Consolidated Financial Statements

Erickson Incorporated
Year Ended December 31, 2018 and
Period April 28, 2017 Through December 31, 2017
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

Erickson Incorporated

Consolidated Financial Statements

Year Ended December 31, 2018 and Period April 28, 2017 Through December 31, 2017

Contents

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Report of Independent Auditors

The Board of Directors
Erickson Incorporated

We have audited the accompanying consolidated financial statements of Erickson Incorporated and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for the year ended December 31, 2018, and the period April 28, 2017 to December 31, 2017, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Erickson Incorporated and subsidiaries at December 31, 2018 and 2017, and the consolidated results of their operations and their cash flows for the year ended December 31, 2018 and the period April 28, 2017 to December 31, 2017 in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

June 30, 2019

Erickson Incorporated

Consolidated Balance Sheets

(In Thousands, Except Share and per Share Data)

	December 31 2018	December 31 2017
Assets		
Current assets:		
Cash and cash equivalents	**$ 4,520**	$ 8,475
Restricted cash	**2,685**	2,644
Accounts receivable, net	**28,013**	27,232
Third-party aircraft build	**9,921**	7,600
Prepaid expenses and other current assets	**10,717**	6,590
Total current assets	**55,856**	52,541
Aircraft, net	**85,317**	86,674
Aircraft support parts, net	**64,592**	61,871
Property, plant, and equipment, net	**14,749**	15,257
Other assets	**5,195**	10,143
Deferred tax asset	**10**	–
Intangible assets, net	**17,412**	18,444
Total assets	**$ 243,131**	$ 244,930
Liabilities and equity		
Current liabilities:		
Accounts payable	**$ 9,660**	$ 9,364
Debt and capital leases	**68,589**	113,409
Accrued expenses and other current liabilities	**25,166**	13,625
Total current liabilities	**103,415**	136,398
Long-term debt, less current portion	**58,366**	4,714
Other liabilities	**5,064**	4,534
Deferred tax liability	**–**	22
Total liabilities	**166,845**	145,668
Equity:		
Erickson Incorporated shareholders' equity:		
Common stock: $0.001 par value, 2,500,000 shares authorized and 2,000,000 issued and outstanding as of both December 31, 2018 and 2017		
Preferred stock: $0.001 par value, 100,000 shares authorized and 0 issued and outstanding as of both December 31, 2018 and 2017		
Additional paid-in capital	**97,492**	96,774
(Accumulated deficit) retained earnings	**(22,424)**	494
Accumulated other comprehensive income	**143**	556
Total Erickson Incorporated shareholders' equity	**75,211**	97,824
Non-controlling interests' equity	**1,075**	1,438
Total equity	**76,286**	99,262
Total liabilities and equity	**$ 243,131**	$ 244,930

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

Erickson Incorporated

Consolidated Statements of Operations
(In Thousands)

	Year Ended December 31, 2018	Period April 28, 2017 Through December 31, 2017
Revenues	**$ 206,674**	$ 140,308
Cost of revenues	**176,097**	105,950
Gross profit	**30,577**	34,358
Operating expenses:		
Selling, general and administrative	**30,616**	18,936
Research and development	**3,315**	1,684
Total operating expenses	**33,931**	20,620
Operating (loss) income	**(3,354)**	13,738
Interest expense, net	**20,325**	11,130
Other income	**(3,315)**	(167)
Net (loss) income before income taxes and non-controlling interests	**(20,364)**	2,775
Income tax expense	**2,271**	1,781
Net (loss) income	**(22,635)**	994
Less: net income related to non-controlling interests	**283**	500
Net (loss) income attributable to Erickson Incorporated	**$ (22,918)**	$ 494

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

Erickson Incorporated

Consolidated Statements of Comprehensive Income (Loss)

(In Thousands)

	Year Ended December 31, 2018	Period April 28, 2017 Through December 31, 2017
Net (loss) income	**$ (22,635)**	$ 994
Other comprehensive (loss) income – foreign currency translation adjustment	**(501)**	412
Comprehensive (loss) income	**(23,136)**	1,406
Less: comprehensive income attributable to non-controlling interests	**195**	356
Comprehensive (loss) income attributable to Erickson Incorporated	**$ (23,331)**	$ 1,050

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

Erickson Incorporated

Consolidated Statements of Shareholders' Equity

(In Thousands, Except Shares)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total	Non-Controlling Interest	Total Equity
Balance at April 28, 2017	–	$ –	2,000,000	$ –	$ 96,492	$ –	$ –	$ 96,492	$ 1,082	$ 97,574
Stock-based compensation	–	–	–	–	282	–	–	282	–	282
Net income	–	–	–	–	–	494	–	494	500	994
Other comprehensive income (loss)	–	–	–	–	–	–	556	556	(144)	412
Balance at December 31, 2017	–	–	2,000,000	–	96,774	494	556	97,824	1,438	99,262
Stock-based compensation	**–**	**–**	**–**	**–**	**718**	**–**	**–**	**718**	**–**	**718**
Dividends paid to noncontrolling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(558)**	**(558)**
Net income (loss)	**–**	**–**	**–**	**–**	**–**	**(22,918)**	**–**	**(22,918)**	**283**	**(22,635)**
Other comprehensive loss	**–**	**–**	**–**	**–**	**–**	**–**	**(413)**	**(413)**	**(88)**	**(501)**
Balance at December 31, 2018	**–**	**$ –**	**2,000,000**	**$ –**	**$ 97,492**	**$ (22,424)**	**$ 143**	**$ 75,211**	**$ 1,075**	**$ 76,286**

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

Erickson Incorporated

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended December 31, 2018	Period April 28, 2017 Through December 31, 2017
Operating activities		
Net (loss) income	**$ (22,635)**	$ 994
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	**21,730**	17,629
Stock-based compensation	**718**	282
Gain on nonmonetary transaction	**(299)**	–
Gain on disposal of equipment	**(254)**	(28)
Amortization of debt issuance costs	**483**	322
Deferred income tax	**(32)**	(10)
Payment in kind interest	**8,687**	5,107
Changes in operating assets and liabilities:		
Accounts receivable, net	**(1,777)**	13,839
Third-party aircraft build	**(1,720)**	(5,409)
Prepaid expenses and other current assets	**(4,147)**	(37)
Aircraft support parts, net	**(2,429)**	(13,526)
Other assets	**4,959**	(3,370)
Accounts payable	**(1,123)**	(575)
Accrued expenses and other current liabilities	**12,401**	(3,281)
Other liabilities	**778**	2,082
Net cash provided by operating activities	**15,340**	14,019
Investing activities		
Purchases of property, plant and equipment and aircraft	**(19,375)**	(14,476)
Proceeds from sale of aircraft	**1,705**	7,126
Net cash used in investing activities	**(17,670)**	(7,350)
Financing activities		
Credit facility payments	**(202,085)**	(139,162)
Credit facility borrowings	**201,910**	133,210
Dividends paid to noncontrolling interest	**(558)**	–
Payments on note payable	**–**	(52)
Capital lease payments	**(357)**	(301)
Net cash used in financing activities	**(1,090)**	(6,305)
Effect of foreign currency exchange rates on cash and cash equivalents	**(494)**	96
Net change in cash, cash equivalents and restricted cash	**(3,914)**	460
Cash, cash equivalents and restricted cash at beginning of year	**11,119**	10,659
Cash, cash equivalents and restricted cash at end of year	**$ 7,205**	$ 11,119
Supplemental disclosure of cash flow information		
Cash paid for interest	**$ 11,064**	$ 5,671
Cash paid for taxes	**$ 2,447**	$ 2,370
Purchase of capital expenditure on capital lease	**$ 193**	$ 392
Additions to property, plant and equipment and aircraft in accounts payable	**$ 219**	$ –

