

PHI INC
Form 10-Q
November 08, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q**

☐ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended: September 30, 2007

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

Commission file number: 0-9827

PHI, Inc.

(Exact name of registrant as specified in its charter)

Louisiana

(State or other jurisdiction of incorporation or
organization)

72-0395707

(I.R.S. Employer Identification No.)

2001 SE Evangeline Thruway

Lafayette, Louisiana

(Address of principal executive offices)

70508

(Zip Code)

Registrant's telephone number, including area code: **(337) 235-2452**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes: ☐ No: ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act). See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer: ☐

Non-accelerated filer: ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes: ☐ No: ☐

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 2, 2007
Voting Common Stock	2,852,616 shares
Non-Voting Common Stock	12,423,992 shares

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PHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Thousands of dollars, except share data)
(Unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 647	\$ 820
Short-term investments	86,856	153,414
Accounts receivable net of allowance:		
Trade	101,213	87,366
Other	3,674	1,928
Inventories of spare parts and supplies	55,094	55,596
Assets held for sale	5,647	
Other current assets	8,901	7,930
Refundable income taxes	72	635
Total current assets	262,104	307,689
Other	32,772	23,816
Property and equipment, net	428,222	369,465
Total assets	\$ 723,098	\$ 700,970
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 25,264	\$ 35,815
Accrued liabilities	12,721	8,511
Accrued interest	6,554	3,045
Accrued vacation payable	3,787	2,583
Accrued wages and salaries	6,494	3,636
Total current liabilities	54,820	53,590
Long-term debt	201,750	205,500
Deferred income taxes	42,021	32,828
Other long-term liabilities	7,933	8,927
Commitments and contingencies (Note 3)		
Shareholders Equity:		
Voting common stock par value of \$0.10; authorized shares of 12,500,000	285	285
Non-voting common stock par value of \$0.10; authorized shares of 12,500,000	1,242	1,242

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Additional paid-in capital	290,695	290,695
Accumulated other comprehensive income	65	77
Retained earnings	124,287	107,826
Total shareholders' equity	416,574	400,125
Total liabilities and shareholders' equity	\$ 723,098	\$ 700,970

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

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PHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Operating revenues	\$ 118,401	\$ 109,315	\$ 333,129	\$ 317,844
Gain (loss) on disposition of assets, net	6,988	621	15,596	(541)
Other	1,119	2,659	4,263	6,076
	126,508	112,595	352,988	323,379
Expenses:				
Direct expenses	101,427	93,224	291,779	269,492
Selling, general and administrative expenses	7,374	6,795	22,306	20,203
Interest expense	3,895	4,039	12,262	13,241
Loss on debt restructuring				12,790
	112,696	104,058	326,347	315,726
Earnings before income taxes	13,812	8,537	26,641	7,653
Income taxes	5,183	3,415	10,180	3,061
Net earnings	\$ 8,629	\$ 5,122	\$ 16,461	\$ 4,592
Weighted average shares outstanding:				
Basic	15,288	15,288	15,288	13,447
Diluted	15,306	15,306	15,307	13,463
Net earnings per share				
Basic	\$ 0.56	\$ 0.34	\$ 1.08	\$ 0.34
Diluted	\$ 0.56	\$ 0.33	\$ 1.08	\$ 0.34

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

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PHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)
(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net earnings	\$ 16,461	\$ 4,592
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	23,201	22,389
Deferred income taxes	9,193	2,100
(Gain) loss on disposition of assets, net	(15,596)	541
Loss on debt restructuring		12,790
Other	665	594
Changes in operating assets and liabilities	(17,457)	(20,226)
Net cash provided by operating activities	16,467	22,780
 Cash flows from investing activities:		
Purchase of property and equipment	(97,488)	(81,622)
Purchase of short-term investments	(104,337)	(157,103)
Proceeds from sale of short-term investments	170,895	60,041
Deposits on aircraft	(9,448)	(23,000)
Proceeds from asset dispositions	27,488	30,797
Net cash used in investing activities	(12,890)	(170,887)
 Cash flows from financing activities:		
Proceeds of debt issuance Senior Notes		200,000
Premium and costs to retire debt early		(10,208)
Repayment of Senior Notes		(200,000)
Debt issuance costs		(4,629)
Proceeds from line of credit	36,450	138,700
Payments on line of credit	(40,200)	(138,500)
Proceeds from stock issuance, net		160,722
Net cash (used in) provided by financing activities	(3,750)	146,085
 Decrease in cash and cash equivalents	(173)	(2,022)
Cash and cash equivalents, beginning of period	820	3,036
Cash and cash equivalents, end of period	\$ 647	\$ 1,014

Supplemental Disclosures Cash Flow Information

Interest paid	\$ 8,263	\$ 9,021
Taxes paid, net	\$ 21	\$ 68

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

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

1. General

The accompanying unaudited condensed consolidated financial statements include the accounts of PHI, Inc. and subsidiaries (PHI or the Company). In the opinion of management, these financial statements reflect all adjustments, consisting of only normal, recurring adjustments, necessary to present fairly the financial results for the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 and the accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations. The Company s financial results, particularly as they relate to the Company s Oil and Gas operations, are influenced by seasonal fluctuations as discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. Therefore, the results of operations for interim periods are not necessarily indicative of the operating results that may be expected for a full fiscal year.

2. Segment Information

PHI is primarily a provider of helicopter services, including helicopter maintenance and repair services. We used a combination of factors to identify reportable segments as required by Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131). The overriding determination of our segments is based on how the chief operating decision-maker of our Company evaluates our results of operations. The underlying factors include customer bases, types of service, operational management, physical locations, and underlying economic characteristics of the types of work we perform. We previously identified four segments for disclosure. The reportable segments were Domestic Oil and Gas, Air Medical, International, and Technical Services.

During the quarter ended March 31, 2007, we combined our oil and gas customers that were previously included in our International segment into our Domestic Oil and Gas segment, and eliminated the term Domestic from that segment. Additionally, the contract work previously included in the International segment for the National Science Foundation is now included in our Technical Services segment. We therefore now have three reportable segments: Oil and Gas, Air Medical, and Technical Services. All prior periods have been recast to conform to the 2007 presentation. A segment s operating income is its operating revenues less its direct expenses and selling, general, and administrative costs. Each segment has a portion of selling, general and administrative expense that is charged directly to the segment and a portion that is allocated. Direct charges represent the vast majority of segment selling, general and administrative expense. Allocated selling, general and administrative expense is based primarily on total segment costs as a percentage of total operating costs.

Air Medical operations are headquartered in Phoenix, AZ, where we maintain significant separate facilities and administrative staff dedicated to this segment. Those costs are charged directly to the Air Medical segment, resulting in a disproportionate share of selling, general and administrative costs compared to the Company s other reportable segments. Unallocated overhead consists primarily of corporate selling, general, and administrative costs that we do not allocate to the reportable segments.

Oil and Gas Segment. Our Oil and Gas segment provides helicopter services primarily for the major oil and gas production companies transporting personnel and/or equipment to offshore platforms in the Gulf of Mexico, Angola and the Democratic Republic of Congo. We currently operate 161 aircraft in this segment.

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Operating revenue from the Oil and Gas segment is derived mainly from long-term contracts that include a fixed monthly rate for a particular model of aircraft, plus a variable rate for flight time. Operating costs for the Oil and Gas operations are primarily aircraft operations costs, including costs for pilots and maintenance personnel.

