ERICKSON INC.
Form 10-Q
August 07, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014.

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

For the transition period from __________ to __________.

Commission File Number 001-35482

ERICKSON INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**93-1307561**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5550 SW Macadam Avenue, Suite 200, Portland, Oregon	**97239**
(Address of principal executive offices)	**(Zip Code)**

(503) 505-5800

(Registrant s telephone number, including area code)

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

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

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

N/A

(Title of each class)

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 x 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 x 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	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

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

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ERICKSON INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(Unaudited)

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

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

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

Table of Contents

ERICKSON INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands, except share and per share data)

(Unaudited)

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

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

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

Table of Contents

ERICKSON INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS EQUITY

(In thousands, except share and per share data)

(Unaudited)

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

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

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

Table of Contents

ERICKSON INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

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

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

The accompanying notes are an integral part of these financial statements

6

Table of Contents

ERICKSON INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Description of the Business

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

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

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

Fiscal 2014

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

Fiscal 2013

On May 2, 2013, the Company closed its $400.0 million aggregate principal note offering of 8.25% second priority senior secured obligations due 2020 (the 2020 Senior Notes). Net proceeds from the offering were approximately $386.4 million after deducting the initial purchasers commissions and estimated transaction fees and expenses. The Company used the net proceeds of the offering to (i) finance a portion of the purchase price for the EHI acquisition (see Note 6 Acquisitions), (ii) refinance its 2015 Subordinated Notes and 2016 Subordinated Notes, (iii) refinance its prior senior secured asset-based revolving credit facility, comprised of the Term Debt and Revolving Line of Credit, (iv) pay related fees and expenses and (v) record the remaining cash to the balance sheet. A total of $46.0 million of the net proceeds were deposited in escrow on May 2, 2013, consisting of $45.0 million of aggregate principal and $1.0 million related to anticipated interest, to be used toward the acquisition of Air Amazonia, the aerial services business of Brazil-based HRT Participações em Petroleo, S.A.(HRT). These proceeds of the offering were not released from escrow to consummate the Air Amazonia acquisition before July 31, 2013, and as a result, pursuant to the terms of the 2020 Senior Notes, an aggregate principal amount of Notes equal to $45.0 million were redeemed, on a pro rata basis, on August 5, 2013 pursuant to a special mandatory redemption, at a price equal to 100% of the principal amount of the 2020 Senior Notes being redeemed, plus accrued and unpaid interest to, but not including, August 5, 2013. The Company completed the acquisition of Air Amazonia on September 3, 2013, funding the purchase price with borrowings from its senior secured asset-based credit facility also entered into on May 2, 2013 (the Revolving Credit Facility). See Note 6 Acquisitions for further information.

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

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

Note 2. Basis of Presentation

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

All intercompany accounts and transactions have been eliminated in consolidation.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and following the guidance of Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the U.S. Securities and Exchange Commission (the SEC). As permitted under such rules, certain notes and other financial information normally required by accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted; however, the unaudited consolidated financial statements do include such notes and financial information sufficient so as to make the interim information presented not misleading. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes as of December 31, 2013 included in the Company s annual report on Form 10-K filed with the SEC on March 14, 2014.

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

Recent Accounting Pronouncements

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

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

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

Note 3. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consisted of the following (in thousands):

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

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

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

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

	June 30, 2014	December 31, 2013
Fluor	14.2%	$ 19.4%
Army Contracting Command Rock Island	7.7%	13.8%
	$ 21.9%	$ 33.2%

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

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

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

Note 4. Aircraft Support Parts, net

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

Table of Contents

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

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

Note 5. Aircraft and Property, Plant and Equipment

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

	June 30, 2014	December 31, 2013
Aircraft	$ 154,837	$ 151,044
Less: Accumulated depreciation	(27,355)	(23,865)
	$ 127,482	$ 127,179

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

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

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

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

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

Note 6. Acquisitions

Evergreen Helicopters, Inc.

