out method. Costs capitalized in aircraft support parts include materials, labor, and operating overhead. Work-in-process consists of remanufactured aircraft in various stages of production and in-process aircraft support parts. Upon completion of an aircraft remanufacture, based on the demand for the Company's services, the Company may transfer an aircraft into its fleet. As of September 30, 2013 and December 31, 2012, there were zero and one aircraft being remanufactured, respectively.

Reclassification has been made to prior period amounts of deferred overhauls from aircraft support parts, net to property, plant, and equipment, net on the consolidated balance sheets and consolidated statements of cash flows to conform to current period presentation and to conform to common industry presentation. Such reclassification had no effect on previously reported consolidated statements of stockholders' equity or statements of comprehensive income (loss). The prior period reclassification includes \$36.3 million of deferred overhauls and \$4.0 million of related work-in-process from aircraft support parts, net to property, plant, and equipment, net at December 31, 2012. Deferred overhauls will be presented separately in property, plant, and equipment, net, while work-in-process related to deferred overhauls will be presented in construction-in-progress within property, plant, and equipment, net.

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

	September 30, 2013	December 31, 2012
Aircraft parts	\$ 112,804	\$ 71,331
Work-in-process ⁽¹⁾	18,030	27,770
Less: Excess and obsolete reserve	(5,895)	(6,060)
Total	\$ 124,939	\$ 93,041

- (1) Work-in-process includes aircraft being remanufactured of zero and \$8.5 million at September 30, 2013 and December 31, 2012, respectively.

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Aircraft consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Aircraft	\$ 150,204	\$ 82,735
Less: accumulated depreciation	(21,497)	(16,062)
	\$ 128,707	\$ 66,673

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

	September 30, 2013	December 31, 2012
Land and land improvements	\$ 308	\$ 308
Buildings	5,736	1,499
Vehicles and equipment	25,443	22,702
Deferred overhauls, net (see Note 4)	60,770	36,256
Construction-in-progress (see Note 4)	15,379	6,821
	107,636	67,586
Less: accumulated depreciation	(15,710)	(12,911)
	\$ 91,926	\$ 54,675

During the three months ended September 30, 2013 and September 30, 2012, depreciation expense was \$4.2 million and \$2.3 million, respectively. During the nine months ended September 30, 2013 and September 30, 2012, depreciation expense was \$9.9 million and \$6.3 million, respectively. During the three months ended September 30, 2013 and September 30, 2012, amortization expense associated with deferred overhauls was \$6.6 million and \$5.4 million, respectively. During the nine months ended September 30, 2013 and September 30, 2012, amortization expense associated with deferred overhauls was \$14.3 million and \$10.1 million, respectively.

Note 6. Acquisitions*Evergreen Helicopters, Inc.*

On May 2, 2013, the Company completed its acquisition of EHI, based in McMinnville Oregon, and prior to the acquisition, a wholly owned subsidiary of EIA. EHI operates a fleet of aircraft of varying rotary-wing and fixed-wing types for a wide range of passenger transport and light, medium and heavy load-carrying missions. This diverse fleet serves both government and commercial customers, including programs with the U.S. military in support of overseas operations. EHI maintains a global presence with operations in North America, the Middle East, Africa, and Asia-Pacific.

The Company purchased 100% of the outstanding share capital of EHI for \$251.6 million, consisting of \$186.6 million in cash, \$17.5 million in the Company's subordinated notes, and 4,008,439 shares of the Company's

Mandatorily Convertible Cumulative Participating Preferred Stock, Series A (the Series A Preferred Stock) valued at \$47.5 million based on an agreed upon value of \$11.85 per share. The Series A Preferred Stock, converted according to its terms at the Company's option into an equal number of shares of common stock. The fair value of the Series A Preferred Stock issued as part of the consideration transferred was measured on the acquisition date at the then-current fair value and resulted in a per share equity component different from the \$11.85 per share agreed upon value of preferred stock of the Company. The Company issued 4,008,439 shares of Series A Preferred Stock, valued at \$78.0 million, or \$19.47 per share on the acquisition date. The fair value of the subordinated notes was estimated at \$15.9 million, assuming a market level borrowing rate of 9.0%.

In connection with the acquisition of EHI, EHI purchased nine aircraft from an affiliated entity of EIA for an aggregate purchase price of \$13.0 million, all of which was paid by the Company at closing.

In connection with the acquisition of EHI, consideration transferred included a term note receivable for the estimated working capital shortfall of EHI. EIA issued a term loan note with principal value of \$6.15 million to the Company to fund the working capital shortfall of EHI. The term loan note fair value of \$5.0 million assumes a market level borrowing rate of 11.0%. The Company is in the process of finalizing the working capital adjustment under the purchase agreement.

In connection with the acquisition of EHI, the Company prepaid \$6.8 million to a lessor, an affiliated entity of EIA and EHI, on the acquisition date for the remaining future lease obligations on three aircraft and returned the aircraft to the lessor on the acquisition date. As the transaction was entered into primarily for the benefit of the affiliated entity of EIA and EHI, the Company included the transaction as consideration transferred.

The following table presents the fair value of the consideration transferred (in thousands):

	Consideration Transferred
Cash	\$ 186,615
Consideration for nine aircraft purchased from an affiliated entity of EIA	12,971
Prepayment of aircraft lease expense to an affiliated entity of EIA	6,808
Prepayment of McMinnville headquarters lease	2,616
Total cash consideration transferred	209,010
Series A Preferred Stock	78,044
Subordinated notes	15,900
Term loan note receivable	(4,960)
Total consideration transferred	\$ 297,994

The Company incurred approximately \$1.7 million and \$7.2 million in acquisition and integration-related expenses during the three months and nine months ended September 30, 2013, respectively, which are included in general and administrative expenses.

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The assets purchased and liabilities assumed for EHI have been reflected in the Company's consolidated balance sheet as of September 30, 2013, and the results of operations of EHI are included in the Company's consolidated statements of comprehensive income (loss) since the closing date of the acquisition. The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the acquisition date. The Company is in the process of finalizing the purchase accounting related to the acquisition, including the working capital adjustment under the purchase agreement; thus, the estimated amounts presented herein are subject to change:

(in thousands)	May 2, 2013
Cash and cash equivalents	\$ 140
Accounts receivables	25,134
Prepaid expenses and other current assets	2,036
Aircraft support parts	20,380
Aircraft, net	23,291
Property, plant and equipment	35,413
Goodwill ⁽¹⁾	248,466
Other intangible assets	19,700
Other non-current assets	5,005
Accounts payable	(39,634)
Accrued liabilities	(22,358)
Uncertain tax positions	(11,030)
Other long-term liabilities	(8,549)
 Total purchase price	 \$ 297,994

(1) EHI has certain Federal Aviation Administration certificates (FAA Certificates) and Department of Defense Commercial Airlift Review Board designations (DOD CARB). EHI had accumulated FAA Certificates and DOD CARB through its 50 years of operating history and it would require a significant amount of resources and time for an independent party to recreate these intangible assets. FAA Certificates and DOD CARB are designated to specific aircraft and cannot be transferred or purchased separately and are considered a part of goodwill.