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

1. Basis of Presentation

Nature of Business

Established in 1971, Erickson Incorporated (Erickson, EI, or the Company) and its subsidiaries and affiliated companies (collectively referred to as Erickson or the Company) are a global provider of aviation services. The Company owns, operates, maintains and manufactures utility aircraft to transport and place people and cargo around the world for commercial and governmental entities, with three distinct business units consisting of Commercial Aviation Services; Defense and National Security; and Manufacturing and Maintenance, Repair and Overhaul (MRO). Through its Commercial Aviation Services and Defense and National Security business units, the Company provides aerial services that include critical supply and logistics for deployed military forces, humanitarian relief, firefighting, timber harvesting, infrastructure construction, oil & gas, and crewing. Through its MRO business unit, the Company maintains a vertically integrated manufacturing capability for heavy-lift helicopters, known as Air Cranes® and related components, and maintenance, repair and overhaul services for the Air Crane® aircraft and other aircraft, as well as aircraft sales.

On April 28, 2017, Erickson emerged from Chapter 11. The 2017 results are for the period of April 28 through December 31, 2017 (hereafter referred to as the period ended December 31, 2017). The 2018 results are for the full year, January 1 through December 31, 2018.

The Company operates a diverse fleet of aircraft consisting of Air Cranes® helicopters, rotor-wing aircraft, and fixed-wing aircraft.

As a global provider of aviation services, a significant portion of the Company's revenues are generated outside of the United States of America (U.S.) and represented 50% and 60% of revenues for the year ended December 31, 2018 and period ended December 31, 2017, respectively.

The global deployment of the Company's aircraft and crews helps limit the effects of seasonality on the business. However, the highest demand for the Company's services are generally during the June through October months.

1. Basis of Presentation (continued)

At December 31, 2018 and 2017, the Company's current liabilities exceeded its current assets by $47.6 million and $83.9 million, respectively. This deficit is due, in part, to the Company's classification of debt under its first lien credit facility, which features a lock-box arrangement. It is the Company's determination that with this feature, amounts outstanding should be classified as short-term liabilities even though Management does not intend to repay the balance outstanding thereunder in full within the next 12 months. Additionally, while most working measures include as a component of current assets, the Company classifies aircraft support parts inventory as long term, as the majority of this inventory is applied to its fleet through various maintenance events and expensed as aircraft are used in operations.

At the time of issuing the 2017 financial statements, the Company was in technical default of affirmative covenants within both its first lien credit facility and its second lien credit and security agreement when it failed to provide audited financial statements by September 30, 2018. As a result of this default, all debt was classified as current. Management obtained a waiver of default from both the first lien and second lien lenders waiving the September 30, 2018 due date for audited financial statements, after which the lenders no longer had the right to demand repayment. Accordingly, the second lien credit debt is classified as noncurrent as of December 31, 2018.

Certain prior year amounts have been reclassified to conform to the current year presentation.

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of all majority-owned subsidiaries:

Erickson Helicopters, Inc. and its subsidiaries (EHI)
Canadian Air-Crane Ltd. (CAC)
Erickson Air-Crane Malaysia Sdn. Bhd. (EACM)
European Air-Crane S.p.A. (EuAC)
Erickson Equatorial Aviation Ltd (E2A)
Erickson Aviation Peru S.A.C. (EAP)
Erickson Aviation Turkey Yönetim Hizmetleri Limited Şirketi (EAT)

Intercompany accounts and transactions between the companies are eliminated upon consolidation.

1. Basis of Presentation (continued)

EuAC is 49% owned by EI; 49% owned by Grupo Inaer (Inaer); and 2% owned by Fiduciaria Centro Nord (FCN). EI 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. As a result of controlling 51% of the voting rights of EuAC, the Company consolidates the entity.

Emergence from Bankruptcy

On November 8, 2016 (the Petition Date), Erickson Incorporated and certain of its subsidiaries (collectively, the Debtors) filed voluntary petitions for relief (the Bankruptcy Filing) under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division (the Bankruptcy Court). The cases (the Chapter 11 Cases) were jointly administered as Case No. 16-34393 under the caption "*In re Erickson Incorporated, et al*." The Debtors operated their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of Chapter 11 of the Bankruptcy Code and the orders of the Bankruptcy Court until their emergence from bankruptcy. The Company's foreign subsidiaries (collectively, the Non-Filing Entities) were not part of the Chapter 11 Cases and continued to operate in the ordinary course of business.

On March 22, 2017, the Bankruptcy Court entered an order (the Confirmation Order) confirming the Second Amended Joint Plan of Reorganization of Erickson Incorporated (the Plan). On April 28, 2017 (the Effective Date), the Plan became effective and the Debtors emerged from the Chapter 11 Cases.

Upon emergence from bankruptcy on April 28, 2017, Erickson adopted fresh-start accounting in accordance with provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 852, *Reorganizations* (ASC 852), which resulted in Erickson becoming a new entity for financial reporting purposes. Erickson applied fresh-start accounting as of April 28, 2017. Liabilities subject to compromise during the Chapter 11 proceedings were distinguished from liabilities of the Company's foreign subsidiaries that were not part of the Chapter 11 Cases, fully secured liabilities that were not expected to be compromised and from post-petition liabilities.

1. Basis of Presentation (continued)

Fresh-Start Accounting

In connection with the Company's emergence from Chapter 11, Erickson applied the provisions of fresh-start accounting, pursuant to ASC 852, to its financial statements as (i) the holders of existing voting shares of the Company prior to its reorganization received less than 50% of the voting shares of the emerging entity and (ii) the reorganization value of Erickson's assets immediately prior to confirmation was less than the post-petition liabilities and allowed claims. Adopting fresh-start accounting results in a new reporting entity with no beginning retained earnings or deficit.

Upon the application of fresh-start accounting, Erickson allocated the reorganization value to its individual assets based on their estimated fair values. Reorganization value represents the fair value of the Company's assets before considering liabilities. The fair value of the assets was determined using common income, market comparables, and discounted cash flow methods.

Reorganization Value

In support of the Plan, the enterprise value of the Company was estimated to be in the range of $180.0 million to $230.0 million. As part of determining the reorganization value, Erickson estimated the enterprise value of the Company to be $218.6 million utilizing the guideline public company method, the guideline transaction method, and the discounted cash flow method.

The following table reconciles the enterprise value to the estimated fair value of equity (common stock) as of the Effective Date:

(In Millions, Except Shares and per Share Value)		
Enterprise value	$	218.6
Less: Fair value of first lien credit facility		75.9
Less: Fair value of second lien credit facility and term loan		40.0
Less: Fair value of capitalized lease obligations		5.0
Less: Fair value of non-controlling interest		1.1
Less: Fair value of other debt		0.1
Fair value of equity (common stock)	$	96.5
Shares outstanding at April 28, 2017		2,000,000
Per share value	$	48.25

1. Basis of Presentation (continued)

The fair values of the first and second lien credit facilities of $75.9 million and $40.0 million, respectively, are deemed Level 3 as, in the absence of observable market data, they are calculated using discounted cash flow methodologies and include both short- and long-term borrowings and exclude capitalized debt issuance and other financing costs.