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

Pro Forma Results of Operations (Unaudited)

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

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

Weighted average shares outstanding(1):		
Basic	13,768,197	13,751,971
Diluted	13,768,197	13,787,990

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

Table of Contents

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

Air Amazonia

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

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

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

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

Note 7. Other Intangible Assets, net

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

	Useful Life (in years)	June 30, 2014	December 31, 2013
Customer Relationships (EHI)	9	$ 19,300	$ 19,300
Customer Relationships (Air Amazonia)	9	2,500	2,500
Type Certificate(1)	Indefinite	2,205	2,205
		24,005	24,005

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

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

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

	Intangible Asset Amortization
2014	$ 1,211
2015	2,421
2016	2,421
2017	2,421
2018	2,421
Thereafter	8,163
Total	$ 19,058

Note 8. Accrued and Other Current Liabilities

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

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

Note 9. Debt

Outstanding debt consisted of the following (in thousands):

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

2020 Senior Notes Offering

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

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

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

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

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

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

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

Revolving Credit Facility

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

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

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

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

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

Table of Contents

2020 Subordinated Notes

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

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

Advance from Cambiano

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

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

Note 10. Goodwill

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

	Government Segment	Commercial Segment	Total
Balance as of January 1, 2014			
Goodwill	$ 231,627	$ 3,351	$ 234,978

Activity during 2014			
Impairment losses	(21,272)		(21,272)
Purchase accounting adjustments for Air Amazonia		975	975
Balance as of June 30, 2014			
Goodwill	$ 210,355	$ 4,326	$ 214,681

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

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

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

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

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

Table of Contents

Note 11. Consolidating Financial Information

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

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

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

Non-guarantor subsidiaries, on a combined basis;

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

Erickson Incorporated and Subsidiaries on a consolidated basis

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

Condensed Consolidating Balance Sheet
June 30, 2014

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

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

Table of Contents

	Condensed Consolidating Balance Sheet December 31, 2013				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 576	$ (12)	$ 1,317	$	$ 1,881
Restricted cash	151	364	2,368		2,883
Accounts receivable, net	17,290	40,560	8,024	113	65,987
Prepaid expenses and other current assets	1,878	582	900		3,360
Income tax receivable	70		65		135
Deferred tax assets	3,372		343		3,715
Total current assets	23,337	41,494	13,017	113	77,961
Aircraft support parts, net	93,719	33,022		(45)	126,696
Aircraft, net	88,242	35,236	3,701		127,179
Property, plant and equipment, net	70,145	37,825	1,412		109,382
Other intangible assets, net	2,205	17,870	2,409		22,484
Goodwill		231,626	4,114	(762)	234,978
Other non-current assets	325,768	7,133	816	(305,092)	28,625
Total assets	$ 603,416	$ 404,206	$ 25,469	$ (305,786)	$ 727,305
Liabilities and stockholders equity (deficit)					
Current liabilities:					
Accounts Payable	8,179	17,889	2,967		$ 29,035
Accrued and other current liabilities	(48,899)	66,513	23,592	27	41,233
Income tax payable			621		621
Total current liabilities	(40,720)	84,402	27,180	27	70,889
Long-term debt, less current portion	16,160				16,160
Long-term revolving credit facilities	68,086				68,086
Long-term notes payable	355,000				355,000
Other long-term liabilities	1,756		63		1,819
Uncertain tax positions	5,669				5,669
Deferred tax liabilities	16,745		30		16,775
Total liabilities	422,696	84,402	27,273	27	534,398
Stockholders equity (deficit):					
Common stock	1		1,674	(1,674)	1
Additional paid-in capital	179,954	297,994	33	(298,027)	179,954
	806	21,810	(5,142)	(5,370)	12,104