Intangible assets assumed include goodwill of \$248.5 million, customer relationships of \$19.3 million amortized over a period of 9 years, and tradenames of \$0.4 million amortized over a period of 6 months. The goodwill and other intangible assets totaling \$268.2 million will be amortized over a 15 year period for tax purposes.

Liabilities assumed include \$19.8 million in deferred maintenance costs consisting of aircraft lease return-to-service liabilities. In connection with the Company's acquisition of EHI from EIA, the Company pre-negotiated accelerated timelines and return-to-service obligations with the lessors of EHI in exchange for obtaining consent for the transfer of the leases to the Company. These obligations are binding and therefore the related return-to-service costs are highly probable. The deferred maintenance costs were a result of cash constraints on EIA, which caused EHI to remove parts from the affected aircraft which were installed on other aircraft under contract. The Company estimated the return-to-service obligations for nine leased aircraft using historical maintenance costs incurred for the same or like components during the year ended December 31, 2012.

Pro Forma Results of Operations

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

(in thousands, except share and per share data)	Three	Three	Nine	Nine
	Months	Months	months	months
	Ended	Ended	Ended	Ended
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012
Net revenues	\$ 120,226	\$ 127,158	\$ 286,231	\$ 294,110
Net income (loss) attributable to common stockholders	\$ 14,525	\$ 20,524	\$ 20,252	\$ 18,573
Net income (loss) per share attributable to common stockholders				
Basic	\$ 1.05	\$ 1.49	\$ 1.47	\$ 1.85
Diluted	\$ 1.05	\$ 1.49	\$ 1.47	\$ 1.85
Weighted average shares outstanding				
Basic ⁽¹⁾	13,784,537	13,764,917	13,762,947	10,059,785
Diluted ⁽¹⁾	13,813,519	13,764,917	13,779,663	10,059,785

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

Air Amazonia

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

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

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During the three months and nine months ended September 30, 2013, the Company incurred approximately \$0.6 million and \$1.3 million in acquisition and integration-related expenses, respectively, and these costs are included in general and administrative expenses.

The assets purchased and liabilities assumed for Air Amazonia have been reflected in the Company's consolidated balance sheet as of September 30, 2013, and the results of operations of Air Amazonia are included in the Company's consolidated statements of comprehensive income (loss) since the closing date of the acquisition. The preliminary assessment included aircraft of \$20.0 million and goodwill and other intangible assets of \$7.6 million. The Company is in the process of finalizing the purchase accounting related to the acquisition, including the working capital adjustment under the purchase agreement; thus, the estimated amounts presented herein are subject to change.

Note 7. Accrued and Other Current Liabilities

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

	September 30, 2013	December 31, 2012
Deferred maintenance on aircraft (see Note 6)	\$ 13,824	\$
Compensation and benefits, including taxes	11,335	6,630
Interest	12,371	1,099
Deferred revenue	1,741	1,242
Advance from Cambiano (see Note 8)		2,025
Cost per hour (see Note 15)	1,087	3,569
Other	9,786	5,097
Total	\$ 50,144	\$ 19,662

Note 8. Debt

Outstanding debt consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Notes	\$ 355,000	\$
Revolving Credit Facility	54,513	
2020 subordinated notes	16,060	
Term debt		48,750
Revolving line of credit		22,452
2015 and 2016 subordinated notes		26,674
	\$ 425,573	\$ 97,876

Notes Offering

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

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

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

The interest rate on the Notes is fixed at 8.25%. The outstanding balance under the Notes at September 30, 2013 was \$355.0 million.

A total of \$46.0 million of the net proceeds were initially deposited in escrow, consisting of \$45.0 million of aggregate principal and \$1.0 million related to anticipated interest, to be used toward the acquisition of Air Amazonia. Pursuant to the terms of the Notes, these proceeds of the offering were not released from escrow to consummate the Air Amazonia acquisition before July 31, 2013, and as a result, an aggregate principal amount of Notes equal to \$45.0 million were redeemed, on a pro rata basis, on August 5, 2013 pursuant to a special mandatory redemption, at a price equal to 100% of the principal amount of the Notes being redeemed, plus accrued and unpaid interest to, but not including, August 5, 2013. The Company funded the purchase price of the Air Amazonia acquisition with borrowings from its Revolving Credit Facility during the fiscal quarter ended September 30, 2013 (see Note 6 Acquisitions).

Revolving Credit Facility

On May 2, 2013, the Company entered into the Revolving Credit Facility, providing a new \$100.0 million, five-year revolving credit facility with a group of financial institutions led by Wells Fargo Bank N.A. and including Bank of the West, Deutsche Bank Trust Company Americas, and HSBC Bank USA NA. On June 14, 2013, the Revolving Credit Facility was amended to increase the maximum aggregate amount that the Company may borrow from \$100.0 million to \$125.0 million. The interest rate under the Revolving Credit Facility is 325-450 basis points over LIBOR depending on the Company's senior leverage ratio. The proceeds under the Revolving Credit Facility are primarily used for general corporate purposes and the Company used a portion of the proceeds to fund the purchase price of the Air Amazonia acquisition.

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

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The Revolving Credit Facility contains certain financial covenants, including, without limitation, a minimum fixed charge coverage ratio of 1.20:1.00 if the Company's average excess availability, as calculated pursuant to the terms of the Revolving Credit Facility, is greater than \$15.0 million or 1.05:1.00 if the Company's average excess availability, as calculated pursuant to the terms of the Revolving Credit Facility, is less than or equal to \$15.0 million and an annual growth capital expenditures limit of approximately \$25.0 million, subject to standard carry-over provisions.

The Revolving Credit Facility includes mandatory prepayment requirements for the certain types of transactions, including, without limitation, requiring prepayment from (a) proceeds that 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, 2013 was \$54.5 million. The weighted average interest rate for borrowings under the Revolving Credit Facility for the three and nine months (from inception on May 2, 2013) ended September 30, 2013 was 5.34% and 5.43%, respectively. The interest rate at September 30, 2013 was 5.03%. As of September 30, 2013 the Company had \$4.6 million in outstanding standby letters of credit under the Revolving Credit Facility and maximum borrowing availability was \$65.8 million.