The Oil and Gas segment represented 64% of our total operating revenues for the nine months ended September 30, 2007, compared to 67% of total operating revenues for the nine months ended September 30, 2006.

Air Medical Segment. Our Air Medical segment provides transport services as an independent provider of emergency medical services and, to a lesser extent, under contract with certain hospitals. We operate in 15 states with 72 aircraft that are specially outfitted to accommodate emergency patients, medical personnel and emergency medical equipment. For the nine months ended September 30, 2007 and 2006, approximately 34% and 31% of our total operating revenues were generated by our Air Medical operations.

As an independent provider, we bill for our services on the basis of a flat rate plus a variable charge per loaded mile, regardless of aircraft model. Revenues are recorded net of contractual allowances under agreements with the third party payors and estimated uncompensated care when the services are provided. Contractual allowances and uncompensated care are estimated based on historical collection experience by payor category. The main payor categories are Medicaid, Medicare, Insurance, and Self-Pay. Payor mix and changes in reimbursement rates are the factors most subject to sensitivity and variability in calculating our allowances. We compute an 18 month historical payment analysis of accounts paid in full, by category. The allowance percentages calculated are applied to the payor categories, and the necessary adjustments are made to the revenue allowance. The allowance for contractual discounts was \$34.2 million and \$30.1 million as of September 30, 2007 and December 31, 2006, respectively. The allowance for uncompensated care was \$19.8 million and \$20.5 million as of September 30, 2007 and December 31, 2006, respectively.

Provisions for contractual discounts and estimated uncompensated care are as follows:

	Revenue				Accounts Receivable	
	Quarter Ended		Nine Months Ended		September 30,	
	2007	2006	2007	2006	2007	2006
Gross billings	100%	100%	100%	100%	100%	100%
Provision for contractual discounts	46%	43%	46%	43%	34%	32%
Provision for uncompensated care	12%	11%	10%	10%	20%	21%

Amounts attributable to Medicaid, Medicare, Insurance and Self Pay as a percentage of net Air Medical revenues are as follows:

We also have a limited number of contracts with hospitals under which we receive a fixed monthly rate for aircraft availability and an hourly rate for flight time. Those contracts generate approximately 10% of the segment's revenues.

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Technical Services Segment. The Technical Services segment provides helicopter repair and overhaul services for flight operations customers that own their aircraft. Costs associated with these services are primarily labor, and customers are generally billed at a percentage above cost. We also operate four aircraft for the National Science Foundation in Antarctica under this segment.

Approximately 2% of our total operating revenues for the nine months ended September 30, 2007 and 2006 were generated by our technical services operations.

Summarized financial information concerning our reportable operating segments for the quarter and nine months ended September 30, 2007 and 2006 is as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Thousands of dollars)		(Thousands of dollars)	
Segment operating revenues				
Oil and Gas	\$ 76,853	\$ 71,416	\$ 213,843	\$ 212,168
Air Medical	39,839	35,735	113,036	100,042
Technical Services	1,709	2,164	6,250	5,634
Total operating revenues	118,401	109,315	333,129	317,844
Segment direct expenses ⁽¹⁾				
Oil and Gas	65,805	58,912	185,000	169,668
Air Medical	34,579	32,560	102,220	94,938
Technical Services	1,043	1,752	4,559	4,886
Total direct expenses	101,427	93,224	291,779	269,492
Segment selling, general and administrative expenses				
Oil and Gas	406	301	1,196	950
Air Medical	1,882	1,758	5,721	5,403
Technical Services	12	14	37	24
Total selling, general and administrative expenses	2,300	2,073	6,954	6,377
Total direct and selling, general and administrative expenses	103,727	95,297	298,733	275,869
Net segment profit				
Oil and Gas	10,642	12,203	27,647	41,550
Air Medical	3,378	1,417	5,095	(299)
Technical Services	654	398	1,654	724
Total	14,674	14,018	34,396	41,975
Other, net ⁽²⁾	8,107	3,280	19,859	5,535
Unallocated selling, general and administrative costs	(5,074)	(4,722)	(15,352)	(13,826)
Interest expense	(3,895)	(4,039)	(12,262)	(13,241)

Loss on debt restructuring (12,790)

Earnings before income taxes \$ 13,812 \$ 8,537 \$ 26,641 \$ 7,653

- 1) Included in direct expense are the depreciation expense amounts below:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Oil and Gas	\$ 4,359	\$ 4,509	\$ 13,063	\$ 12,822
Air Medical	1,946	2,343	6,568	6,627
Technical Services	104	37	489	140
Total	\$ 6,409	\$ 6,889	\$ 20,120	\$ 19,589
Unallocated SG&A	\$ 1,011	\$ 1,047	\$ 3,081	\$ 2,800

- 2) Including gains (losses) on disposition of assets and other income.

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3. Commitments and Contingencies

Environmental Matters We have an aggregate estimated liability of \$0.2 million as of September 30, 2007 and December 31, 2006 for environmental remediation costs that are probable and estimable. We have conducted environmental surveys of our former Lafayette Facility, which we vacated in 2001, and have determined that limited soil and groundwater contamination exists at the facility. We have installed groundwater monitoring wells at the facility and periodically monitor and report on the contamination. In May 2003, we submitted a Louisiana Risk Evaluation/Corrective Action Plan (RECAP) standard Site Assessment Report to the Louisiana Department of Environmental Quality (LDEQ) fully delineating the extent and type of contamination. The Site Assessment Report was updated in April, 2006 to include recent analytical data. We are currently preparing a report evaluating all available data against the LDEQ RECAP Management Option 1 Standard. Once that is complete, LDEQ will establish what cleanup standards must be met at the site. When the process is complete, we will be in a position to develop an appropriate remediation plan and determine the resulting cost of remediation. We have not recorded any estimated liability for remediation and contamination and, based upon the May, 2003 Site Assessment Report and ongoing monitoring, we believe the ultimate remediation costs for the former Lafayette facility will not be material to our consolidated financial position, results of operations, or liquidity.

Legal Matters We have been named as a defendant in various legal actions that have arisen in the ordinary course of business and have not been finally adjudicated. In the opinion of management, the amount of the ultimate liability with respect to these actions will not have a material adverse effect on our consolidated financial condition, results of operations, or liquidity.

On June 15, 2005, we received a subpoena from the United States Department of Justice relating to a grand jury investigation of potential antitrust violations among providers of helicopter transportation services in the Gulf of Mexico. We are cooperating fully with the investigation and believe we have provided all documents and other information required by the subpoena. We have not received any further communications from the Department of Justice since shortly after providing the requested information. At this stage, it is not possible to assess the outcome of this investigation, although based on the information available to us to date, management does not expect the outcome of the investigation to have a material adverse effect on our financial condition, results of operations, or liquidity.

Long-term Debt On April 12, 2006, we issued \$200 million of 7.125% Senior Notes due 2013. Net proceeds of \$196.0 million were used to repurchase \$184.8 million of our existing 9 3/8% Senior Notes, which were tendered by April 12, 2006, at a total cost of \$201.6 million including an early call premium and accrued interest. We redeemed the remaining \$15.2 million of 9 3/8% Senior Notes on May 1, 2006, at a redemption price of 104.688% of the face amount plus accrued interest. As a result of the refinancing of the 9 3/8% Senior Notes, we recorded a pretax charge of \$12.8 million (\$7.7 million, net of tax) in the quarter ended June 30, 2006, which consisted of a \$9.8 million early call premium, \$2.6 million of unamortized issuance costs, and \$0.4 million in related expenses of the tender for the outstanding notes.