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

Table of Contents

Condensed Consolidating Statement of Operations
Quarter Ended June 30, 2014

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

Condensed Consolidating Statement of Operations
Quarter Ended June 30, 2013

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

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

Table of Contents

	Condensed Consolidating Statement of Operations Six Months Ended June 30, 2014				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net revenues:	$ 51,444	$ 87,458	$ 25,413	$ (9,246)	$ 155,069
Cost of revenues	44,193	74,983	23,130	(9,246)	133,060
Gross profit	7,251	12,475	2,283		22,009
Operating expenses:					
General and administrative	11,487	606	1,698		13,791
Research and development	2,056				2,056
Selling and marketing	4,738	345	60		5,143
Impairment of goodwill		21,272			21,272
Total operating expenses	18,281	22,223	1,758		42,262
Operating income (loss)	(11,030)	(9,748)	525		(20,253)
Other income (expense):					
Interest income (expense), net	(17,466)	17	(415)		(17,864)
Other income (expense), net	(1,311)	22	4	(77)	(1,362)
Total other income (expense)	(18,777)	39	(411)	(77)	(19,226)
Net income (loss) before income taxesand noncontrolling interest	(29,807)	(9,709)	114	(77)	(39,479)
Income tax expense (benefit)	(15,915)		1,123		(14,792)
Net loss	(13,892)	(9,709)	(1,009)	(77)	(24,687)
Less: Net loss related to noncontrolling interest				(16)	(16)
Net loss attributable to Erickson Incorporated and common stockholders	$ (13,892)	$ (9,709)	$ (1,009)	$ (93)	$ (24,703)

	Condensed Consolidating Statement of Operations Six Months Ended June 30, 2013				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net revenues:	$ 61,251	$ 29,872	$ 26,440	$ (12,033)	$ 105,530

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

Table of Contents

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

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

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

17

Table of Contents

	Condensed Consolidating Statement of Cash Flows Quarter Ended June 30, 2013				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ (7,104)	$ 4,154	$ 1,180	$ (27)	$ (1,797)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	6,436	1,983	55		8,474
Deferred income taxes	(1,993)	(269)			(2,262)
Non-cash interest expense on debt	540				540
Non-cash interest expense on tax contingencies	15	296			311
Stock-based compensation	232				232
Write-off of debt issuance costs related to the early extinguishment of debt	215				215
Non-cash interest income on loans	(41)				(41)
Loss (gain) on sale of equipment	(25)		4		(21)
Amortization of debt issuance costs	465				465
Changes in operating assets and liabilities:					
Accounts receivable	1,898	(4,042)	(5,286)	(1)	(7,431)
Prepaid expenses and other current assets	357	(347)	21		31
Income tax receivable, net	(416)		(36)		(452)
Aircraft support parts, net	(8,057)	(3,464)			(11,521)
Other non-current assets	(74)	(2,608)	1		(2,681)
Accounts payable	1,439	(26,532)	(67)		(25,160)
Accrued and other current liabilities	(45,995)	44,476	3,147	(291)	1,337
Income tax payable		1	840		841
Other long-term liabilities	1,216	336			1,552
Net cash provided by (used in) operating activities	(50,892)	13,984	(141)	(319)	(37,368)
Cash flows from investing activities:					
Acquisition of businesses, net of cash acquired	(208,870)				(208,870)
Purchases of aircraft and property, plant and equipment	(3,846)	(12,242)	(12)		(16,100)
Restricted cash	(44,960)				(44,960)
Dividends paid to noncontrolling interest			(660)	319	(341)
Net cash provided by (used in) investing activities	(257,676)	(12,242)	(672)	319	(270,271)