2020 Subordinated Notes

Pursuant to the terms of the EHI stock purchase agreement, the consideration included \$17.5 million of the Company's subordinated notes. The subordinated notes accrue interest at a fixed rate of 6.0% per annum, mature on November 2, 2020, and may be prepaid at the Company's option. Upon an event of default under the subordinated notes, the interest rate will increase to 8.0% per annum until the event of default is cured. The Company has agreed to pay, in cash, quarterly installments of interest only (in arrears) until March 31, 2015, after which date the Company has agreed to pay, in addition to such interest, on a quarterly basis \$1.0 million in principal. Upon any refinancing of the 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%. The outstanding balance under the 2020 Subordinated Notes at September 30, 2013 was \$17.5 million, comprised of the \$16.0 million fair value and \$1.5 million related to the unamortized discount on the debt, for the three months and nine months ended September 30, 2013. The weighted average interest rate for borrowings under the 2020 Subordinated Notes was 6.00%.

Term Debt and Revolving Line of Credit

At the end of June 2010, the Company entered into a credit agreement with a bank syndicate led by Wells Fargo Bank, National Association (Wells Fargo), which consisted of up to \$132.5 million in senior secured asset-based revolving credit facilities, including a \$65.0 million term loan facility (Term Debt) and a revolving credit facility (Revolving Line of Credit) of up to \$67.5 million. The Revolving Line of Credit had a \$30.0 million sublimit for issuance of letters of credit and a \$10.0 million sublimit for swingline loans. In connection with the \$400.0 million Notes offering and the Revolving Credit Facility, all of the Term Debt and Revolving Line of Credit, were paid in full to Wells Fargo and were discontinued on May 2, 2013.

The interest rate on the senior credit facilities was calculated based on LIBOR or a base rate. The base rate was the higher of the federal funds rate plus 150 basis points, the prime rate as quoted by Wells Fargo, or LIBOR plus 150 basis points. The interest rate was calculated as LIBOR or base rate plus a LIBOR margin or base rate margin, respectively. Margin rates were tied to the total senior debt leverage covenant per the Company's credit agreement. LIBOR margin ranges between 2.75% and 5.00% and base rate margin ranges between 1.75% and 4.00%. The Company paid an unused commitment fee between 0.375% and 0.625% and fees between 2.75% and 5.00% on outstanding letters of credit, both of which were based on the level of the senior debt leverage covenant ratio.

The outstanding balance under the Revolving Line of Credit at December 31, 2012, excluding letters of credit, was \$22.5 million.

The weighted average interest rate for borrowings under the Revolving Line of Credit facility for the period from January 1, 2013 to the termination date of May 2, 2013 was 3.91%. The weighted average interest rate for borrowings under the Revolving Line of Credit for the three and nine months ended September 30, 2012 was 3.84% and 3.90%, respectively. The interest rate at December 31, 2012 was 3.75%. Maximum borrowing availability was \$43.0 million as of December 31, 2012. The Company had \$2.0 million of outstanding standby letters of credit issued under the Revolving Line of Credit as of December 31, 2012. In connection with the consummation of the Revolving Credit Facility, all standby letters of credit were transferred to the Revolving Credit Facility on May 2, 2013.

The weighted average interest rate for the Term Debt borrowings for the period from January 1, 2013 to the termination date of May 2, 2013 was 3.13%. The weighted average interest rate for the term loan borrowings for the three and nine months ended September 30, 2012 was 3.47% and 3.33%, respectively. The interest rate at December 31, 2012 was 3.13%. At December 31, 2012 the outstanding balance under the term loan facility was \$48.8 million.

Working Capital Guarantee Credit Agreement

On June 30, 2011, the Company obtained a separate line of credit with Wells Fargo for up to \$10.0 million, pursuant to which Wells Fargo would issue standby letters of credit to certain of the Company's non-domestic customers for the purpose of assuring the Company's performance of its obligations to such customers. As of December 31, 2012 the Company had \$4.6 million in outstanding standby letters of credit. In connection with the consummation of the Revolving Credit Facility, all standby letters of credit were transferred to the Revolving Credit Facility, and the Working Capital line of credit was discontinued.

2015 Subordinated Notes and 2016 Subordinated Notes

On June 30, 2010, the Company issued unsecured subordinated promissory notes (2015 Subordinated Notes) with an aggregate principal amount of \$8.5 million to ZM Private Equity Fund II, L.P. and certain of its affiliates at an initial interest rate of 20.0% per annum. No periodic principal or interest payments were required and the 2015 Subordinated Notes were to mature on June 30, 2015. Interest payments were accrued to principal on a quarterly basis. The 2015 Subordinated Notes could be prepaid at any time prior to maturity, at the Company's option, at the original principal amount plus accrued interest without any prepayment penalties, subject to limitations under the agreement. In connection with the Company's initial public offering in April of 2012, the interest rate on the 2015 Subordinated Notes was amended from 20.0% per annum to 10.0% per annum. In connection with the Notes offering, all of the 2015 Subordinated Notes were repaid in full on May 2, 2013.

On June 30, 2011, in connection with an amendment to the credit agreement, the Company issued an additional \$10.0 million of unsecured subordinated promissory notes (2016 Subordinated Notes) to ZM Private Equity Funds I, L.P. and ZM Private Equity Fund II, L.P. (together with ZM EAC LLC, the ZM Funds), at an initial interest rate of 20.0% per annum. No periodic principal or interest payments were required and the 2016 Subordinated Notes were to mature on June 30, 2016.

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Additionally, in connection with the Working Capital Guarantee Credit Agreement, the Company issued \$1.0 million in additional 2016 Subordinated Notes to the ZM Funds. In connection with the Company's initial public offering in April of 2012, the interest rate on the 2016 Subordinated Notes was amended from 20.0% per annum to 10.0% per annum. In connection with the Notes offering, all of the 2016 Subordinated Notes were repaid in full on May 2, 2013.

The weighted average interest rate for the 2015 and 2016 Subordinated Notes for the period from January 1, 2013 to the termination date of May 2, 2013 was 10.0%. The weighted average interest rate for the 2015 and 2016 Subordinated Notes for the three and nine months ended September 30, 2012 was 10.0% and 13.9%, respectively. For the 2015 and 2016 Subordinated Notes, the interest rate was 10.0% and the balance was \$26.7 million at December 31, 2012.

Advance from Cambiano

On July 29, 2008, EuAC entered into an Agreement with Banca Di Credito Cooperativo Di Cambiano (Cambiano) whereby EuAC may request advances up to 6.0 million. On July 29, 2013, EuAC entered into an Amended Agreement which reduced the available advances from 6.0 million to 4.0 million. Advances are based on documentary proof of receivables due from the Italian government. The purpose of this Agreement is to provide short term liquidity needs. There were no advances outstanding as of September 30, 2013 and \$2.0 million (1.5 million) of advances outstanding as of December 31, 2012 under this arrangement included within accrued liabilities. The agreement may be canceled by either party at any time.

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

Note 9. Income Taxes

The Company's effective income tax rate for the three months ended September 30, 2013 and 2012 was 38.8% and 38.2%, respectively. The Company's effective income tax rate for the nine months ended September 30, 2013 and 2012 was 37.5% and 38.1%, respectively. The Company's effective income tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amount of income it earns in those jurisdictions. It is also affected by discrete items that may occur in any given period.