The 7.125% Senior Notes mature April 15, 2013, and interest is payable semi-annually on April 15 and October 15. The notes contain restrictive covenants, including limitations on indebtedness, liens, dividends, repurchases of capital stock and other payments affecting restricted subsidiaries, issuance and sales of restricted subsidiary stock, dispositions of proceeds of asset sales, and mergers and consolidations and sales of assets. We were in compliance with the covenants applicable to these notes as of September 30, 2007.

We have a \$35 million revolving credit facility with a commercial bank, which is scheduled to expire on September 1, 2009. As of September 30, 2007, we had \$1.8 million in borrowings and \$4.6 million in letters of credit outstanding under the facility. The facility includes covenants related to working capital, funded debt to net worth, and consolidated net worth. As of September 30, 2007, we were in compliance with these covenants.

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Operating Leases We lease certain aircraft, facilities, and equipment used in our operations. The related lease agreements, which include both non-cancelable and month-to-month terms, generally provide for fixed monthly rentals, and certain real estate leases also include renewal options. We generally pay all insurance, taxes, and maintenance expenses associated with these aircraft, and some leases contain renewal and purchase options. At September 30, 2007, we had approximately \$182.2 million in aggregate commitments under operating leases of which approximately \$5.1 million is payable through December 31, 2007, and a total of \$20.4 million is payable over the twelve months ending September 30, 2008. Of the total lease commitments, \$161.1 million represents commitments for aircraft, and facility lease commitments of \$21.1 million, primarily for our facilities in Lafayette, Louisiana.

Purchase Commitments At September 30, 2007, we had purchase commitments totaling \$180.3 million for aircraft, which we expect to fund from existing cash or short-term investments, or with operating leases, as required.

Assets Held for Sale Included in assets held for sale are certain aircraft with a net book value of approximately \$5.6 million as of September 30, 2007. Subsequent to September 30, 2007, we completed the sale of these aircraft. We expect to report a gain from the sale of these aircraft. These aircraft are not strategic to our fleet plans.

4. Property and Equipment

Effective July 1, 2007, we changed the estimated residual value of certain aircraft from 40% to 54%. We believe the revised amounts reflect our historical experience and more appropriately matches costs over the estimated useful lives and salvage values of these assets. The change in residual values of certain aircraft was based on our experience in sales of such aircraft and industry data which indicated that these aircraft were retaining on average a salvage value of at least 54% by model type. The effect of this change for the three and nine months ended September 30, 2007 was a reduction in depreciation expense of \$0.8 million (\$0.5 million after tax or \$0.03 per diluted share).

5. Valuation Accounts

We have established an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, current market conditions, and other information. The allowance for doubtful accounts was approximately \$0.1 million at September 30, 2007 and December 31, 2006.

We have also established valuation reserves related to obsolete and excess inventory. The inventory valuation reserves were \$7.7 million and \$7.3 million at September 30, 2007 and December 31, 2006, respectively.

6. Employees

Union Related Matters As previously reported, the pilots represented by the OPEIU (the Office and Professional Employees International Union), commenced a general strike on September 20, 2006, affecting both the Oil and Gas and Air Medical segments.

On November 10, 2006, the OPEIU notified the Company that it was ending the strike, purportedly offering an unconditional return to work of the remaining striking pilots. Thereafter, questions arose over whether the OPEIU's offer was indeed unconditional. As a result, the parties were unable to agree on a return to work process, and the OPEIU subsequently filed suit seeking injunctive relief in the United States District Court for the Western District of Louisiana.

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On January 11, 2007, the court conducted a hearing relating to our handling of the return to work of the remaining strikers. At the judge's request, an agreement was reached on a return to work process. The court-approved methodology focused on pilot qualifications and currency, safety, customer requirements, training status and certain other criteria. The return-to-work process was substantially completed by April 29, 2007. We continue to operate under a pilot compensation program and other terms and conditions of employment based on the final contract proposals that were made by the Company and implemented at the end of collective bargaining negotiations on August 28, 2006.

Other issues surrounding PHI's allegations that the OPEIU engaged in bad faith bargaining, as well as the OPEIU's counterclaims and claims arising from the OPEIU's offer to return to work, remain outstanding and are expected to be addressed by the same federal court. A trial on these matters is currently set to start April 21, 2008. It is not possible to predict the outcome of the remaining claims and counterclaims.

Employee Incentive Compensation In 2002, we implemented an incentive compensation plan for non-executive and non-represented employees. For calendar year 2007, the represented pilots were added to this plan as part of the Company's implemented contract proposals. The plan allows us to pay up to 7% of earnings before tax upon achieving a specified earnings threshold. During 2004, we implemented an executive/senior management plan for certain corporate and business unit management employees. Pursuant to these plans, we have accrued an estimated incentive compensation expense of \$0.6 million and \$1.0 million for the quarter and nine months ended September 30, 2007, respectively. We have also accrued \$0.1 million and \$0.5 million for the Safety Incentive Bonus for the quarter and nine months ended September 30, 2007, respectively. For the year ended December 31, 2006, we did not record incentive compensation expense related to the plans because the earnings threshold was not met.

7. Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting and disclosure for uncertain tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. On January 1, 2007, we adopted the provisions of FIN 48. Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements. Our evaluation was performed for the tax years ended December 31, 2001 to 2006, the tax years which remained subject to examination by major tax jurisdictions.

Based on a review and evaluation at September 30, 2007, it was determined that there are no material tax positions requiring recognition for the current tax year. Our evaluation was performed for the tax years ended December 31, 2003 to 2006, the tax years which remain subject to examination by major tax jurisdictions as of September 30, 2007. In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements* which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Earlier application is encouraged provided that the reporting entity has not yet issued financial statements for that fiscal year including financial statements for an interim period within that fiscal year. We are assessing SFAS No. 157 and have not determined yet the impact that the adoption of SFAS No. 157 will have on our results of operations, financial position, or liquidity.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, including an amendment of FASB Statements No. 115 (SFAS No. 159). SFAS No. 159 permits the Company to choose, at specified election dates, to measure eligible items at fair value (the fair value option). We would report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. This accounting standard is

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effective as of the beginning of the first fiscal year that begins after November 15, 2007. We are assessing SFAS No. 159 and have not determined yet the impact that the adoption of SFAS No. 159 will have on our results of operations, financial position, or liquidity.

8. Shareholders Equity

On April 12, 2006, we completed the sale of 4,287,920 non-voting common shares at \$35.00 per share and on May 1, 2006, we completed the sale of the over-allotment of 578,680 shares also at \$35.00 per share. Proceeds from the offering were \$160.7 million, net of expenses.

We had an average of 15.3 million common shares outstanding for the quarters ended September 30, 2007 and September 30, 2006.