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

Table of Contents

	Condensed Consolidating Statement of Cash Flows Six Months Ended June 30, 2014				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ (13,892)	$ (9,709)	$ (1,009)	$ (77)	$ (24,687)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	11,654	4,885	395		16,934
Impairment of goodwill		21,272			21,272
Deferred income taxes	(16,830)		90		(16,740)
Non-cash interest expense on debt	523				523
Stock-based compensation	396				396
Amortization of debt issuance costs	1,214				1,214
Gain on sale of equipment	(121)	(25)	(45)		(191)
Changes in operating assets and liabilities					
Accounts receivable	(1,359)	5,906	(2,991)	14	1,570
Prepaid expenses and other current assets	(1,159)	(64)	317		(906)
Income tax receivable	41	(3)	908		946
Aircraft support parts, net	(7,759)	(4,483)	(473)		(12,715)
Other non-current assets	145	2,753	228		3,126
Accounts payable	2,408	(1,285)	(392)		731
Accrued and other current liabilities	(15,843)	(1,894)	1,396		(16,341)
Income tax payable	(10)	4	723		717
Other long-term liabilities	558				558
Net cash provided by (used in) operating activities	(40,034)	17,357	(853)	(63)	(23,593)
Cash flows from investing activities:					
Restricted cash			1,767		1,767
Proceeds from sale-leaseback of aircraft	24,660				24,660
Dividends paid to non-controlling interest			(136)	63	(73)
Purchases of aircraft and property, plant and equipment	(19,623)	(17,270)	(245)		(37,138)
Net cash provided by (used in) investing activities	5,037	(17,270)	1,386	63	(10,784)
Cash flows from financing activities:					
Proceeds from shareholders, net	414				414
Shares withheld for payment of taxes	(166)				(166)
Repayments of credit facilities	(79,123)				(79,123)
Borrowings from credit facilities	113,131				113,131
Debt issuance costs	(267)				(267)

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

Table of Contents

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

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

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

20

Table of Contents

Note 12. Income Taxes

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

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

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

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

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

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

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

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

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

Note 13. Reportable Segments

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

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

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

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

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

Table of Contents

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 rotable 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 ten Aircranes since 2002, including the sale-leaseback transaction executed in the second quarter of 2014, and subsequently re-purchased one of these Aircranes in 2012. While 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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net revenues:				
Government	$ 54,315	$ 43,855	$ 110,232	$ 61,462
Commercial	26,570	24,735	44,837	44,068

Total net revenues	$ 80,885	$ 68,590	$ 155,069	$ 105,530

Gross Profit by Reportable Segment (in thousands):

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

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

Assets by Reportable Segment (in thousands):

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

(1) Corporate assets are comprised primarily of cash, prepaid and other current assets, and deferred tax assets

(2) Fixed assets are comprised of the aircraft fleet and fleet support assets including aircraft, net, aircraft support parts, net, and property, plant, and equipment, net. Property, plant, and equipment, net are primarily used to support the aircraft fleet, with minimal amounts allocated to the corporate function

Table of Contents

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

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

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

(2) Other corporate expenses include research and development, corporate sales and marketing expenses, stock-based compensation expense, certain tax expenses, various nonrecurring charges, and other separately managed general and administrative costs.

Revenue by Geographic Area (in thousands):

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

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

Note 14. Commitments and Contingencies

Environmental Remediation Matters

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

Legal Proceedings

Fortis Matter

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

Arizona Environmental Matter

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

World Fuel Claim

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

Table of Contents

Stockholder Action

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

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

Note 15. Related Party Transactions

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

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

Registration Rights

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

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

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

Note 16. Derivative Instruments and Hedging Activities

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

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

Note 17. Variable Interest Entity

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

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

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

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

Table of Contents

Note 18. Seasonality

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

Note 19. Net Loss Per Share

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

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

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

Note 20. Stock-based Compensation

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

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

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

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

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

	Unamortized Compensation Expense
2014	$ 495
2015	278
2016	9
2017	7
Thereafter	
Total	$ 789