In accounting for income taxes, the Company recognizes deferred tax assets if realization of such assets is more likely than not. The Company believes, based on factors including, but not limited to, the ability to generate future taxable income from reversing taxable temporary differences and forecasts of financial and taxable income or loss by jurisdiction, that as of September 30, 2013 it is more likely than not that the Company will realize all of its deferred tax assets, including its net operating loss carry forwards and tax credits. The Company's utilization of net operating loss carryforwards and credit may be subject to annual limitations due to ownership change provisions of Internal Revenue Code Section 382.

On May 2, 2013, the Company acquired EHI and the Company intends to make a 338(h)(10) election to treat the acquisition as an asset purchase. EHI's assumed liabilities upon acquisition included \$11.0 million in uncertain tax positions, \$2.8 million of related accrued tax penalties, and \$5.8 million of related accrued interest. Aside from EHI's uncertain tax positions accrual assumed upon acquisition, as of September 30, 2013, there have been no material

changes to the Company's uncertain tax position disclosure at December 31, 2012 included in the Company's annual report on Form 10-K filed with the SEC on March 8, 2013.

As of September 30, 2013, primarily due to the acquisition of EHI, long term liabilities included unrecognized tax benefits related to uncertain tax positions of \$18.3 million, related accrued interest of \$6.7 million, and related accrued penalties of \$4.3 million. During the three months ended September 30, 2013, the Company recorded \$0.5 million of income tax expense related to uncertain tax positions, \$0.6 million of interest expense related to these tax contingencies and \$0.3 million of expense for associated penalties. During the nine months ended September 30, 2013, the Company recorded \$1.3 million of income tax expense related to uncertain tax positions, \$0.9 million of interest expense related to these tax contingencies and \$0.7 million of expense for associated penalties.

The Company does not believe it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months because the Company does not believe the remaining open issues will be resolved within the next 12 months. It is the Company's policy to recognize interest and penalties related to uncertain tax positions in other income (expense).

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

The Company is currently under tax examination in Italy for the financial year 2010. The tax authority completed its examination on October 7, 2013 and subsequently issued proposed adjustments. The proposed adjustments are not expected to have a significant impact on the Company's consolidated financial position, results of operations, or cash flows.

The Greek tax authorities are currently conducting a permanent establishment examination of the Company for the Company's financial years 2010 and 2011. As of September 30, 2013, unrecognized tax benefits include all material uncertain tax positions associated with the examination. The Company is not under examination by tax authorities in any other jurisdictions.

Note 10. Authorized Capital Stock

On May 2, 2013, the Company purchased 100% of the outstanding share capital of EHI from EIA for consideration that included 4,008,439 shares of Series A Preferred Stock. The Series A Preferred Stock converted according to its terms, at the Company's option, into an equal number of shares of the Company's common stock, on August 20, 2013, following the Company obtaining stockholder approval of the issuance of shares of its common stock upon such conversion under Nasdaq Marketplace Rules.

In April 2012, the Company completed its initial public offering of common stock. In connection with the initial public offering, the Company amended its certificate of incorporation to authorize the Company to issue up to 110,000,000 shares of common stock and up to 10,000,000 shares of preferred stock. Upon the closing of the initial public offering, all outstanding shares of Redeemable Preferred Stock and all outstanding shares of Class A Common Stock automatically converted into an aggregate of 4,802,970 shares of the Company's common stock.

The Board of Directors is authorized, at any time, to provide for the issuance of shares of preferred stock, in one or more series with such designations, preferences and rights, and such qualifications, limitations and restrictions, as shall be set forth in the resolutions of the Board of Directors providing for the issuance thereof.

Note 11. Reportable Segments

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

The Company deploys its fleet of aircraft to maximize fleet utilization. When making fleet resource allocation decisions, the Company's chief operating decision maker (CODM) primarily considers aircraft type required, route economics, and the financial impact of the resource allocation decision on an individual customer basis. Because the fleet and related resources are used interchangeably between reportable operating segments, the Company does not generate for the CODM's use an allocation of fleet and fleet support assets including aircraft, net, aircraft support parts, net, and property, plant, and equipment, net, across the reportable operating segments.

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The Company's CODM, management team and board of directors evaluate the performance of the Company's operating segments based on net sales and gross profit. Gross profit for each segment includes net sales to third parties and related cost of sales directly attributable to the segment. Gross profit for each segment excludes costs shared by the segments but not allocated to the segments for the use of the CODM and excludes costs not directly attributable to the segments. Costs excluded from segment gross profit are primarily fixed or semi-fixed in nature and include salaries and benefits of pilots and field mechanics, depreciation and amortization costs related to aircraft, aircraft lease costs, aircraft insurance, and other similar type costs. The Company includes intercompany transfers between segments for management reporting purposes. The accounting policies used to prepare and review the Company's reportable operating segments are the same as those described in the summary of significant accounting policies included in the Company's annual report on Form 10-K filed with the SEC on March 8, 2013.

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

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

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

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

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

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

America and Asia.

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

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

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

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

Revenue by Reportable Segment (in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net revenues:				
Government	\$ 92,908	\$ 57,628	\$ 154,370	\$ 88,152
Commercial	27,318	18,633	71,386	53,595
	\$ 120,226	\$ 76,261	\$ 225,756	\$ 141,747

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Gross Profit by Reportable Segment (in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Gross Profit:				
Government	\$ 63,272	\$ 36,995	\$ 102,603	\$ 53,616
Commercial	14,804	9,992	39,814	29,448
Non-allocated costs ⁽¹⁾	(31,891)	(10,445)	(69,469)	(32,162)
	\$ 46,185	\$ 36,542	\$ 72,948	\$ 50,902

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

Assets by Reportable Segment (in thousands):

	September 30, 2013	December 31, 2012
Assets:		
Government	\$ 49,874	\$ 16,573
Commercial	14,875	14,929
Corporate ⁽¹⁾	347,252	24,103
Fixed assets ⁽²⁾	341,403	201,218
Total assets	\$ 753,404	\$ 256,823

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

A reconciliation of the Company's segment gross profit to operating income(loss) for the three and nine month periods ended September 30, 2013 and September 30, 2012 is as follows (in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Reconciliation to operating income (loss):				
Government gross profit	\$ 63,272	\$ 36,995	\$ 102,603	\$ 53,616
Commercial gross profit	14,804	9,992	39,814	29,448
Non-allocated costs of revenue ⁽¹⁾	(31,891)	(10,445)	(69,469)	(32,162)
Operating expenses, net ⁽²⁾	(12,903)	(6,065)	(35,109)	(19,007)
Total operating income (loss)	\$ 33,282	\$ 30,477	\$ 37,839	\$ 31,895