9. Comprehensive Income

The following table summarizes the components of total comprehensive income (net of taxes):

	Quarter Ended September 30, 2007 2006		Nine Months Ended September 30, 2007 2006	
	(Thousands of dollars)		(Thousands of dollars)	
Net earnings	\$ 8,629	\$ 5,122	\$ 16,461	\$ 4,592
SFAS No. 158 adjustment	14		(12)	
Comprehensive income	\$ 8,643	\$ 5,122	\$ 16,449	\$ 4,592

10. Condensed Consolidating Financial Information

On April 12, 2006, we issued \$200 million of 7.125% Senior Notes due 2013 and retired \$184.8 million of 9 3/8% Series B Senior Notes due 2009. On May 1, 2006, we redeemed the remaining \$15.2 million 9 3/8% Series B Senior Notes.

Our 7.125% Senior Notes are fully and unconditionally guaranteed on a joint and several, senior basis by all of our Guarantor Subsidiaries.

The following supplemental condensed financial information sets forth, on a consolidated basis, the balance sheet, statement of operations, and statement of cash flows information for PHI, Inc. (Parent Company Only) and the Guarantor Subsidiaries. The principal eliminating entries eliminate investments in subsidiaries, intercompany balances, and intercompany revenues and expenses.

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PHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
(Thousands of dollars)
(Unaudited)

	September 30, 2007			
	Parent Company Only	Guarantor Subsidiaries (1)	Eliminations	Consolidated
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 217	\$ 430	\$	\$ 647
Short-term investments	86,856			86,856
Accounts receivable net of allowance	90,511	14,376		104,887
Inventories of spare parts and supplies	55,094			55,094
Assets held for sale	5,647			5,647
Other current assets	8,889	12		8,901
Refundable income taxes	44	28		72
 Total current assets	 247,258	 14,846		 262,104
 Investment in subsidiaries and other	 55,604		 (55,604)	
Intercompany receivable		49,027	(49,027)	
Other assets	32,495	277		32,772
Property and equipment, net	415,601	12,621		428,222
 Total Assets	 \$ 750,958	 \$ 76,771	 \$ (104,631)	 \$ 723,098
 LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 48,084	\$ 2,949	\$	\$ 51,033
Intercompany payable	49,027		(49,027)	
Accrued vacation payable	3,499	288		3,787
 Total current liabilities	 100,610	 3,237	 (49,027)	 54,820
 Long-term debt	 201,750			 201,750
Deferred income taxes and other long-term liabilities	32,024	17,930		49,954
Shareholders' Equity:				
Paid-in capital	292,222	4,402	(4,402)	292,222
Accumulated other comprehensive income	65			65
Retained earnings	124,287	51,202	(51,202)	124,287
 Total shareholders' equity	 416,574	 55,604	 (55,604)	 416,574

Total Liabilities and Shareholders	Equity	\$ 750,958	\$ 76,771	\$ (104,631)	\$ 723,098
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- 1) Foreign subsidiaries represent minor subsidiaries and are included in the guarantors subsidiaries amounts.

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PHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
(Thousands of dollars)

	December 31, 2006			
	Parent Company	Guarantor Subsidiaries		
	Only	(1)	Eliminations	Consolidated
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 385	\$ 435	\$	\$ 820
Short-term investments	153,414			153,414
Accounts receivable net of allowance	75,642	13,652		89,294
Inventories of spare parts and supplies	55,596			55,596
Other current assets	7,922	8		7,930
Refundable income taxes	44	591		635
Total current assets	293,003	14,686		307,689
Investment in subsidiaries and other	46,226		(46,226)	
Intercompany receivable		44,085	(44,085)	
Other assets	23,759	57		23,816
Property and equipment, net	361,570	7,895		369,465
Total assets	\$ 724,558	\$ 66,723	\$ (90,311)	\$ 700,970
LIABILITIES AND SHAREHOLDERS				
EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 46,653	\$ 4,354	\$	\$ 51,007
Intercompany payable	44,085		(44,085)	
Accrued vacation payable	2,295	288		2,583
Total current liabilities	93,033	4,642	(44,085)	53,590
Long-term debt	205,500			205,500
Deferred income taxes and other long-term liabilities	25,900	15,855		41,755
Shareholders' Equity:				
Paid-in capital	292,222	4,402	(4,402)	292,222
Accumulated other comprehensive income	77			77
Retained earnings	107,826	41,824	(41,824)	107,826
Total shareholders' equity	400,125	46,226	(46,226)	400,125
Total liabilities and shareholders' equity	\$ 724,558	\$ 66,723	\$ (90,311)	\$ 700,970

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PHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(Thousands of dollars)
(Unaudited)

For the quarter ended September 30, 2007

	Parent Company	Guarantor Subsidiaries (1)	Eliminations	Consolidated
	Only			
Operating revenues	\$ 100,311	\$ 18,090	\$	\$ 118,401
Management fees	723		(723)	
Gain on dispositions of assets, net	6,988			6,988
Other	1,119			1,119
	109,141	18,090	(723)	126,508
Expenses:				
Direct expenses	89,533	11,894		101,427
Management fees		723	(723)	
Selling, general, and administrative	6,607	767		7,374
Equity in net income of consolidated subsidiaries	(3,835)		3,835	
Interest expense	3,895			3,895
	96,200	13,384	3,112	112,696
Earnings before income taxes	12,941	4,706	(3,835)	13,812
Income taxes	4,312	871		5,183
Net earnings	\$ 8,629	\$ 3,835	\$ (3,835)	\$ 8,629

For the quarter ended September 30, 2006

	Parent Company	Guarantor Subsidiaries (1)	Eliminations	Consolidated
	Only			
Operating revenues	\$ 94,968	\$ 14,347	\$	\$ 109,315
Management fees	574		(574)	
Gain on dispositions of assets, net	621			621
Other	2,651	8		2,659
	98,814	14,355	(574)	112,595

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Expenses:				
Direct expenses	82,158	11,066		93,224
Management fees		574	(574)	
Selling, general, and administrative	6,042	753		6,795
Equity in net income of consolidated subsidiaries	(1,564)		1,564	
Interest expense	4,039			4,039
	90,675	12,393	990	104,058
Earnings before income taxes	8,139	1,962	(1,564)	8,537
Income taxes	3,017	398		3,415
Net earnings	\$ 5,122	\$ 1,564	\$ (1,564)	\$ 5,122

- 1) Foreign subsidiaries represent minor subsidiaries and are included in the guarantors subsidiaries amounts.

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PHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(Thousands of dollars)
(Unaudited)

For the nine months ended September 30, 2007

	Parent Company	Guarantor Subsidiaries (1)	Eliminations	Consolidated
	Only			
Operating revenues	\$ 282,892	\$ 50,237	\$	\$ 333,129
Management fees	2,009		(2,009)	
Gain on dispositions of assets, net	15,596			15,596
Other	4,255	8		4,263
	304,752	50,245	(2,009)	352,988
Expenses:				
Direct expenses	257,298	34,481		291,779
Management fees		2,009	(2,009)	
Selling, general, and administrative	20,060	2,246		22,306
Equity in net income of consolidated subsidiaries	(9,378)		9,378	
Interest expense	12,262			12,262
	280,242	38,736	7,369	326,347
Earnings before income taxes	24,510	11,509	(9,378)	26,641
Income taxes	8,049	2,131		10,180
Net earnings	\$ 16,461	\$ 9,378	\$ (9,378)	\$ 16,461