25

Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- Recent Developments highlights from the second quarter of 2014 outlining some of the major events that happened during the quarter and how they affected our financial performance, as well as other recent developments.
- Overview of our Business a review of our business and our business operating segments.
- Trends and Uncertainties Affecting our Business some of the known trends, demands, events, and uncertainties that have had material effects on our results of operations for the periods presented in our consolidated financial statements or we believe are reasonably likely to have material effects in the future.
- Results of Operations an analysis of the results of our operations for the quarterly period presented for 2014 in our consolidated financial statements. We believe this analysis will help the reader better understand our consolidated statements of comprehensive income. This section also includes financial and statistical data regarding our view of 2014.
- Liquidity and Capital Resources an analysis of cash flows and sources and uses of cash, including some of the known trends, demands, events, and uncertainties that will or are reasonably likely to have a material impact on our liquidity and capital resources.
- Off-balance-sheet Arrangements an overview of off-balance-sheet arrangements outstanding as of June 30, 2014.
- Critical Accounting Policies and Estimates critical accounting policies and estimates that we believe are most important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.

RECENT DEVELOPMENTS

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

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

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

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

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

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

Table of Contents

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

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

Aircraft Fleet

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

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

	Aircraft	Total Aircraft Employed
Aircraft in our fleet at December 31, 2013		90
Aircraft purchased	2	
Aircraft returned to lessor	(1)	
Aircraft sold	(1)	
Aircraft in our fleet at June 30, 2014		90

OVERVIEW OF THE BUSINESS

We are a leading global provider of aviation services to a worldwide mix of Commercial and Government customers. We currently operate a diverse fleet of 90 rotary-wing and fixed-wing aircraft, including a fleet of 20 heavy-lift S-64 Aircranes. Our fleet supports a variety of Government and Commercial customers, across a broad range of aerial services, including critical supply and logistics for deployed military forces, humanitarian relief, firefighting, timber harvesting, infrastructure construction, and crewing. We also maintain a vertically-integrated manufacturing capability for the Aircrane, related components, and other aftermarket support and maintenance, repair, and overhaul services for the Aircrane and other aircraft. We typically lease our aircraft to customers for specific missions, with customers generally paying for the aircraft, maintenance, and crewing services, and in some cases, fuel expense. Within our fleet we have 20 Aircranes, versatile and powerful heavy-lift helicopters that we manufacture in-house. The Aircrane has two models, the S-64E and the S-64F, and our fleet of 20 contains 13 and 7 of each model respectively, making us the largest operator of Aircranes in the world. The Aircrane has a lift capacity of up to 25,000 pounds and is the only commercial aircraft built specifically as a flying crane, without a fuselage for internal loads. It is also unique in that it is the only commercial heavy-lift helicopter with a rear load-facing cockpit, combining an unobstructed view and complete aircraft control for precision lift and load placement capabilities.

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

Sales and Marketing

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

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

Operations and Safety

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

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

Table of Contents

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

Financial and Overall Performance Measures

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

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

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

Our Operating Revenue

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

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

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

Transportation and Other Government-Related Activities. This line of service captures several types of government services including transportation of items for various government entities that are not defense or security related, crewing and/or cost per hour (CPH) for government customers, as well as other government-related services. Crewing services are typically for customers who have purchased an 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 rotable parts at a fixed cost per flight hour.