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

Revenue by Geographic Area (in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net revenues:				
North America	\$ 63,941	\$ 49,493	\$ 105,801	\$ 82,282
Middle East	25,308		41,012	
Europe	9,425	20,710	19,558	33,839
Asia	9,379	2,358	16,927	7,553
South America	4,632	3,700	15,670	10,419
Africa	7,541		12,185	
Australia			14,603	7,654
Total net revenues	\$ 120,226	\$ 76,261	\$ 225,756	\$ 141,747

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

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Note 12. 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

ST Aerospace Matter

ST Aerospace Services, Co. (ST Aerospace), a judgment creditor of EIA, served a Writ of Garnishment on the Company on April 11, 2013 in connection with a judgment entered against EIA in favor of ST Aerospace, in the amount of approximately \$3.6 million, also the amount of the garnishment. EIA is the former parent company of EHI. The Company responded that, at the time of its receipt of the Writ of Garnishment on April 11, 2013, the Company did not owe any money or property to EIA. ST Aerospace has since filed an Order for Appearance and requested discovery. A hearing concerning this matter was held in September, 2013. The Company believes it has a strong position in this matter and has not accrued an amount for the related contingent liability.

EHI was party to the following legal proceedings at the date of acquisition. Under and subject to the terms and conditions of the Stock Purchase Agreement, dated March 18, 2013, as amended on May 1, 2013 by the First Amendment to Stock Purchase Agreement, by and among the Company, EIA and the other parties named therein (the SPA), the Seller, EIA, is contractually obligated to defend these matters on the Company's behalf and to indemnify the Company for any liabilities that may result from the claims. The Company believes it has a strong position in these matters and has not accrued an amount for the related contingent liabilities.

Priority 1 Matter

In November 2012, Priority 1 Air Rescue Services, Inc., or Priority 1, brought breach of contract claims against EHI in Multnomah County (Oregon) Circuit Court related to two subcontracts between Priority 1 and EHI. The primary contracts were between EHI and the U.S. Government for air medical evacuation, fire suppression, and other related services in Hawaii and Alaska. Priority 1 alleges that EHI failed to pay invoices for work performed in the amount of approximately \$0.7 million. Priority 1 also claims an additional amount for consequential damages and interest. The total amount claimed by Priority 1 is approximately \$2.0 million. EHI answered the complaint in December 2012, and denied all allegations. Discovery is currently ongoing.

Fortis Matter

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

Arizona Environmental Matter

In August 2012, EHI received a request for information from the State of Arizona regarding the Broadway-Pantano Site in Tucson, Arizona, which is comprised of two landfills at which the State has been conducting soil and groundwater investigations and cleanups. In addition, EHI has been served with various petitions to perpetuate testimony regarding the State of Arizona's investigation into contamination at the Site. According to these documents, the State has identified approximately 101 parties that are potentially responsible for the contamination. Based on the information request and the petition to perpetuate testimony, it is possible that the State of Arizona or other liable parties may assert that EHI is liable for the alleged contamination at the Site.

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

Stockholder Action

In August 2013, a putative stockholder of the Company filed a class and derivative action in the Court of Chancery for the State of Delaware against the Company, the members of its board of directors, EAC Acq., and the ZM Funds and certain of their affiliates. The plaintiff asserted claims for breach of fiduciary duty and unjust enrichment in connection with the EHI acquisition and requested an award of unspecified monetary damages to them and to the Company, disgorgement and restitution, certain other equitable relief, and an award of plaintiff's costs and disbursements, including legal fees. Although the Company is unable to predict the final outcome of the proceeding, the Company believes the allegations lack merit, intends to vigorously defend against them, and believes that the final results will not have a material effect on its consolidated financial position, results of operations, or cash flows.

Note 13. Related Party Transactions

2015 Subordinated Notes and 2016 Subordinated Notes

The Company was party to a Second Lien Credit Agreement pursuant to which the Company borrowed \$20.0 million (the Second Lien Debt). Lenders of Second Lien Debt to the Company included the ZM Funds, which are affiliates of the Company through common ownership.

On June 30, 2010, concurrent with the refinancing of the Company's senior debt, the Company used proceeds from the senior secured asset-based revolving credit facilities to partially pay-down \$11.5 million of its \$20.0 million Second Lien Debt to one of the ZM Funds and certain of its affiliates. The remaining \$8.5 million was exchanged for 2015 Subordinated Notes at a rate of 20.0% per annum, which was payable in kind by increasing the principal amount of such notes and payable quarterly.

No periodic principal or interest payments were required and the 2015 Subordinated Notes were to mature on June 30, 2015. In connection with the initial public offering in April of 2012, the interest rate on the 2015 Subordinated Notes was amended from 20.0% per annum to 10.0% per annum. In connection with the Notes offering consummated on May 2, 2013, all of the 2015 Subordinated Notes were repaid in full.

On June 30, 2011, in connection with an amendment to the Company's credit agreement at the time, an additional \$10.0 million of 2016 Subordinated Notes were issued to two of the ZM Funds at a rate of 20.0% per annum, which was payable in kind by increasing the principal amount of such notes and payable quarterly. No periodic principal or interest payments are required and the 2016 Subordinated Notes were to mature on June 30, 2016. Additionally, in connection with the Working Capital Guarantee Credit Agreement, the Company issued \$1.0 million in additional 2016 Subordinated Notes to two of the ZM Funds at a rate of 20.0% per annum, which was payable in kind by increasing the principal amount of such notes and payable quarterly. In connection with the initial public offering in April of 2012, the interest rate on the 2016 Subordinated Notes was amended from 20.0% per annum to 10.0% per annum. In connection with the Notes offering consummated on May 2, 2013, all of the 2016 Subordinated Notes were repaid in full.

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Evergreen Helicopters, Inc. (EHI) Acquisition

In connection with the Company's acquisition of EHI, the Company entered into a stock purchase agreement (the Second Lien SPA) with all of the second lien lenders of EIA, including two of the ZM Funds and certain of their affiliates, pursuant to which the Company would issue 3,375,527 shares of its Series A Preferred Stock to EIA's second lien lenders. To facilitate the Company's acquisition of EHI, the second lien lenders, including two of the ZM Funds and certain of their affiliates, executed certain waivers and consents pursuant to the EIA's amended and restated second lien credit agreement and certain related agreements (the EIA Second Lien Credit Facility) with Wilmington Trust FSB and certain lenders listed therein, including two of the ZM Funds and certain of their affiliates.

The EIA Second Lien Credit Facility provided a loan facility of up to \$100.0 million, with loans bearing interest at an annual rate of 11.0% plus the greater of (a) the prime rate and (b) the federal funds effective rate plus 0.5%; provided that in no event shall the rate be lower than 5.0%, or for Eurodollar borrowing 12.0% plus LIBOR (with a 3.0% floor) plus statutory reserves, and loans were entitled to certain annual payments in kind. The EIA Second Lien Credit Facility was secured by a second lien security interest in substantially all of EIA's and EHI's assets, certain guarantees and other collateral. The loans under the EIA Second Lien Credit Facility were to mature on September 30, 2015. The EIA Second Lien Credit Facility provided that certain assets sales by EIA, including the Company's acquisition of EHI, required that all loans be repaid in full and loan availability be permanently reduced to zero.