The following table reconciles the enterprise value to the estimated reorganization value as of the Effective Date:

(In Millions)		
Enterprise value	$	218.6
Plus: Fair value of non-debt working capital liabilities		24.6
Plus: Fair value of non-debt long-term liabilities		2.5
Reorganization value of assets	$	245.7

The fair value of non-debt working capital and other long-term liabilities represents total liabilities of the Company on the Effective Date of $148.1 million, less the outstanding balances on the Effective Date of: (i) the first lien credit facility of $75.9 million, (ii) the second lien credit facility and term loan of $40.0 million, (iii) outstanding short- and long-term capital lease obligations of $5.0 million, and (iv) other outstanding short-term interest-bearing debt of $0.1 million.

1. Basis of Presentation (continued)

Consolidated Balance Sheet – Fresh Start

The following sets forth a detailed composition of the balance sheet as of the Effective Date:

	As of April 28, 2017
	(In Thousands)
Assets	
Current assets:	
Cash and cash equivalents	$ 2,630
Restricted cash	8,029
Accounts receivable, net	41,000
Third-party aircraft build	2,191
Prepaid expenses and other current assets	6,524
Total current assets	60,374
Aircraft, net	88,076
Aircraft support parts, net	48,345
Aircraft held for sale	7,126
Property, plant, and equipment, net	15,623
Other assets	6,749
Intangible assets, net	19,430
Total assets	$ 245,723

1. Basis of Presentation (continued)

		As of April 28, 2017
		(In Thousands)
Liabilities and equity		
Current liabilities:		
Accounts payable	$	9,859
Revolving line of credit and capital leases		73,814
Accrued expenses and other current liabilities		17,203
Total current liabilities		100,876
Long-term debt and capital leases		44,795
Other liabilities		2,445
Deferred tax liability		33
Total liabilities		148,149
Equity:		
Common stock: $0.001 par value, 2,500,000 shares authorized and 2,000,000 issued and outstanding as of April 28, 2017		
Preferred stock: $0.001 par value, 100,000 shares authorized and 0 issued and outstanding as of April 28, 2017		96,492
Total Erickson Incorporated shareholders' equity		96,492
Non-controlling interests' equity		1,082
Total equity		97,574
Total liabilities and equity	$	245,723

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. (GAAP) requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities, and disclosure of gain or loss contingencies, as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates that may have a material impact on the consolidated financial statements are: (a) estimates and assumptions utilized in determining the enterprise value

1. Basis of Presentation (continued)

and fair value of assets, including intangible assets, under fresh-start accounting, (b) allowance for doubtful accounts, (c) income tax assets and liabilities, (d) return to service liability, (e) excess and obsolete aircraft support parts reserves and (f) debt. Management of the Company base their estimates on historical experience and other relevant assumptions. Actual results could differ materially from those estimates.

Foreign Currency Translation and Transactions

The financial statements of the Company's subsidiaries CAC, EuAC, EACM, and EAT are measured in their functional currencies of the Canadian dollar (C$), Euros (€), U.S. Dollar ($), and Turkish Lira (₤), respectively, and then are translated into U.S. dollars. Generally, balance sheet accounts are translated using the current exchange rate at each balance sheet date. Results of operations are translated using the average exchange rate each month. Translation gains or losses resulting from the changes in the exchange rates from month to month are recorded in other comprehensive income. The financial statements of the Company's subsidiaries EHI, E2A and EAP are prepared using the U.S. dollar as their functional currency, with any foreign currency gain or loss resulting from the remeasurement of monetary assets and liabilities denominated in foreign currencies included in other income (expense), net in the Company's consolidated statements of operations.

2. Recent Accounting Pronouncements

In May 2014, the FASB issued guidance creating ASC Section 606, *Revenue from Contracts with Customers and ASC 340-40, other assets and deferred costs.* ASC 606 creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which includes (1) identifying the contract(s) or agreement(s) with a customer, (2) identifying our performance obligations in the contract or agreement, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue as each performance obligation is satisfied. Under ASC 606, revenue is recognized when performance obligations under the terms of a contract are satisfied. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products or services to a customer. The updated guidance is effective for fiscal years beginning after December 15, 2018. The Company will adopt this guidance effective January 1, 2019. The Company is in the process of evaluating the impact of ASC 606 and ASC 340-40 on the Company's financial statements and disclosures.

2. Recent Accounting Pronouncements (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU 2016-02 requires a lessee to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted. A modified retrospective transition approach is required. The Company is in the process of evaluating the impact of ASU 2016-02 on the Company's financial statements and disclosures.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, and the American Institute of Certified Public Accountants did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

3. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company classifies cash on deposit in banks and cash invested in money market accounts maturing in less than three months from the original date of purchase as cash and cash equivalents. The Company's subsidiaries generally maintain cash account balances sufficient to meet their short-term working capital requirements and periodically remit funds to the parent entity to pay intercompany lease, maintenance and other charges. Substantially all of the Company's cash is concentrated in a few financial institutions. At times, deposits in these institutions exceed the federally insured limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant risk on these balances.

Restricted Cash

Restricted cash serves as collateral for the Company's commercial card program and is maintained in the form of a commercial deposit.

3. Summary of Significant Accounting Policies (continued)

Accounts Receivable, Net

Accounts receivable are recorded at invoiced amount and do not bear interest when recorded or accrued interest when past due. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments. The Company estimates the overall collectability of accounts receivable on an ongoing basis and writes off account balances after reasonable collection efforts have been made and collection is deemed questionable or not probable. The Company specifically analyzes its accounts receivable and historical bad debt experience, customer concentrations, customer creditworthiness and changes in its customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Charges increasing the allowance for doubtful accounts are classified in selling, general and administrative expenses on the consolidated statements of operations.

Aircraft Support Parts, Net

Aircraft support parts, net consists of aircraft parts for the Air Crane® aircraft and other legacy aircraft platforms and work-in-process which are, in many cases, valued at the lower of cost or net realizable value utilizing the first-in, first-out method. In instances where the aircraft parts are not interchangeable or parts have been produced and segregated for specific projects, the Company uses the specific identification method to track costs. Further, parts acquired prior to April 28, 2017, were recorded at their estimated fair value. Costs capitalized for aircraft support parts include materials, labor, and operating overhead. Work-in-process consists of aircraft parts in various stages of production.

Abnormal amounts of idle facility expense, freight, handling costs, and scrap are recorded as current-period expenses. Production overhead rates are based on the planned capacity of the production facilities, and overhead costs are allocated to production based on actual direct labor hours.

Aircraft parts are categorized as either serviceable, which indicates that they are in a condition suitable for installing on an aircraft, or repairable, which indicates that additional overhaul or repair work needs to be performed in order for the part to be certified as serviceable. Since the Company supports various legacy airframes, it experiences long lead times and is required to carry large quantities of spare parts in order to ensure availability for servicing such aircraft. The Company records an excess and obsolete reserve for parts when its quantity on hand exceeds its forecasted need for the part.