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

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

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

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

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

Our Operating Expenses

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

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

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

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

28

Table of Contents

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

TRENDS AND UNCERTAINTIES AFFECTING OUR BUSINESS

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

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

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

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

Effect of 2007 Acquisition. We were acquired on September 27, 2007, in which the buyers acquired 100% of our outstanding common stock for $93.1 million, which amount included direct acquisition costs of $3.4 million. The acquisition was accounted for as a purchase in accordance with the Financial Accounting Standard Board s (FASB) ASC No. 805, Business Combinations. As a result, we allocated the purchase price to the assets acquired and the liabilities assumed at the date of the acquisition based on their estimated fair value as of the closing date. The difference between the aggregate purchase price and the estimated fair value of the assets acquired and liabilities assumed was approximately $553.7 million. Our management determined that the fair value of the various assets acquired and liabilities assumed was $646.8 million on the date of acquisition and that, based in part on a valuation provided by an independent third party as required by U.S. GAAP in connection with such determination, the fair value of the 18 Aircranes in our fleet on the date of acquisition was $317.7 million. The negative goodwill was used to reduce the value of Aircranes and support parts and other property, plant and equipment. As a result of this adjustment, the cost of revenues in each of the successor periods included in this Form 10-Q reflects the lower carrying value of our aircraft support parts that we have sold or used in our maintenance, repair, and overhaul operations. The aggregate effect of the purchase accounting adjustment with respect to our inventory was approximately $37.9 million from the date of acquisition through June 30, 2014. Based on our past experience and historical inventory usage patterns, we expect to largely realize the benefit of the approximately $5.3 million remaining fair value purchase accounting adjustment to aircraft support parts over the next three years as we sell and use our legacy inventory. Our legacy inventory consists of aircraft parts and components purchased over multiple years for which there is no liquid market; therefore, there is no guarantee that we will be able to purchase new inventory at the carrying values of our legacy inventory currently reflected on our balance sheet.

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

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

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

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

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

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

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

30

Table of Contents

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

(1) Percentage of net revenues of segment.
(2) We use the abbreviation NM throughout this Form 10-Q to refer to changes that are not meaningful.

Revenues

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

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

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

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

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

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

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

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

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

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

Government Revenues

Firefighting revenues increased $0.5 million, or 5.0%, to $11.4 million for the second quarter of 2014 from $10.9 million in the second quarter in 2013. This increase was primarily due to an increase in revenues generated from our contract in Turkey that was not in place in 2013, partially offset by a decrease in firefighting activity in North America. Firefighting flight hours decreased to 388 from 573 in the second quarter of 2013, primarily due to lower flight hours in North America of 301 flight hours, partially offset by the 117 flight hours in Turkey.

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

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

Commercial Revenues

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

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

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

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

Cost of Revenues

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

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

(1) Percent of net revenues of applicable segment

Government Cost of Revenues

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

Commercial Cost of Revenues

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

Non-allocated Cost of Revenues

Non-allocated costs of revenues are primarily comprised of costs that are mostly fixed in nature and are shared costs between the segments. These costs are primarily salaries and benefit costs of our pilots and field mechanics, depreciation and amortization costs related to the aircraft, aircraft lease costs, insurance costs and other similar costs. For the second quarter of 2014, these costs were $34.4 million, or 42.6% of net revenues, as compared to $25.1 million, or 36.5% of net revenues for the

Table of Contents

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

Gross Profit

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

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

(1) Percentage of net revenues of applicable segment

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

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

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

Operating Expenses

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

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

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

Other Income (Expense)

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

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

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

Table of Contents

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

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

Income Tax Benefit

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

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

Net Loss Attributable to Erickson Incorporated

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

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

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

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

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

(Dollars in thousands)	Six Months Ended June 30, 2014	% of Revenues	Six Months Ended June 30, 2013	% of Revenues	Change	% Change
Net revenues:						
Government	$ 110,232	71.1	$ 61,462	58.2	$ 48,770	79.3
Commercial	44,837	28.9	44,068	41.8	769	1.7
Total Revenues	155,069	100.0	105,530	100.0	49,539	46.9
Cost of revenues:						
Government(1)	40,854	37.1	22,131	36.0	18,723	84.6
Commercial(1)	21,745	48.5	19,058	43.2	2,687	14.1
Non-allocated	70,461	45.4	37,578	35.6	32,883	87.5
Total cost of revenues	133,060	85.8	78,767	74.6	54,293	68.9
Gross profit						
Government(1)	69,378	62.9	39,331	64.0	30,047	76.4
Commercial(1)	23,092	51.5	25,010	56.8	(1,918)	(7.7)
Non-allocated	(70,461)	(45.4)	(37,578)	(35.6)	(32,883)	87.5
Total gross profit	22,009	14.2	26,763	25.4	(4,754)	(17.8)
Operating expenses:						
General and administrative	&nbs					