In connection with the EHI acquisition, which was funded with a portion of the proceeds from the Notes offering (See Note 8 Debt), two of the ZM Funds and certain of their affiliates received 1,689,155 shares of Series A Preferred Stock as repayment of \$20.0 million of principal of their pro rata share of the EIA Second Lien Credit Facility. In addition, two of the ZM Funds and certain of their affiliates forgave \$2.5 million of their pro rata share of the EIA Second Lien Credit Facility in connection with the EHI acquisition and retained approximately \$37.9 million in the EIA Second Lien Credit Facility.

In addition, the Company issued 632,911 shares of its Series A Preferred Stock to EIA's first lien lenders in connection with the Company's acquisition of EHI and certain of those first lien lenders sold their shares to certain of the EIA second lien lenders, including two of the ZM Funds and certain of their affiliates. A total of 1,984,680 shares of Series A Preferred Stock were issued to two of the ZM Funds and certain of their affiliates (including shares that two of the ZM Funds and certain of their affiliates purchased from the EIA first lien lenders).

Transaction Fee

In connection with the EHI acquisition, 10th Lane Partners, LLC, an entity controlled by Q&U Investments, LLC and affiliated with Quinn Morgan, one of the Company's directors, received a fee of \$2.5 million from the Company in consideration for services rendered to the Company by 10th Lane Partners, LLC, its affiliates and employees.

Registration Rights

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

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

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

Note 14. Derivative Instruments and Hedging Activities

Periodically, the Company enters into currency forward contracts, which are intended 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 foreign exchange gain (loss) in the accompanying consolidated statements of operations.

There were no open foreign currency forward contracts as of September 30, 2013. The following presents a summary of open foreign currency forward contracts as of December 31, 2012 (all contracts were obligations for the Company to deliver foreign currency i.e., short positions) (in thousands):

Purpose/Maturity	Foreign Quantity	Contract Value	Market Value	Asset (Liability)
December 31, 2012:				
Australia Aerial operations maturing through March 2013	AUD 6,865	\$ 6,673	\$ 7,089	\$ (416)

In accordance with ASC Topic 820 Fair Value Measurements and Disclosures, the Company's foreign currency forward contracts are measured at fair value within Level 2 of the fair value hierarchy, defined as a fair value measurement using inputs other than quoted prices in active markets for similar assets or liabilities that are either directly or indirectly observable. Specifically, the contracts are valued using quoted market prices for contracts with similar terms and maturity dates.

Note 15. Cost Per Hour Reserves

The Company offers CPH contracts pursuant to which the Company provides major components and rotatable parts for a customer's aircraft at a fixed cost per flight hour. The Company estimates the total covered maintenance costs for the aircraft over the coverage period based on historical trends. The amount of the accrual is estimated on a per flight hour basis and recorded as the hours are flown on the aircraft. The timing of cash paid for repairs and maintenance on the aircraft will impact the balance of the accrual.

During the three months ended September 30, 2013 and September 30, 2012, the Company recorded zero and \$3.3 million in net CPH expense, respectively.

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During the nine months ended September 30, 2013 and September 30, 2012, the Company recorded \$0.1 million in net income and \$5.2 million in net expense related to CPH contracts, respectively. As of September 30, 2013 and December 31, 2012, the Company's CPH liability reserve was \$1.1 million and \$3.6 million, respectively. The Company's only remaining CPH contract matured in June 2013. As part of the Company's short term contract with the Italian Forest Service to provide crewing services for the 2013 fire season, the Italian Forest Service has elected to purchase MRO parts directly from the Company in lieu of utilizing its CPH services.

Note 16. Variable Interest Entity

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

European Air-Crane, S.p.A. ("EuAC") is 49% owned by Erickson Air-Crane, 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, 2013, EuAC consolidated VIE assets and liabilities were \$5.7 million and \$3.0 million, respectively. At December 31, 2012, EuAC consolidated VIE assets and liabilities were \$8.5 million and \$5.8 million, respectively. As of September 30, 2013 and December 31, 2012, \$1.1 million and \$1.0 million, respectively, of noncontrolling interest relating to the other owners' stockholdings in EuAC is reflected in stockholders' equity in the accompanying consolidated balance sheets.

Note 17. Seasonality

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

Note 18. Earnings (Loss) Per Share

The Company calculates basic earnings (loss) per share by dividing net income (loss) by the weighted average number of common shares outstanding. Shares issuable upon the satisfaction of certain conditions are considered outstanding and included in the computation of basic earnings (loss) per share. The Company calculates diluted earnings per share by dividing net income (loss) by the weighted average number of common shares outstanding and potentially dilutive

common shares outstanding during the period. Potentially dilutive common shares are determined by applying the treasury stock method or the if-converted method.

On May 2, 2013, the Company issued 4,008,439 shares of Series A Preferred Stock in the EHI acquisition. On August 20, 2013, following the Company obtaining stockholder approval of the issuance of shares of its common stock upon conversion of the Series A Preferred Stock, the Series A Preferred Stock converted according to its terms, at the Company's option, into an equal number of shares of the Company's common stock.

The following table presents the computation of basic and diluted earnings (loss) per share (net income in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net income (loss) attributable to common shareholders	\$ 14,525	\$ 17,556	\$ 11,356	\$ 13,384
Basic weighted average shares outstanding	11,562,465	9,756,478	10,356,507	6,051,346
Dilutive effect of stock-based awards	28,982		16,716	
Dilutive effect of Series A Preferred Stock	2,222,067		748,827	
Dilutive weighted average shares outstanding	13,813,514	9,756,478	11,122,050	6,051,346
Basic earnings (loss) per share	\$ 1.26	\$ 1.80	\$ 1.10	\$ 2.21
Diluted earnings (loss) per share	\$ 1.05	\$ 1.80	\$ 1.02	\$ 2.21
Antidilutive common stock equivalents excluded from diluted earnings (loss) per share		180,095		180,095

Note 19. 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. There were 56,389 shares available for grant under the Long Term Incentive Plan at September 30, 2013. 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.

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The following table summarizes the Company's restricted stock unit awards activity during the nine months ended September 30, 2013:

	Restricted Stock Award Units	Weighted-Average Grant Date Fair Value Per Unit
Outstanding unvested at December 31, 2012	158,557	\$ 7.73
Granted	12,414	8.40
Vested restricted stock units	(86,016)	8.65
Forfeited	(24,642)	7.78
Outstanding unvested at September 30, 2013	60,313	7.56

During the three month periods ended September 30, 2013, the Company did not grant any restricted stock awards and during the three months ended September 30, 2012, the Company granted 103,748 restricted stock awards. The Company recognized approximately \$0.3 million and \$0.4 million in stock-based compensation expense during the three month periods ended September 30, 2013 and September 30, 2012, respectively. During the nine month periods ended September 30, 2013 and September 30, 2012, the Company granted 12,414 and 383,085 restricted stock awards, respectively. The Company recognized approximately \$0.7 million and \$1.7 million in stock-based compensation expense during the nine month periods ended September 30, 2013 and 2012, respectively.