3. Summary of Significant Accounting Policies (continued)

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

Aircraft support parts, net are classified as a noncurrent asset in the consolidated balance sheets because they are primarily used to maintain and overhaul the Air Crane® aircraft and other legacy aircraft in the Company’s operating fleet, which are long-term assets. Aircraft support parts when used in operations are recorded as a component of cost of revenues and are therefore reflected in cash flow from operations, on the accompanying consolidated statements of operations.

Aircraft, Net and Property, Plant, and Equipment, Net

All aircraft require daily routine repairs and maintenance based on inspections. Such maintenance costs are expensed as incurred. Periodically, aircraft are removed from service and undergo heavy maintenance activities, including inspections and repairs of the airframe and related parts as required; depending on the nature of the costs, they are either capitalized or expensed as incurred. Certain major components are capitalized to aircraft assets upon completion of heavy maintenance. Prior to their capitalization, they remain in aircraft support parts, net. Overhauls on certain significant components are capitalized, then amortized based on estimated flight hours between overhauls based on established life limits.

With the exception of those acquired prior to April 28, 2017, aircraft and property, plant, and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the assets as follows: aircraft, 15 years; buildings, 20 years; and vehicles and equipment, 3 to 5 years.

Expenditures that increase the value or productive capacity of assets are capitalized. Upon retirement or other disposition of property, plant, and equipment, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is included in the consolidated statements of operations. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the remaining life of the lease.

3. Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

The Company records impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. In such cases, the amount of the impairment is determined based on the relative fair values of the impaired assets. The Company has not recorded any impairments for long-lived assets used in operations during the year ended December 31, 2018 and the period ended December 31, 2017.

Debt Issuance Costs

Debt issuance costs consist of expenditures associated with obtaining debt financing, principally legal and bank commitment fees. Such costs are deferred and amortized over the term of the related credit agreements using a method that approximates the effective interest method. Debt issuance costs are included on the consolidated balance sheets as a direct deduction from the carrying amount of that debt liability.

Revenue Recognition

The Company enters into short-term and medium-term service contracts with its customers, which generally range from one day to one year. Occasionally, the Company enters into multi-year contracts, with extension options for additional years. Revenue is recognized for contracts as the services are rendered and include aerial operations, pilot and field maintenance support, and other related services. The Company charges daily rates and/or hourly rates depending upon the type of service rendered. Mobilization fees, which represent recovery of costs incurred to deploy an aircraft to a customer, are recognized over the estimated life of the respective contract. Revenues from timber-harvesting operations are earned based on the number of flight hours.

Sales contracts for Air Crane® aircraft include multiple deliverables, such as warranty, spare parts, training, and crew provisioning arrangements. The Company allocates consideration associated with the arrangement based on the relative selling prices of the various elements. Selling prices are based on vendor-specific objective evidence (VSOE); if VSOE is not available, third-party evidence of selling prices are used. In circumstances where neither VSOE nor third-party evidence is available, the Company uses estimated selling prices as the basis for allocating consideration.

3. Summary of Significant Accounting Policies (continued)

For sales of existing aircraft, or other sales, revenue is recognized when aircraft modifications have been completed and the title passes to the customer in accordance with the contract.

For manufacturing services that involve significant production, modification or customization, the Company uses the percentage-of-completion method of accounting when circumstances (such as the use of specific milestones or key customer acceptance dates) allow for such. In circumstances where the criteria for using the percentage-of-completion method of accounting are not met, revenue is recognized as each unit is completed or substantially complete (where remaining costs and potential risks are insignificant), delivered, and accepted by the customer and the rights of ownership are transferred. When total cost estimates exceed revenues, the Company accrues the estimated losses. The amount reported as cost of sales is determined by specific identification of costs to remanufacture each Air Crane® aircraft. The Company limits the amount of revenue recognized for delivered items to the amount that is not contingent upon the delivery of additional products or services. In conjunction with certain sales contracts for Air Crane® aircraft, the Company also enters into arrangements in which portions of revenue are contingent upon the occurrence of uncertain future events, for example, the Federal Aviation Administration's approval of next generation parts and subsequent delivery of those parts.

Revenue recognized represents the price negotiated with the customer, adjusted by any discounts. Revenue is recognized net of any taxes remitted to governmental authorities on the customer's behalf.

The Company's MRO facilities enter into contracts that require maintenance, repair, overhaul, and/or assembly of various major components and other aircraft parts. In all such instances, revenues and costs are deferred until repairs are completed and the customer accepts the final product. For sales of spare parts, revenue and cost of sales are recorded once the parts are shipped to the customer in accordance with the contract or purchase order, ownership and risk of loss have passed to the customer, collectability is reasonably assured, and the price is fixed or determinable. In instances where title does not pass to the customer upon shipment, the Company recognizes revenue and cost of sales upon delivery or customer acceptance, depending on the terms of the sales agreement.

Shipping and handling costs are included in cost of sales.

3. Summary of Significant Accounting Policies (continued)

Income Taxes

The Company is subject to income taxes in the U.S., states, and several foreign jurisdictions. In the ordinary course of business, there are transactions and calculations where the ultimate tax determination is uncertain. Significant judgment is required in determining the Company's worldwide provision for income taxes and recording the related assets and liabilities.

Income taxes are accounted for under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between financial statement carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the current and future periods that included the enactment date. The Company records a valuation allowance when necessary to reduce deferred tax assets to the "more likely than not" amount expected to be realized in future tax returns.

Unrecognized tax benefits represent management's expected treatment of a tax position taken in a filed tax return or planned to be taken in a future tax return that has not been reflected in measuring income tax expense for financial reporting purposes. Until such positions are no longer considered uncertain, the Company would not recognize the tax benefits resulting from such positions and would report the tax effect as a liability in its consolidated balance sheets.

The Company classifies any interest and penalties related to uncertain tax positions as part of income tax expense in the consolidated statements of operations.

Environmental Remediation

The Company is subject to federal and state requirements for protection of the environment, including those for discharge of hazardous materials and remediation of contaminated sites. The Company periodically assesses, based on environmental studies, expert analyses and legal reviews, the Company's contingencies, obligations and commitments for remediation of contaminated sites, including assessments of ranges and probabilities of recoveries from other responsible parties who have and have not agreed to a settlement and of recoveries from insurance carriers. The Company immediately accrues and charges to current expense identified exposures related to environmental remediation sites based on its best estimate within a range of potential exposure for investigation, cleanup and monitoring costs that could be incurred.

3. Summary of Significant Accounting Policies (continued)

Research and Development Costs

Research and development activities consist of, among other activities, the ongoing development and testing of composite main rotor blades. Such costs predominantly consist of internal labor costs, engineering tooling design costs, and product testing cost, which are charged to expense when incurred.