For the nine months ended September 30, 2006

	Parent Company	Guarantor Subsidiaries (1)	Eliminations	Consolidated
	Only			
Operating revenues	\$ 276,355	\$ 41,489	\$	\$ 317,844
Management fees	1,660		(1,660)	
Loss on dispositions of assets, net	(541)			(541)
Other	6,061	15		6,076
	283,535	41,504	(1,660)	323,379

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Expenses:				
Direct expenses	239,786	29,706		269,492
Management fees		1,660	(1,660)	
Selling, general, and administrative	18,083	2,120		20,203
Equity in net income of consolidated subsidiaries	(5,755)		5,755	
Interest expense	13,241			13,241
Loss on debt restructuring	12,790			12,790
	278,145	33,486	4,095	315,726
Earnings before income taxes	5,390	8,018	(5,755)	7,653
Income taxes	798	2,263		3,061
Net earnings	\$ 4,592	\$ 5,755	\$ (5,755)	\$ 4,592

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PHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
(Thousands of dollars)
(Unaudited)

For the nine months ended September 30, 2007

	Parent Company	Guarantor Subsidiaries		
	Only	(1)	Eliminations	Consolidated
Net cash provided by operating activities	\$ 16,469	\$ (2)	\$	\$ 16,467
Cash flows from investing activities:				
Purchase of property and equipment	(97,485)	(3)		(97,488)
Proceeds from asset dispositions	27,488			27,488
Sale of short-term investments	66,558			66,558
Deposits on aircraft	(9,448)			(9,448)
Net cash used in investing activities	(12,887)	(3)		(12,890)
Cash flows from financing activities:				
Payments on line of credit, net	(3,750)			(3,750)
Net cash used in financing activities	(3,750)			(3,750)
Decrease in cash and cash equivalents	(168)	(5)		(173)
Cash and cash equivalents, beginning of period	385	435		820
Cash and cash equivalents, end of period	\$ 217	\$ 430	\$	\$ 647

For the nine months ended September 30, 2006

	Parent Company	Guarantor Subsidiaries		
	Only	(1)	Eliminations	Consolidated
Net cash provided by operating activities	\$ 22,572	\$ 208	\$	\$ 22,780
Cash flows from investing activities:				
Purchase of property and equipment	(81,428)	(194)		(81,622)
Proceeds from asset dispositions	30,797			30,797
Purchase of short-term investments	(97,062)			(97,062)
Deposits on aircraft	(23,000)			(23,000)
Net cash used in investing activities	(170,693)	(194)		(170,887)

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Cash flows from financing activities:

Proceeds of debt issuance senior notes	200,000			200,000
Premium and costs to retire debt early	(10,208)			(10,208)
Repayment of senior notes	(200,000)			(200,000)
Debt issuance costs	(4,629)			(4,629)
Proceeds on line of credit, net	200			200
Proceeds from stock issuance, net	160,722			160,722
Net cash provided by financing activities	146,085			146,085
Decrease in cash and cash equivalents	(2,036)	14		(2,022)
Cash and cash equivalents, beginning of period	2,577	459		3,036
Cash and cash equivalents, end of period	\$ 541	\$ 473	\$	\$ 1,014

- 1) Foreign subsidiaries represent minor subsidiaries and are included in the guarantors subsidiaries amounts.

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

This discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the notes thereto as well as our audited financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2006 management's discussion and analysis, risk factors and other information contained therein.

Forward-Looking Statements

All statements other than statements of historical fact contained in this Form 10-Q, other periodic reports filed by us with the Securities and Exchange Commission, and other written and oral statements made by us or on our behalf, are forward-looking statements. When used herein, the words "anticipates", "expects", "believes", "goals", "intends", "plans", "projects" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on a number of assumptions about future events and are subject to significant risks, uncertainties, and other factors that may cause our actual results to differ materially from the expectations, beliefs, and estimates expressed or implied in such forward-looking statements. Although we believe that the assumptions underlying the forward-looking statements are reasonable, no assurance can be given that such assumptions will prove correct or even approximately correct. Factors that could cause our results to differ materially from the expectations expressed in such forward-looking statements include but are not limited to the following: unexpected variances in flight hours; the effect on demand for our services caused by volatility of oil and gas prices; the effect on our operating costs of volatile fuel prices; adverse weather conditions; the availability and cost of capital required to acquire aircraft; environmental risks; the activities of our competitors; changes in government regulation; results of future collective bargaining negotiations with the union representing our pilots, or the effects of not reaching any agreement with the union; continuing litigation with the union arising out of the terminated collective bargaining negotiations and the pilots strike that ended in late 2006; the effects of any other labor strife; operating hazards; aircraft accidents and any resulting personal injury, deaths or property damage; risks related to operating in foreign countries; the ability to obtain adequate insurance at an acceptable cost, and the effects on our ability to do so of the location of many of our operations in areas that are vulnerable to hurricanes; and the ability to develop and implement successful business strategies. All forward-looking statements in this document are expressly qualified in their entirety by the cautionary statements in this paragraph, the Risk Factors section of this report, and the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2006. PHI undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

Operating revenues for the three months ended September 30, 2007 were \$118.4 million, compared to \$109.3 million for the three months ended September 30, 2006, an increase of \$9.1 million. Oil and Gas operating revenues increased \$5.5 million for the quarter ended September 30, 2007, due to an increase in medium and heavy aircraft flight hours, and contractual rate increases, offset in part by a reduction of light aircraft flight hours and aircraft and flight hours in our foreign operations. Operating revenues in the Air Medical segment increased \$4.1 million, due to rate increases and increased patient transports. Technical Services operating revenues decreased \$0.5 million.

The Oil and Gas segment continues to be affected by pilot staffing levels. Substantial progress has been made since the first quarter 2007 in rebuilding the pilot workforce, and will continue to be made.

Flight hours for the quarter ended September 30, 2007 were 36,513, compared to 39,534 for the quarter ended September 30, 2006. The decrease was due to a reduction in flight hours in our foreign operations, and continuing effects of the strike on our domestic operations through the third quarter related to pilot

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staffing levels. Although we have increased our pilot workforce since the termination of the pilots' strike, we still have requirements for additional pilots, particularly in the Oil and Gas segment, due to the delivery of new aircraft.

Operating revenues for the nine months ended September 30, 2007 were \$333.1 million, compared to \$317.8 million for the same period in 2006, an increase of \$15.3 million. Operating revenues in the Air Medical segment increased \$13.0 million due to rate increases and increased patient transports, primarily in the second and third quarters. Oil and Gas operating revenues increased \$1.6 million, due to an increase in medium and heavy aircraft flight hours and contractual rate increases in our domestic operations, offset in part by a reduction of light aircraft flight hours and aircraft and flight hours in our foreign operations. There was an increase in Technical Services revenues of \$0.7 million for the nine months ended September 30, 2007.

Flight hours for the nine months ended September 30, 2007 were 106,627, compared to 116,901 for the nine months ended September 30, 2006. The decrease for the nine months was due to pilot staffing levels in our domestic oil and gas operations, and a reduction in flight hours in our foreign operations.

Since September 30, 2006, we have sold or disposed of 25 aircraft, primarily consisting of older aircraft that were not in our long term growth plan. Since September 30, 2006, we have taken delivery of 27 aircraft, consisting of three heavy, eight medium, 15 light, and one fixed wing aircraft.

Since December 31, 2006, we have taken delivery of twelve light, five medium, one heavy, and one fixed wing aircraft.