Unrecognized stock-based compensation expense related to outstanding unvested restricted stock unit awards as of September 30, 2013 is expected to be recognized, over a weighted average period of 1.5 years, as follows (in thousands):

	Unamortized Compensation Expense	
2013	\$	103
2014		237
2015		64
2016		19
2017		14
Thereafter		
Total	\$	437

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 comparative terminology. These forward-looking statements are based on management's current expectations but they involve a number of risks and uncertainties. Actual results and the timing of events could differ materially from those anticipated in the forward-looking statements as a result of risks and uncertainties, which include: that we recently completed both the Air Amazonia and Evergreen Helicopters, Inc. (EHI) acquisitions and we may not realize the benefits of these acquisitions on a timely basis or at all; our ability to integrate these businesses successfully or in a timely and cost-efficient manner; our ability to successfully expand these businesses, enter new markets and manage international expansion; that we do not have extensive operating history in the aerial services segments, in the geographic areas, or with the types of aircraft historically operated by EHI and Air Amazonia; that the anticipated reduction in troops in Afghanistan in the near-term may adversely affect us; that we operate in certain dangerous and war-affected areas, which may result in hazards to our fleet and personnel; the hazards associated with our helicopter operations, which involve significant risks and which may result in hazards that may not be covered by our insurance or may increase the cost of our insurance; our safety record; our substantial indebtedness; that we and our subsidiaries may still incur significant additional indebtedness; our failure to obtain any required financing on favorable terms; compliance with debt obligations, which could adversely affect our financial condition and impair our ability to grow and operate our business; cancellations, reductions or delays in customer orders; our ability to collect on customer receivables; weather and seasonal fluctuations that impact aerial services activities; competition; reliance on a small number of large customers; the impact of short-term contracts; the availability and size of our fleet; the impact of government spending; the impact of product liability and product warranties; the ability to attract and retain qualified personnel; the impact of environmental and other regulations, including FAA regulations and similar international regulations; our ability to accurately forecast financial guidance; our ability to convert backlog into revenues and appropriately plan expenses; worldwide economic conditions (including conditions in the geographic areas in which we operate); our reliance on a small number of manufacturers; the necessity to provide components or services to owners and operators of aircraft; our ability to effectively manage our growth; our ability to keep pace with changes in technology; our ability to adequately protect our intellectual property; our ability to successfully enter new markets and manage international expansion; our ability to expand and market manufacturing and maintenance, repair and overhaul services; the potential unionization of our employees; the fluctuation in the price of fuel; the impact of changes in the value of foreign currencies; and the risks of doing business in developing countries and politically or economically volatile areas; as well as other risks and uncertainties more fully described under the heading "Risk Factors" in our most recently filed Annual Report on Form 10-K, our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013, 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 Air-Crane assumes no obligation to update forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting forward-looking information, except to the extent required by applicable laws.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand our business and operations. The following discussion and analysis should be read together with our consolidated financial statements and notes thereto set forth in this Quarterly Report on Form 10-Q. Certain statements contained in this discussion may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those reflected in any forward-looking statements. See "Forward-Looking Statements."

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

Recent Developments highlights from the third quarter of 2013 outlining some of the major events that happened during the quarter and how they affected our financial performance, as well as other recent developments

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

Trends and Uncertainties Affecting our Business some of the known trends, demands, events, and uncertainties that have had material effects on our results of operations for the three and nine month periods presented for 2013 and 2012 in our consolidated financial statements or are reasonably likely to have material effects in the future

Results of Operations an analysis of the results of our operations for the three and nine month periods presented for 2013 and 2012 in our consolidated financial statements. We believe this analysis will help the reader better understand our consolidated statements of comprehensive income. This section also includes financial and statistical data regarding our view of 2013

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

Off-balance Sheet Arrangements an overview of off-balance-sheet arrangements outstanding as of September 30, 2013

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

RECENT DEVELOPMENTS

On September 3, 2013, we closed on our acquisition of Air Amazonia Serviços Aeronáuticos Ltda. (Air Amazonia), the aerial services business of Brazil-based HRT Participações em Petróleo S.A. (HRT).

We experienced no aircraft accidents, maintained our Safety and Health Achievement Recognition Program (SHARP) certification, and maintained zero findings on all FAA audits.

We purchased a Type Certificate from Pratt & Whitney for engines used in the S-64 Aircrane.

Effective September 9, 2013, we appointed Eric Struik as our Chief Financial Officer.

We entered into a three-year aerial firefighting contract, with two optional one-year extensions, to support National Aerial Firefighting Centre operations in Australia, valued at \$60 million.

Financial Highlights Three months ended September 30, 2013 compared to the three months ended September 30, 2012

Our revenue for the three months ended September 30, 2013 was \$120.2 million or \$44.0 million higher than the same period in 2012. This 57.7% increase was primarily driven by the addition of EHI coupled with an increase in MRO revenues primarily due to our sale of intellectual property associated with our composite main rotor blade program and growth in infrastructure construction, which was partially offset by decreases in transport and other governmental activities and firefighting. We flew 3,956 more hours in the third quarter of 2013 than in the third quarter of 2012, an increase of 67.7% primarily driven by the addition of EHI activity, partially offset by decreased transport and firefighting flight hours.

Our heavy lift fleet utilization (calculated as the number of days on contract as a percentage of total available days) decreased from 98% in the third quarter of 2012 to 90% in the third quarter of 2013. Our medium and light rotary wing fleet utilization was 53% in the third quarter of 2013. Our fixed-wing fleet utilization was 62% in the third quarter of 2013. We did not operate medium and light rotary wing or fixed-wing aircraft in 2012.

Financial Highlights **Nine months ended September 30, 2013 compared to the nine months ended September 30, 2012**

Our revenue for the nine months ending September 30, 2013 was \$225.8 million or \$84.0 million higher than the same period in 2012. This 59.3% increase was primarily driven by the addition of EHI, coupled with growth in infrastructure construction and timber harvesting. We flew 8,107 more hours in the nine months ended September 30, 2013 than in the same period in 2012, an increase of 78.6% which was primarily driven by the addition of EHI activity, coupled with growth in timber harvesting and infrastructure construction.

Our heavy lift fleet utilization (calculated as the number of days on contract as a percentage of total available days) improved from 68% in the nine months ended September 30, 2012 to 72% in the nine months ended September 30, 2013. Our medium and light rotary wing fleet utilization was 51% for the nine months ended September 30, 2013. Our fixed-wing fleet utilization was 53% for the nine months ended September 30, 2013.