Collaborative Arrangement

EAC entered into a collaborative agreement in June 2013 with Helicopter Transport Services, LLC (HTS) to share and develop Composite Blade Technology. Under the agreement, each Party has undivided 50% interest in the Composite Blade Technology. The agreement is for the development of Composite Main Rotor Blades (CMRBs) for EAC S-64 and HTS CH-54 model helicopters. The Parties of this agreement share development costs, perform joint certification, and manufacture CMRBs for each company's fleet of helicopters. Since EAC had started research and development before the arrangement was in place, HTS paid for 50% of the cost incurred by EAC prior to the date of the agreement. Future costs are shared equally, with EAC performing the research and development. In July 2018 production of the composite main rotor blades commenced and the carrying value is $3.5 million as of December 31, 2018. The Company received $890 thousand and $755 thousand from HTS in the year ended December 31, 2018 and the period ended December 31, 2017, respectively, which is recorded as a reduction to research and development expense.

Capitalized Interest

Interest expense is capitalized for the portion of interest expense related to the expenditures on a contract that is recognized under the completed contract method. During 2018, $1.4 million of interest was capitalized. The contract was substantially complete in 2018 and the capitalized interest was properly expensed in 2018.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income (AOCI) is presented as a component of equity in the consolidated balance sheets and consists of the cumulative amount of the Company's foreign currency translation adjustments. Other comprehensive income is presented in the consolidated statements of comprehensive income (loss) and consists of the effects on the consolidated financial statements of translating the financial statements of the Company's international subsidiaries.

3. Summary of Significant Accounting Policies (continued)

Return to Service

The Company has certain leased aircraft that are not currently in "airworthy" condition. For the year ended December 31, 2018 and the period ended December 31, 2017, there were certain aircraft that were not in an airworthy condition for which the Company estimates it would incur approximately $13 thousand and $855 thousand to return the aircraft to airworthy condition, respectively.

Non-Monetary Transactions

During 2018, Erickson entered into two non-monetary transactions with the same counter-party. The like kind exchange of non-monetary assets between the parties had a total estimated value of $899 thousand and resulted in the Company recognizing a gain of $299 thousand as a component of other income.

4. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable, net consisted of the following:

	December 31	
	2018	**2017**
	(In Thousands)	
Trade accounts receivable	$ **30,425**	$ 30,052
Unbilled receivables	**2,193**	2,186
Other receivables	**434**	988
	33,052	33,226
Less allowance for doubtful accounts	**(5,039)**	(5,994)
	$ 28,013	$ 27,232

5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	December 31	
	2018	**2017**
	(In Thousands)	
Prepaid expenses, excluding insurance	**$ 4,936**	$ 2,134
Prepaid insurance	**2,120**	2,017
Income tax receivable	**2,590**	1,971
Deposits	**1,071**	341
Other current assets	**–**	127
	$ 10,717	$ 6,590

6. Aircraft Support Parts, Net

Aircraft support parts, net consisted of the following:

	December 31	
	2018	**2017**
	(In Thousands)	
Aircraft parts	**$ 50,797**	$ 48,661
Work-in-process	**16,422**	13,210
Aircraft parts, gross	**67,219**	61,871
Excess and obsolete provision	**(2,627)**	–
	$ 64,592	$ 61,871

There are support parts associated with re-manufactured aircraft which are reported separately as part of third-party aircraft build and reflected as a current asset on the balance sheet. The Company had $9.9 million in third-party aircraft build for two aircraft and $7.6 million in third-party aircraft build primarily associated with two and one aircraft being re-manufactured for anticipated delivery in 2019 for the year ended December 31, 2018 and the period ended December 31, 2017, respectively.

7. Aircraft, Net and Property, Plant, and Equipment, Net

Aircraft, net and property, plant, and equipment, net consisted of the following:

	December 31 2018	December 31 2017
	(In Thousands)	
Aircraft:		
Aircraft	**$ 60,553**	$ 57,290
Work-in-process	**426**	1,634
Deferred overhaul	**52,192**	40,905
	113,171	99,829
Less accumulated depreciation and amortization	**(27,854)**	(13,155)
Aircraft, net	**$ 85,317**	$ 86,674

Depreciation expense and deferred overhaul amortization for the year ended December 31, 2018 and the period ended December 31, 2017, was $17.0 million and $14.7 million, respectively.

Property, plant and equipment net consisted of the following:

	December 31 2018	December 31 2017
	(In Thousands)	
Property, plant, and equipment:		
Vehicles and equipment	**$ 16,111**	$ 13,704
Land improvements	**121**	120
Buildings	**4,675**	4,428
Construction in progress	**972**	1,275
	21,879	19,527
Less accumulated depreciation and amortization	**(7,130)**	(4,270)
Property, plant, and equipment, net	**$ 14,749**	$ 15,257

Depreciation expense for the year ended December 31, 2018 and the period ended December 31, 2017, was $3.2 million and $2.0 million, respectively.

8. Intangible Assets, Net

Other intangible assets, net consisted of the following:

	Useful Life (In Years)	December 31 2018	December 31 2017
		(In Thousands)	
Customer relationships	7	**$ 2,414**	$ 2,414
Less accumulated amortization		**(576)**	(230)
Customer relationships, net		**1,838**	2,184
Type certificate	15	**10,209**	10,209
Less accumulated amortization		**(1,136)**	(454)
Type certificate, net		**9,073**	9,755
Repair station/FAA certificate	15	**3,477**	2,971
Less accumulated amortization		**(386)**	(132)
Repair station/FAA certificate, net		**3,091**	2,839
Trade name	15	**3,836**	3,836
Less accumulated amortization		**(426)**	(170)
Trade name, net		**3,410**	3,666
		$ 17,412	$ 18,444

Future estimated amortization expense for intangible assets as of December 31, 2018 is as follows (in thousands):

Year ending December 31:	
2019	$ 1,513
2020	1,513
2021	1,513
2022	1,513
2023	1,513

Amortization expense for the year ended December 31, 2018 and the period ended December 31, 2017, was $1,513 thousand and $986 thousand, respectively.

9. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	December 31	
	2018	**2017**
	(In Thousands)	
Accrued interest payable	**$ 836**	$ 746
Accrued employee compensation and benefits and related taxes	**7,535**	6,604
Deferred revenue	**14,611**	1,993
Income taxes payable	**122**	829
Accrued commissions	**897**	116
Other	**1,165**	3,337
	$ 25,166	$ 13,625

Deferred revenue as of December 31, 2018 consists primarily of deposit related to the third-party aircraft build for two aircraft.

10. Credit Facility, Long-Term Debt and Other Long-Term Liabilities

The Company has a $150.0 million first lien revolving credit facility (Credit Facility) with a group of financial institutions.

The Credit Facility is primarily used for general corporate purposes and expires April 28, 2022. The interest rate is 750 basis points over the London Interbank Offered Rate.

The Company and certain of the Company's current and future, direct and indirect, material subsidiaries guarantee the indebtedness under the Credit Facility on a senior-secured first-lien basis. The Credit Facility includes mandatory prepayment requirements for certain types of transactions, including, but not limited to, requiring prepayment from proceeds that the Company receives as a result of certain asset sales, subject to re-investment provisions on terms to be determined, and proceeds from extraordinary receipts.

10. Credit Facility, Long-Term Debt and Other Long-Term Liabilities (continued)

The Credit Facility contains certain covenants including, among other items, the following:

Availability block – An amount equal to $25.0 million, which remains in effect. Conditions upon release include delivery of financial statements for the most recent period, a fixed charge coverage ratio of not less than 1.0:1.0 for the fiscal quarter end for the 12-month period then ended and receipt of cash relating to an Air Crane® aircraft build and sale to the Korean Forest Service (K6).