At September 30, 2007, we had an order for one additional transport category aircraft at an approximate cost of \$18.6 million for delivery in early 2008. We intend to execute an operating lease for this aircraft.

At September 30, 2007, we also had orders for 34 medium and light aircraft for service primarily in the Oil and Gas segment, although certain of these may be assigned to the Air Medical segment as growth opportunities materialize. The total cost of these aircraft is \$161.8 million and delivery dates are scheduled through the remainder of 2007, 2008, and 2009.

Effective July 1, 2007, we changed the estimated residual value of certain aircraft from 40% to 54%. We believe the revised amounts reflect our historical experience and more appropriately matches costs over the estimated useful lives and salvage values of these assets. The change in residual values of certain aircraft was based on our experience in sales of such aircraft and industry data which indicated that these aircraft were retaining on average a salvage value of at least 54% by model type. The effect of this change for the three and nine months ended September 30, 2007 was a reduction in depreciation expense of \$0.8 million (\$0.5 million after tax or \$0.03 per diluted share).

Direct operating expense was \$101.4 million for the three months ended September 30, 2007, compared to \$93.2 million for the three months ended September 30, 2006, an increase of \$8.2 million. This increase was due to increases in employee compensation expense (\$2.8 million), due primarily to compensation increases including incentive and safety compensation accruals; increased aircraft lease expense (\$3.3 million); and increased aircraft warranty costs (\$2.4 million) due to additional aircraft added to the fleet. (See Combined Operations - Direct Expenses which discusses these warranty costs.) Depreciation expense decreased (\$0.5 million) due to a \$0.8 million adjustment related to the change in residual value effective July 1, 2007, as discussed above. Other items increased, net (\$0.2 million).

Direct operating expense was \$291.8 million for the nine months ended September 30, 2007, compared to \$269.5 million for the nine months ended September 30, 2006, an increase of \$22.3 million. The increase was due to increases in employee expenses (\$3.9 million), primarily due to compensation increases including incentive and safety compensation accruals; contract labor costs (\$4.2 million); outside services

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primarily in the Air Medical segment (\$1.8 million); aircraft lease expense (\$4.9 million); aircraft warranty costs (\$5.8 million) due to additional aircraft added to the fleet; property taxes (\$1.0 million), and other items, net (\$0.3 million). There was also an increase in depreciation expense (\$0.4 million) due to additional aircraft added to the fleet, offset by a \$0.8 million adjustment related to the change in residual values effective July 1, 2007, as discussed above.

Selling, general and administrative expenses were \$7.4 million for the three months ended September 30, 2007, compared to \$6.8 million for the three months ended September 30, 2006, an increase of \$0.6 million. This increase was related to increased employee compensation expense (\$0.2 million); and outside services (\$0.1 million) primarily related to Air Medical segment; and other items, net (\$0.3 million).

Selling, general and administrative expenses were \$22.3 million for the nine months ended September 30, 2007, compared to \$20.2 million for the nine months ended September 30, 2006, an increase of \$2.1 million. This increase was a result of increased legal costs (\$0.3 million) related to union issues; employee compensation costs (\$0.5 million) due to overtime costs in the first quarter related to the strike and also due to compensation increases including incentive and safety compensation accruals; outside services consisting primarily of consulting fees in the Air Medical segment (\$0.4 million); insurance expense (\$0.3 million); and other items, net (\$0.6 million).

Operating margins were 10% for the nine months ended September 30, 2007, compared to 13% for the same period in 2006. This reduction is primarily a result of reduced flight hours related to pilot staffing levels and increases in certain direct expenses such as pilot overtime and other increased compensation expenses.

Earnings before tax for the quarter ended September 30, 2007 were \$13.8 million, compared to \$8.5 million for the same period in the prior year. Earnings for the quarter ended September 30, 2007, include a gain on disposition of assets of \$7.0 million. Earnings before income taxes for the nine months ended September 30, 2007 were \$26.6 million compared to \$7.7 million for the nine months ended September 30, 2006. Earnings for the nine months ended September 30, 2007, include a gain on disposition of assets of \$15.6 million. Earnings for the nine months ended September 30, 2006, include a loss on debt restructuring of \$12.8 million.

As previously reported, the pilots represented by the OPEIU (the Office and Professional Employees International Union), commenced a general strike on September 20, 2006, affecting both the Oil and Gas and Air Medical segments. Approximately 236 pilots initially participated in this strike, out of a total pilot work force of 597.

On November 10, 2006, the OPEIU notified the Company that it was ending the strike, purportedly offering an unconditional return to work of the remaining striking pilots. Thereafter, questions arose over whether the OPEIU's offer was indeed unconditional. As a result, the parties were unable to agree on a return to work process, and the OPEIU subsequently filed suit seeking injunctive relief in the United States District Court for the Western District of Louisiana.

On January 11, 2007, the court conducted a hearing relating to our handling of the return to work of the remaining strikers. At the judge's request, an agreement was reached on a return to work process. The court-approved methodology focused on pilot qualifications and currency, safety, customer requirements, training status and certain other criteria. The return-to-work process was substantially completed by April 29, 2007. We continue to operate under a pilot compensation program and other terms and conditions of employment based on the final contract proposals that were made by the Company and implemented at the end of collective bargaining negotiations on August 28, 2006.

Other issues surrounding PHI's allegations that the OPEIU engaged in bad faith bargaining, as well as the OPEIU's counterclaims and claims arising from the OPEIU's offer to return to work, remain outstanding

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and are expected to be addressed by the same federal court. A trial on these matters is currently set to start April 21, 2008. It is not possible to predict the outcome of the remaining claims and counterclaims.

On April 12, 2006, we completed the sale of 4,287,920 non-voting common shares at \$35.00 per share and on May 1, 2006, we completed the sale of another 578,680 shares pursuant to the underwriters' over-allotment option, also at \$35.00 per share. Proceeds from the sales were \$160.7 million, net of underwriting fees and expenses. The proceeds are being used to fund the acquisition of aircraft delivered in 2006 through 2008. Also on April 12, 2006, we issued \$200 million of 7.125% Senior Notes due April 15, 2013 pursuant to Rule 144A and Regulation S under the Securities Act of 1933. Proceeds were \$196.0 million net of underwriting fees and expenses, and were used to retire \$184.8 million of our existing 9 3/8% Senior Notes pursuant to a tender offer, at a total cost of \$201.6 million including an early call premium and accrued interest. We subsequently redeemed the remaining \$15.2 million of 9 3/8% Senior Notes on May 1, 2006, at a redemption price of 104.688% of the face amount plus accrued interest. As a result of the early redemption of the 9 3/8% Senior Notes, we recorded a pretax charge of \$12.8 million (\$7.7 million, net of tax), which consisted of a \$9.8 million early call premium, \$2.6 million of unamortized issuance costs, and \$0.4 million in related expenses of tendering for outstanding notes. On December 8, 2006, we completed an offer to exchange the 7.125% Senior Notes for registered debt securities with identical terms.

As previously reported, on June 15, 2005, we received a subpoena from the United States Department of Justice relating to a grand jury investigation of potential antitrust violations among providers of helicopter transportation services in the Gulf of Mexico. We are cooperating fully with the investigation and believe we have provided all documents and other information required by the subpoena. We have not received any further communications from the Department of Justice since shortly after providing the requested information. At this stage, it is not possible to predict the outcome of this investigation, although based on the information available to us to date, management does not expect the outcome of the investigation to have a material adverse effect on our financial condition, results of operations, or liquidity.