Aircraft Fleet

As of September 30, 2013, we operated a fleet of 90 aircraft, 60 of which were providing aerial services for our customers during the quarter. Aircraft fleet size is a major driver of our revenues. Throughout the course of any year we may remove aircraft from service for maintenance or for sale, or add aircraft to the fleet through our own production or through a purchase or lease. Of the total aircraft in our fleet as of September 30, 2013, 20 were Aircranes, one of which is in the process of heavy maintenance.

The following table presents the changes in aircraft in our fleet from December 31, 2012 to September 30, 2013:

	Aircraft	Total Aircraft Employed
Aircraft in our fleet at December 31, 2012		21
Aircraft transferred from inventory	1	
Aircraft purchased during the period as part of the EHI acquisition	28	
Aircraft purchased during the period as part of the Air Amazonia acquisition	6	
Aircraft leased during the period as part of the EHI acquisition	35	
Aircraft returned to the lessor during the period	(1)	

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OVERVIEW OF OUR BUSINESS

We are a leading global provider of aviation services to a worldwide mix of Commercial and Government customers. We currently operate a diverse fleet of 90 rotary-wing and fixed-wing aircraft, including a fleet of 20 heavy-lift S-64 Aircranes, which we refer to as the Aircrane. 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 vertical manufacturing capability for the Aircrane, related components, and other aftermarket support and maintenance, repair, and overhaul services for the Aircrane and other aircraft. Founded in 1971, Erickson Air-Crane is headquartered in Portland, Oregon and maintains facilities and operations in North America, South America, Europe, the Middle East, Africa and Asia-Pacific.

Prior to May 2, 2013, our reportable operating segments were Aerial services, which consisted of firefighting, timber harvesting, infrastructure construction, and crewing, and Manufacturing/MRO, which consisted of aftermarket support and maintenance, repair, and overhaul (MRO) services for the Aircrane and other aircraft and the remanufacture of Aircranes and related components. On May 2, 2013, we completed our acquisition of EHI, and on September 3, 2013, we completed the acquisition of Air Amazonia. As a result of the EHI acquisition, we established new reportable operating segments to assess performance by type of customer: Government and Commercial. Our Government segment is comprised primarily from contracts with various governments who use our services for firefighting, defense and security, transportation and other government-related activities. Our Commercial segment is comprised primarily from timber harvesting, construction, and manufacturing/MRO contracts.

To support our fleet, our engineering staff has developed enhanced mission-specific capabilities and modifications for the Aircrane that allow us to compete effectively and contribute to our market share. We typically lease our Aircranes to customers and provide associated crewing and maintenance services. We also offer crewing for aircraft we have sold. Our pilots and mechanics are technical specialists with years of training.

Through our Manufacturing / MRO line of business we remanufacture Aircranes from existing airframes, manufacture new components on a contract basis, and provide customers with FAA, EASA, and ANAC certified MRO services in our AS9100 certified facility. AS9100 is a widely adopted and standardized quality management system for the aerospace industry. We also provide aftermarket support and maintenance, repair and overhaul services for the Aircrane and other aircraft and remanufacture Aircranes and related components for sale. In the third quarter of 2013, our Government and Commercial segments generated revenues of \$92.9 million and \$27.3 million, respectively, and in the third quarter of 2012, our Government and Commercial segments generated revenues of \$57.6 million and \$18.6 million, respectively.

We manage our business using the following key operating indicators to measure our performance, balancing short-term results and strategic priorities.

Sales and Marketing

To maintain and strengthen our position in the aerial services market, we monitor revenue flight hours by our reporting segments and their underlying lines of business, aggregate revenues, and backlog revenues for our Government segment by firefighting, defense and security, transport and other government-related activities and our Commercial segment for timber harvesting and infrastructure construction, and compare these against budgeted and forecasted targets to measure performance. We monitor our sales pipeline for each of these

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

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

Operations and Safety

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

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

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

Financial and Overall Performance Measures

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

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

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

Our Operating Revenue

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

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

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

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

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

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

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

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

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

Our Operating Expenses

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

Research and Development. Our research and development expenses consist primarily of compensation, 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 compensation, 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, other professional services, bank fees and acquisition and integration costs associated with our business combinations.

Other Income (Expense). Our other income (expense) consists primarily of the interest paid on outstanding indebtedness, realized and 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 legal settlements, 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 Asian contracts having both revenues and local expenses paid in the local currency; in addition, some of our contracts provide for rate adjustments based on changes in currency exchange rates. For currency exposure that is not self-hedged, we sometimes enter into forward contracts to reduce our currency risk.

TRENDS AND UNCERTAINTIES AFFECTING OUR BUSINESS

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

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

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

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Effect of 2007 Acquisition. We were acquired on September 27, 2007, in which the buyers acquired 100% of our outstanding common stock for \$93.1 million, which included direct acquisition costs of \$3.4 million. The acquisition was accounted for as a purchase in accordance with the Financial Accounting Standard Board's (FASB) ASC No. 805, Business Combinations. As a result, we allocated the purchase price to the assets acquired and the liabilities assumed at the date of the acquisition based on their estimated fair value as of the closing date. The difference between the aggregate purchase price and the estimated fair value of the assets acquired and liabilities assumed was approximately \$553.7 million. Our management determined that the fair value of the various assets acquired and liabilities assumed was \$646.8 million on the date of acquisition and that, based in part on a valuation provided by an independent third party as required by U.S. GAAP in connection with such determination, the fair value of the 18 Aircranes in our fleet on the date of acquisition was \$317.7 million. The negative goodwill was used to reduce the value of Aircranes and support parts and other property, plant and equipment. As a result of this adjustment, the cost of revenues in each of the successor periods included in this Quarterly Report on Form 10-Q reflects the lower carrying value of our aircraft support parts that we have sold or used in our maintenance, repair, and overhaul operations. The aggregate effect of the purchase accounting adjustment with respect to our inventory was approximately \$35.5 million from the date of acquisition through September 30, 2013. Based on our past experience and historical inventory usage patterns, we expect to largely realize the benefit of the approximately \$7.7 million remaining fair value purchase accounting adjustment to aircraft support parts over the next 1.5 years as we sell and use our legacy inventory. Our legacy inventory consists of aircraft parts and components purchased over multiple years for which there is no liquid market; therefore, there is no guarantee that we will be able to purchase new inventory at the carrying values of our legacy inventory currently reflected on our consolidated balance sheet.

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

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

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

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

if we fail to timely collect our receivables, including our receivable 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 1, 2018.

Greece Receivable. As of September 30, 2013, included within our other non-current assets balance was \$6.0 million (4.4 million) due from the Hellenic Fire Brigade for final payment of firefighting services performed in 2011. In 2012, the government of Greece communicated with us its belief 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