Fixed charge coverage ratio – The fixed charge coverage ratio has multiple inputs, including, but not limited to: (i) EBITDA and capital expenditures for the trailing 12-month period to (ii) fixed charges of interest expense, scheduled principal payments, and income taxes for the trailing 12-month period. For the year ended December 31 2018 and the period ended December 31, 2017, such fixed charge coverage ratio had not been triggered.

The Company classifies borrowings under the Credit Facility as short-term on its consolidated balance sheets as the Credit Facility has a lockbox arrangement under which the Company's customers remit payments owed to it directly to the bank and the amounts received are applied to reduce the revolver balance outstanding. The credit facility terminates in April 2022 and the Company does not intend to repay the balance outstanding thereunder in full within the next 12 months. For the year ended December 31, 2018 and the period ended December 31, 2017, the Company had $22 million and $11.6 million of outstanding standby letters of credit under the Credit Facility. Outstanding letters of credit reduce the availability under the Company's $150.0 million facility.

Second Lien Loans – Upon emergence from bankruptcy, a portion of the Company's debtor-in-possession (DIP) loans were converted into common stock. The remaining $40.0 million were converted to an exit facility upon the Company executing the Second Lien Credit and Security Agreement dated April 28, 2017 (the second lien loan) with the same DIP lenders.

10. Credit Facility, Long-Term Debt and Other Long-Term Liabilities (continued)

The second lien loan due April 28, 2022 bears interest on the outstanding principal amount either in cash at a rate of 15.00% or at the option of the Company, in kind by being capitalized and added to the principal amount at a rate of 17.50%. The second lien loan is secured by second-position liens, subject to certain exceptions and permitted liens, on substantially all of the Companys and the guarantors' existing and future assets that secure the Company's Credit Facility and are guaranteed by certain of the Company's existing and future domestic subsidiaries. In-kind interest capitalized to principal during the year ended December 31, 2018 was $8.7 million and for the period April 28, 2017 through December 31, 2017 was $5.1 million. As described in Note 1, at the time of issuing the 2017 financial statements, the Company was in technical default of affirmative covenants (as of December 31, 2017) within both its Credit Facility and second lien loan as a result of not providing audited financial statements by September 30, 2018. Consequently, all debt as of December 31, 2017 is classified as current. As management subsequently obtained a waiver of default from both lenders, the debt as of December 31, 2018 is classified as noncurrent.

Capital Lease Obligations – Certain of the Company's property and equipment are leased pursuant to capital leases, including 19 trucks and its hangar facility located at the Medford International Airport in Oregon. Interest rates range from 6.30% to 9.78%. The recorded value of the assets under capital lease were $4.2 and $4.0 million, with amortization recorded in depreciation expense during the period of $0.4 and $0.3 million as of December 31, 2018 and 2017, respectively. The accumulated depreciation for assets under capital lease was $0.7 million and $0.3 million as of December 31, 2018 and 2017, respectively. The net book value is $3.5 million and $3.7 million as of December 31, 2018 and 2017, respectively.

	December 31	
	2018	**2017**
	(In Thousands)	
Revolving credit facility	**$ 69,808**	$ 69,983
Second lien PIK note	**53,794**	45,107
Capital leases	**4,964**	5,127
Debt issuance costs related to the revolving credit facility	**(1,611)**	(2,094)
Total debt	**126,955**	118,123
Less current portion	**(68,589)**	(113,409)
Total long-term debt	**$ 58,366**	$ 4,714

10. Credit Facility, Long-Term Debt and Other Long-Term Liabilities (continued)

As of December 31, 2018, the future minimum principal payments on long-term debt and capital leases are as follows (in thousands):

	Payments
Year ending December 31:	
2019	$ 714
2020	697
2021	650
2022	124,172
2023	562
Thereafter	3,841
Total debt before imputed interest and deferred debt issuance costs	130,636
Debt issuance costs	(1,611)
Imputed interest on capital leases	(2,070)
Total debt	$ 126,955

11. Income Taxes

Provision for Income Taxes

The components of income (loss) before non-controlling interest and income taxes are as follows for the year ended December 31, 2018 and the period of April 28 through December 31, 2017:

	2018	2017
	(In Thousands)	
Domestic	**$ (21,857)**	$ 2,333
Foreign	**1,493**	442
Income (loss) before non-controlling interest and income taxes	**$ (20,364)**	$ 2,775

11. Income Taxes (continued)

Income tax expense for the year ended December 31, 2018 and the period from April 28 through December 31, 2017 consisted of the following:

	2018	**2017**
	(In Thousands)	
Current income tax expenses:		
U.S. federal	**$ –**	$ –
State and local	**7**	36
Foreign	**2,296**	1,755
	2,303	1,791
Deferred income tax expenses:		
U.S. federal	**–**	–
State and local	**–**	–
Foreign	**(32)**	(10)
Income tax expense	**$ 2,271**	$ 1,781

The Company's provision for income taxes differs from the federal statutory rate of 21% for 2018 primarily related to the Section 382 limitation on its Net Operating Loss carry forwards and an offsetting change in the valuation allowance and 35% for 2017 primarily related to cancellation of debt income, the impact of revaluing the deferred tax assets as a result of tax reform, the estimated transition tax, and an offsetting change in the valuation allowance.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act ("TCJA") was signed into law. The TCJA made broad and complex changes to the U.S. tax code, including but not limited to reduction of the U.S. federal corporate tax rate from 35% to 21%, requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creating new taxes on certain foreign sourced earnings.

In conjunction with the enactment of the TCJA, the SEC staff issued Staff Accounting Bulletin 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the TCJA. SAB 118 provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the accounting for the effects of the TCJA.

11. Income Taxes (continued)

As of December 31, 2017, the Company determined a reasonable estimate for certain effects of tax reform and recorded that estimate as a provisional amount. The provisional re-measurement of the deferred tax assets and liabilities resulted in a $12.7 million discrete tax expense, which was offset by a decrease in the valuation allowance. In 2018, the Company finalized these calculation and in the year ended December 31, 2018, recorded an approximately $0.5 million additional tax expense with a corresponding decrease in the valuation allowance.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Tax Cuts and Jobs Act (the "Act"). The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The Company elected to treat any potential GILTI inclusions as a period cost.