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The following tables present certain non-financial operational statistics for the quarter and nine months ended September 30, 2007 and 2006:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006⁽¹⁾	2007	2006⁽¹⁾
Flight hours:				
Oil and Gas	27,893	31,439	82,583	93,454
Air Medical	8,620	7,986	23,636	22,866
Technical Services		109	408	581
Total	36,513	39,534	106,627	116,901
 Air Medical Transports ⁽²⁾	 5,891	 5,661	 16,463	 15,794
			September 30,	September 30,
			2007	2006
Aircraft operated at period end:				
Oil and Gas			161	162
Air Medical			72	69
Technical Services			4	4
Total ⁽³⁾			237	235

(1) All prior periods have been recast to conform to the 2007 segment presentation. See Note 2, Segment Information, to the Condensed Consolidated Financial Statements for discussion on change in reportable segments.

(2) Represents individual patient

transports for
the period.
Flight hours for
these transports
are included
above.

- (3) Includes 12
aircraft as of
September 30,
2007 and 2006
that are
customer
owned.

Quarter Ended September 30, 2007 compared with Quarter Ended September 30, 2006

Combined Operations

Revenues Operating revenues for the three months ended September 30, 2007, were \$118.4 million, compared to \$109.3 million for the three months ended September 30, 2006, an increase of \$9.1 million. Oil and Gas operating revenues increased \$5.5 million for the quarter ended September 30, 2007, due to an increase in medium and heavy aircraft flight hours and contractual rate increases, offset in part by a reduction of light aircraft flight hours and aircraft and flight hours in our foreign operations. Operating revenues in the Air Medical segment increased \$4.1 million due to rate increases and increased patient transports. There was a decrease in Technical Services operating revenues of \$0.5 million.

Total flight hours were 36,513 for the three months ended September 30, 2007, compared to 39,534 for the three months ended September 30, 2006. Flight hours in the Oil and Gas segment were 27,893 for the three months ended September 30, 2007, compared to 31,439 for three months ended September 30, 2006, a decrease of 3,546 flight hours.

Other Income and Gains Gain on disposition of assets was \$7.0 million for the three months ended September 30, 2007, compared to a gain of \$0.6 million for the three months ended September 30, 2006. These amounts represent gains and losses on sales of aircraft that no longer meet our strategic needs.

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Other income was \$1.1 million for the three months ended September 30, 2007, compared to \$2.7 million for the three months ended September 30, 2006, and primarily represented interest income on unspent proceeds from our April 2006 stock offering. A substantial portion of those proceeds have now been spent on acquiring new aircraft, resulting in the decrease in interest income.

Direct Expenses Direct operating expense was \$101.4 million for the three months ended September 30, 2007, compared to \$93.2 million for the three months ended September 30, 2006, an increase of \$8.2 million. This increase was due to increases in employee compensation expense (\$2.8 million), due primarily to compensation increases including incentive and safety compensation accruals; increased aircraft lease expense (\$3.3 million); and increased aircraft warranty costs (\$2.4 million) due to additional aircraft added to the fleet. All new aircraft come with a manufacturer's warranty that covers defective parts. The increase in our warranty cost is related to an additional warranty that we purchase from the manufacturer on certain aircraft to cover replacement or refurbishment of aircraft parts in accordance with manufacturer specifications. We pay a monthly fee to the manufacturer based on flight hours for the aircraft that are covered under this warranty. In return, the manufacturer provides replacement parts required for maintaining the aircraft. There was also an increase in other items, net (\$0.2 million). Depreciation expense decreased (\$0.5 million) due to a \$0.8 million adjustment related to the change in residual value effective July 1, 2007, as discussed in the Overview.

Selling, General, and Administrative Expenses Selling, general and administrative expenses were \$7.4 million for the three months ended September 30, 2007, compared to \$6.8 million for the three months ended September 30, 2006, an increase of \$0.6 million. This increase was related to increased employee compensation expense (\$0.2 million), and outside services (\$0.1 million) primarily related to the Air Medical segment, and other items, net (\$0.3 million).

Interest Expense Interest expense was \$3.9 million for the three months ended September 30, 2007, compared to \$4.0 million for the three months ended September 30, 2006. The decrease was due to a decrease in borrowings under our revolving line of credit.

Income Taxes Income tax expense for the three months ended September 30, 2007 was \$5.2 million compared to \$3.4 million for the three months ended September 30, 2006. The effective tax rate was 38% for the three months ended September 30, 2007, compared to 40% for the three months ended September 30, 2006.

Earnings Our net income for the three months ended September 30, 2007 was \$8.6 million compared to \$5.1 million for the three months ended September 30, 2006. Earnings before income taxes for the three months ended September 30, 2007, were \$13.8 million compared to \$8.5 million for the same period in 2006. Earnings per diluted share were \$0.56 for the current quarter compared to earnings per diluted share of \$0.33 for the prior year quarter. We had 15.3 million common shares outstanding during the three months ended September 30, 2007 and September 30, 2006. Included in earnings before tax for the quarter ended September 30, 2007, are gains on disposition of assets of \$7.0 million, compared to \$0.6 million for the same period in 2006. Earnings in 2007 have been affected by pilot staffing issues, although substantial progress has been made since the first quarter 2007 in rebuilding the pilot workforce.

Segment Discussion

Oil and Gas Oil and Gas segment revenues were \$76.9 million for the three months ended September 30, 2007, compared to \$71.4 million for the three months ended September 30, 2006, an increase of \$5.5 million. Flight hours were 27,893 for the current quarter compared to 31,439 for the same quarter in the prior year. Although overall flight hours decreased, flight hours related to medium and heavy aircraft increased resulting in increased revenues. There were also certain contractual rate increases, offset by a decrease in light aircraft flight hours and flight hours and aircraft in our foreign operations.

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The number of aircraft in the segment was 161 at September 30, 2007, compared to 162 aircraft at September 30, 2006. We have sold or disposed of 22 aircraft in the Oil and Gas segment since September 30, 2006, consisting of 11 light, six medium, and four heavy aircraft. We also transferred one light aircraft to the Air Medical segment. We have added 21 new aircraft to the Oil and Gas segment since September 30, 2006, consisting of ten light, eight medium, and three heavy aircraft. We have a total of 29 aircraft on order for delivery in 2007 and 2008 for the Oil and Gas segment, although certain of the light aircraft on order will be assigned to the Air Medical segment as growth opportunities materialize.

Direct expense in our Oil and Gas segment was \$65.8 million for the three months ended September 30, 2007, compared to \$58.9 million for the three months ended September 30, 2006. The increase of \$6.9 million was primarily due to an increase in aircraft lease expense (\$3.2 million), and aircraft warranty costs (\$2.0 million) due to additional aircraft added to the fleet, as previously discussed in Combined Operations Direct Expenses. There were also increases in employee costs (\$1.1 million), and other contract labor costs (\$0.9 million) and decreases in other items, net (\$0.3 million).

Selling, general and administrative expenses were \$0.4 million for the three months ended September 30, 2007, compared to \$0.3 million for the three months ended September 30, 2006.