11. Income Taxes (continued)

Deferred Tax Assets

Deferred income tax balances reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are paid or recovered. Significant components of the Company’s deferred tax assets and liabilities and balance sheet classifications are as follows:

	December 31	
	2018	**2017**
	(In Thousands)	
Deferred tax assets:		
Net operating loss carryforwards	**$ 8,719**	$ 29,575
Foreign tax credits	**3,520**	11,225
Fresh-start accounting inventory write-down	**14,843**	16,173
Deferred revenue	**–**	615
Accrued benefits	**631**	442
Research and other credits	**31**	1,015
Inventory reserve	**595**	–
Interest limitation	**3,912**	–
Accrued assets and other reserves	**4,563**	3,719
Total deferred tax assets	**36,814**	62,764
Valuation allowance	**(10,359)**	(35,095)
Net deferred tax assets	**26,455**	27,669
Deferred tax liabilities:		
Prepaid expenses and deferred costs	**(820)**	(106)
Inventory reserve	**–**	(52)
Accrued liabilities and other reserves	**(1)**	(27)
Intangible assets	**(3,945)**	(4,163)
Tax-over-book depreciation and amortization	**(21,679)**	(23,343)
Total deferred tax liabilities	**(26,445)**	(27,691)
Deferred tax asset (liability), net	**$ 10**	$ (22)

11. Income Taxes (continued)

The Company recognizes deferred tax assets if realization of such assets is more-likely-than-not. In order to make this determination, the Company evaluates factors for each jurisdiction including, but not limited to, the ability to generate future taxable income from reversing taxable temporary differences and forecasts of financial and taxable income or loss by jurisdiction. The cumulative loss incurred in the U.S. over the 12-quarter period ended December 31, 2018 was significant negative objective evidence against the Company's ability to realize a benefit from its U.S. deferred tax assets which include net operating loss, tax credit carryforwards and other deferred tax assets. Such objective evidence limited the ability of the Company to consider in its evaluation other subjective evidence such as the Company's projections for future growth. On the basis of its evaluation the Company determined that its U.S. and foreign deferred tax assets were not more likely than not to be realized and that a full valuation allowance against net deferred tax assets was appropriate. The valuation allowance decreased from $35.1 million at January 1, 2018 to $10.4 million at December 31, 2018.

Net Operating Loss and Tax Credit Carryforwards

For the period from April 28, 2017 to December 31, 2017, the Company reported $420 million of cancellation of indebtedness income ("CODI") upon discharge of its outstanding indebtedness for an amount of consideration that is less than its adjusted issue price. CODI was excluded from taxable income, but certain tax attributes were reduced as prescribed by the Internal Revenue Code, including U.S. net operating losses by $115 million and basis in depreciable and amortizable assets by $305 million as of January 1, 2018.

As of December 31, 2018, the Company had a net operating loss carryforward for federal income tax purposes of approximately $38.0 million, portions of which will begin to expire in 2031. The Company had a total state net operating loss carryforward of approximately $11 million, which will begin to expire in 2031. IRC Sections 382 and 383 provide an annual limitation with respect to the ability of a corporation to utilize its tax attributes, as well as certain built-in-losses, against future U.S. taxable income in the event of a change in ownership. The Company's emergence from Chapter 11 bankruptcy proceedings is considered a change in ownership for purposes of IRC Section 382. The limitation under the IRC is based on the value of the corporation as of the emergence date. The utilization of net operating loss and credit carry forwards will be limited in any one year to $2.0 million pursuant to Internal Revenue Code Section 382; such limitations have been reflected in the carryforward figures above.

11. Income Taxes (continued)

As of December 31, 2018, the Company has foreign tax credits of approximately $2 million, which will begin to expire in 2028. These tax credits have been adjusted for the same limitations discussed above.

As of December 31, 2017, the Company had a net operating loss carryforward for federal income tax purposes of approximately $128 million, portions of which will begin to expire in 2031. The Company had a total state net operating loss carryforward of approximately $43 million, which will begin to expire in 2031. Utilization of some of the federal and state net operating loss and credit carryforwards are subject to annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitations may result in the expiration of net operating losses and credits before utilization.

As of December 31, 2017, the Company has foreign tax credits of approximately $8.7 million, which will begin to expire in 2020. These tax credits have been adjusted for the same limitations discussed above.

Unrecognized Tax Expense

Unrecognized tax benefits as of December 31, 2018 reflect potential liabilities associated with tax audits and tax positions taken in foreign jurisdictions. Payment of tax related to unrecognized tax benefits of both prior and current periods that would result in a foreign tax credit in the U.S. have been included in the Company's deferred tax assets. Unrecognized tax benefits as of December 31, 2018 is $0.9 million. The Company does not anticipate that the amount of the unrecognized tax benefits as of December 31, 2018 will significantly change within the next 12 months.

Interest and penalties on uncertain tax positions for the period ended December 31, 2018 increased by $159 thousand compared to December 31, 2017.

The Company is subject to income taxes in the U.S. and several foreign jurisdictions. Depending on the jurisdiction, the Company is generally no longer subject to examination by U.S. tax authorities for tax years prior to 2012 and by foreign tax authorities for years prior to 2012.

The Company has no open examinations in the U.S. and several inquiries in foreign jurisdictions.

12. Employee Benefit Plans

The Company maintains the Erickson Incorporated 401(k) Profit Sharing Plan for substantially all eligible U.S. employees. Under the plan, participating U.S. employees may defer up to 100% of their pretax salary, subject to the annual IRS limitation. The Company may make a discretionary matching contribution, determined annually, equal to a uniform percentage or dollar amount per Plan participant. The Company matches 100% on the employee's first $1,000 contributed and 50% on the next $2,000 contributed. The maximum company contribution is $2,000 per year per plan participant.

Canadian Air-Crane Ltd. maintains a Group Registered Retirement Savings Plan for salaried employees in Canada. Under this plan, participating Canadian employees may defer up to 18% of their pretax salary, subject to an annual maximum amount. The Company may contribute up to 2.5% of an employee's compensation.

For the year ended December 31, 2018 and the period ended December 31, 2017, the Company recorded $1.2 million and $495 thousand in employee benefit contribution expenses under both plans, respectively.

13. Commitments and Contingencies

Legal Matters

The Company is subject to the various legal proceedings and claims discussed below as well as certain other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. The Company records liabilities for losses from legal proceedings when it determines that it is probable that the outcome in a legal proceeding will be unfavorable and the amount of loss can be reasonably estimated. The Company cannot reasonably estimate the potential loss for certain legal proceedings due to the uncertain nature of such disputes.

13. Commitments and Contingencies (continued)

Fuel Spill on Vancouver Island, British Columbia
On June 15, 2017, a Canadian Air Crane (CAC) fuel tanker truck delivering jet fuel made contact with the concrete abutment, which caused fuel to spill onto the road and soil. Some of the fuel made its way into Lake Kennedy. Cleanup and remediation of the spill site is ongoing. The Company does not believe a loss in excess of insurance reimbursements is probable.

World Fuel Services, Inc. v. Evergreen Helicopters, Inc. n/k/a Erickson Helicopters, Inc. in the United States District Court for the District of Oregon, Portland Division. Although EHI is listed as a defendant, the stay was lifted in EI's bankruptcy to allow the plaintiffs to proceed solely against insurance proceeds.

Travis Walfoort v. Erickson Incorporated., et. al, in San Bernardino County, Superior Court, San Bernardino, California, filed on August 15, 2018, alleging personal injury and failure to maintain premises in a safe condition. The Company denies any participation in the facts alleged by the plaintiff. At this time, it is difficult to assess the Company's potential liability in this matter.

Operating Leases

The Company leases substantially all of its property, much of it on a short-term basis, under non-cancelable operating lease agreements that expire on various dates through August 2022, with two facilities expiring in 2026. Certain leases have renewal options. The Company has certain operating leases for aircraft that expire on various dates through December 2022. Rent expense on these operating leases for the year ended December 31, 2018 and the period ended December 31, 2017, was $7.8 million and $5.5 million, respectively. Included within this amount is $1.5 million and $1.1 million in lease expense for the year ended December 31, 2018 and the period ended December 31, 2017, respectively, associated with the sale-leaseback of an Air Crane® aircraft executed in 2014 that expires in February 2019. Subsequently, this Air Crane® aircraft lease was extended in March 2019 for an additional five-year period to a new expiry date of February 2024.

13. Commitments and Contingencies (continued)

As of December 31, 2018, future minimum lease payments are as follows (in thousands):

Year ending December 31:	
2019	$ 5,531
2020	5,104
2021	3,036
2022	887
2023	687
Thereafter	2,174
	$ 17,419

Royalty Agreement

The Company has a license agreement whereby the Company is obligated to pay a royalty based on the net sales of certain aircraft support parts. During the year ended December 31, 2018 and the period ended December 31, 2017, royalty expense was approximately $675 thousand and $670 thousand, which is classified as cost of revenue on the consolidated statements of operations, respectively.

Warranty

The Company manufactured and sold an aircraft during 2018 that includes a warranty. The warranty period of the aircraft, including the mission equipment and added equipment, is the lesser of two years from the delivery or 1,000 hours of flight time. The warranty accrual as of December 31, 2018 was $0.4 million.

14. Related-Party Transactions

The Company has indemnification agreements with certain of its current and former officers and directors that may require it, among other things, to indemnify these current or former officers and directors against certain liabilities that may arise by reason of their status or service as directors or officers and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified.

14. Related-Party Transactions (continued)

MHR Institutional Partners and Wayzata Investment Partners beneficially owned approximately 76% of the Company's capital stock at emergence. Additionally, MHR and Wayzata are majority holders of the Company's second lien debt, for which $8.7 million and $5.1 million of interest was capitalized to principal during the year ended December 31, 2018 and the period ended December 31, 2017, respectively.

15. Stock-Based Compensation

Pursuant to the Company's 2018 Directors' Compensation Plan, directors may elect to receive their compensation via equity-based awards, including restricted stock units (RSUs) with service-based vesting conditions. Service requirements generally must be met for equity-based awards to vest. Through December 31, 2018 and 2017, the Company has only issued RSUs under the Plan, the fair value of which is determined based on the equity value of the Company.

The RSUs' activity was as follows:

	Units	Weighted Average Grant Date Fair Value
Unvested balance as of April 28, 2017	–	$ –
Granted	27,311	48.25
Vested	–	–
Forfeited	–	–
Unvested balance as of December 31, 2017	27,311	48.25
Granted	**–**	**–**
Vested	**(9,104)**	**48.25**
Forfeited	**–**	**–**
Unvested balance as of December 31, 2018	**18,207**	**$ 48.25**

A total of 31,212 shares of common stock may be issued under the RSU Plan, of which 3,902 shares remain available for issuance as of both December 31, 2018 and 2017.

Recognized stock-based compensation expense was included in the Company's consolidated statements of operations of $351 thousand and $282 thousand for the year ended December 31, 2018 and the period ended December 31, 2017, respectively.

15. Stock-Based Compensation (continued)

For the year ended December 31, 2018, unrecognized stock-based compensation expense related to any outstanding restricted stock units is expected to be recognized over a weighted average period of three years, as follows (in thousands):

Year ending December 31:		
2019	$	422
2020		211
2021		–
Total unrecognized stock-based compensation expense	$	633

The Company created a Non-Statutory Stock Option Plan (NSO) for the Company's leadership team in 2018, and reserved common stock for issuance to employees and officers, based upon recommendation from the Compensation Committee and authorization from the Board.

The Company recognizes stock-based compensation expense associated with the NSO in its financial statements. Subject to continued service through the applicable vesting dates, the recipients of the grants will vest in the awards as follows:

Service-Based	A portion of each award, generally 30%, will vest ratably over three years from the date of grant with 33% of such units on each anniversary of the grant date. The exercise price of these options, also referred to as Tranche #1, is $38.35.
Market-Based	A portion of each award, generally 70%, will vest solely upon achievement of specified equity multiples, as defined in the grant agreement. These awards are divided equally into three tranches in the grant agreement. Tranche #2 vests upon equity value of two times base value, Tranche #3 vests upon equity value of three times base value and Tranche #4 vests upon four times base value. The exercise price of these options is $76.90.

A total of 145,555 grants were awarded during 2018; 7,222 options were vested and zero were forfeited during 2018. The awards expire on the 10-year anniversary of the grant date. Any unvested service-based or market-based options will vest immediately upon a change in control of the Company.

15. Stock-Based Compensation (continued)

The Company estimated the grant date fair values for the service-based common stock options using a Black-Scholes option pricing model. The weighted average assumptions used in the Black-Scholes option pricing model for all common stock grants issued in 2018 are as follows:

Risk-free interest rate	2.25–2.75%
Expected term (in years)	6
Expected dividend yield	–
Volatility	48.1%

The risk-free interest rate was based on the U.S. Treasury yield. The expected term of the awards was estimated using the simplified method by calculating the midpoint between the weighted average vesting date and the end of the contractual term. The expected dividend yield was zero. Expected volatility was determined using the historical volatilities of comparable publicly traded companies that operate in the same industry or other similar industries over the period of the expected terms of the awards.

The table below summarizes the Company's activity under the NSO:

	Service-Based Options	Market-Based Options	Total
Issued as of January 1, 2018	–	–	–
Granted	43,667	101,888	145,555
Forfeited	–	–	–
Outstanding as of December 31, 2018	43,667	101,888	145,555
Vested as of December 31, 2018	7,222	–	7,222

15. Stock-Based Compensation (continued)

The cost of the service based options, net of an estimated rate for forfeitures, is being recognized over the requisite service period. As of December 31, 2018, the Company recognized stock-based compensation of $284 thousand for the service based options as a general and administrative expense in the accompanying consolidated statements of operations. There was $806 thousand of unrecognized compensation expense as of December 31, 2018 related to the service based vesting options, which is expected to be recognized over a weighted average period of approximately 2.4 years, unless a change in control of the Company occurs earlier.

	(In Thousands)
Year ending December 31:	
2019	$ 364
2020	364
2021	78
Total unrecognized stock-based compensation expense	$ 806

As of December 31, 2018, the estimated unrecognized compensation expense related to the market-based common stock options was approximately $1.6 million. No compensation expense for the market-based awards was recognized in the current year.

As of December 31, 2018, the Company had 28,889 options available to be issued under the NSO.

16. Shareholders' Equity

The Company has 2.6 million shares authorized, of which 2.5 million is common stock with a par value of $0.001 per share, and 100,000 shares is preferred stock with par value of $0.001 per share. As of April 28, 2017, the Company had issued 2.0 million shares of common stock outstanding. For the year ended December 31, 2018 and the period ended December 31, 2017, the Company had 2.0 million shares of common stock outstanding. The Company currently has no dividend policy.

17. Subsequent Events

The Company has evaluated subsequent events through June 30, 2019, which is the date the accompanying consolidated financial statements were issued.

Aircraft Accidents – On January 23, 2019, a leased Bell 206 aircraft with FAA tail number N8227J was involved in an accident, with loss of one life. In an unrelated event, on January 28, 2019, an owned Air Crane® aircraft with FAA tail number N173AC was involved in an accident while performing on contract in Australia. One crew member was injured.

Credit Facility Amendments – On March 29, 2019, the Company completed amendment four to its $150 million credit facility. The amendment extended the delivery due date of its 2018 audited financial statements to June 30, 2019.

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