Our Oil and Gas segment's operating income was \$10.6 million for the three months ended September 30, 2007, compared to \$12.2 million for the three months ended September 30, 2006. The decrease was due to the increase in operating expenses of \$7.0 million, offset by the increase in operating revenues of \$5.5 million. As stated in the Overview, the Oil and Gas segment continues to be affected by pilot staffing levels. Operating margins were 14% for the three months ended September 30, 2007, compared to 17% for the three months ended September 30, 2006, primarily due to pilot staffing levels resulting in reduced flight hours and lower revenues and increases in certain direct expenses, such as pilot overtime costs and other contract labor costs.

Air Medical Air Medical segment revenues were \$39.8 million for the three months ended September 30, 2007, compared to \$35.7 million for the three months ended September 30, 2006, an increase of \$4.1 million. The increase was primarily related to rate increases and an increase in patient transports, which totaled 5,891 for the three months ended September 30, 2007, compared to 5,661 for the three months ended September 30, 2006.

Flight hours were 8,620 for the three months ended September 30, 2007, compared to 7,986 for the three months ended September 30, 2006. The number of aircraft in the segment was 72 at September 30, 2007, compared to 69 at September 30, 2006. Since September 30, 2006, we have sold four and added six light and one fixed wing aircraft in the Air Medical segment.

Direct expenses in our Air Medical segment were \$34.6 million for the three months ended September 30, 2007, compared to \$32.6 million for the three months ended September 30, 2006. The \$2.0 million increase was due to increases in employee costs (\$1.2 million) primarily due to employee compensation increases including incentive and safety compensation accruals, aircraft warranty costs (\$0.4 million) as additional aircraft were added to manufacturers warranty programs, and outside services (\$0.5 million) related to medical director fees and collection expenses, and decreases in other items, net (\$0.1 million).

Selling, general and administrative expenses were \$1.9 million for the three months ended September 30, 2007, compared to \$1.8 million for the three months ended September 30, 2006. Air Medical operations are headquartered in Phoenix, Arizona, where we maintain significant separate facilities and administrative staff dedicated to this segment. Those costs are charged directly to the Air Medical segment, resulting in higher selling, general and administrative costs as compared to our other reportable segments.

Our Air Medical segment's operating income was \$3.4 million for the three months ended September 30, 2007, compared to \$1.4 million for the three months ended September 30, 2006, due to increased rates

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and patient transports during the period. Operating margins were 8% for the three months ended September 30, 2007, compared to 4% for the three months ended September 30, 2006. This increase was primarily due to increased patient transports related to the expansion of new locations in the segment during the past three years. It takes some time for these programs to grow their revenues to a level that will cover their costs and produce operating income.

Technical Services Technical Services revenues were \$1.7 million for the three months ended September 30, 2007, compared to \$2.2 million for the three months ended September 30, 2006.

Direct expenses in our Technical Services segment were \$1.0 million for the three months ended September 30, 2007, compared to \$1.8 million for the three months ended September 30, 2006.

Our Technical Services segment's operating income was \$0.7 million for the three months ended September 30, 2007, compared to operating income of \$0.4 million for the three months ended September 30, 2006. Technical Services provides maintenance and repairs performed for our existing customers that own their aircraft. These services are generally labor intensive with higher operating margins as compared to other segments.

Nine Months Ended September 30, 2007 compared with Nine Months Ended September 30, 2006

Combined Operations

Revenues Operating revenues for the nine months ended September 30, 2007, were \$333.1 million, compared to \$317.8 million for the nine months ended September 30, 2006, an increase of \$15.3 million. Operating revenues in the Air Medical segment increased \$13.0 million due to rate increases and increased patient transports, primarily in the second and third quarters. Oil and Gas operating revenues increased \$1.6 million, due to an increase in medium and heavy aircraft flight hours and contractual rate increases in our domestic operations, offset in part by a reduction of aircraft and flight hours in our foreign operations, and a reduction in light aircraft flight hours. There was an increase in Technical Services revenues of \$0.7 million for the nine months ended September 30, 2007, due to an increase in activity.

Total flight hours were 106,627 for the nine months ended September 30, 2007, compared to 116,901 for the nine months ended September 30, 2006. Patient transports were 16,463 for the current nine months compared to 15,794 for the same period in the prior year.

Other Income and Gains Gain on disposition of assets was \$15.6 million for the nine months ended September 30, 2007, compared to a loss of \$0.5 million for the nine months ended September 30, 2006. The gain was primarily due to the sale of four heavy aircraft and related parts inventory in the second quarter of 2007. Subsequent to September 30, 2007, we sold three medium aircraft. We expect to report a gain from the sale of these aircraft. Other income, which primarily represents interest income on unspent proceeds from our April 2006 stock offering, was \$4.3 million for the nine months ended September 30, 2007 as compared to \$6.1 million for the nine months ended September 30, 2006. This decrease resulted from a decrease in short-term investments, as a substantial portion of those proceeds have now been spent on acquiring new aircraft.

Direct Expenses Direct operating expense was \$291.8 million for the nine months ended September 30, 2007, compared to \$269.5 million for nine months ended September 30, 2006, an increase of \$22.3 million. Direct expense increased \$15.3 million in the Oil and Gas segment, due to new aircraft added to the segment, increased employee compensation expense and additional aircraft lease expense. Direct expense increased \$7.3 million in the Air Medical segment, due primarily to increased flight hours and patient transports and also increases in employee compensation. There was a decrease in direct expense

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of \$0.3 million in the Technical Services segment. The \$22.3 million increase was due to increases in employee expenses (\$3.9 million) primarily due to compensation increases, including incentive and safety compensation accruals, contract labor costs (\$4.2 million), outside services, mainly in the Air Medical segment (\$1.8 million), aircraft lease expense (\$4.9 million), aircraft warranty costs (\$5.8 million) due to additional aircraft added to the fleet, property taxes (\$1.0 million), and other items, net (\$0.3 million). There was also an increase in depreciation expense (\$0.4 million) due to additional aircraft added to the fleet offset by a \$0.8 million adjustment related to the change in residual values effective July 1, 2007, as discussed in the Overview.

Selling, General, and Administrative Expenses Selling, general and administrative expenses were \$22.3 million for the nine months ended September 30, 2007, compared to \$20.2 million for the nine months ended September 30, 2006, an increase of \$2.1 million. This increase was a result of increased legal costs (\$0.3 million) related to union issues, employee compensation costs (\$0.5 million) due to overtime costs in the first quarter related to the strike and compensation increases including incentive and safety compensation accruals, outside services consisting primarily of consulting fees in the air medical segment (\$0.4 million), insurance expense (\$0.3 million), and other items, net (\$0.6 million).

Interest Expense Interest expense was \$12.3 million for the nine month period ended September 30, 2007, compared to \$13.2 million for the nine months ended September 30, 2006. The decrease was due to early redemption of the 9 3/8% Senior Notes, which were refinanced at 7.125% in April, 2006.

Loss on Debt Restructuring A pretax charge of \$12.8 million was recorded in April 2006, due to the early redemption of the 9 3/8% Senior Notes. This charge consists of \$9.8 million early call premium, \$2.6 million of unamortized issuance costs, and \$0.4 million in related expenses for the tender of outstanding notes.

Income Taxes Income tax expense for the nine months ended September 30, 2007 was \$10.2 million, an effective rate of 38%, compared to \$3.1 million for the nine months ended September 30, 2006, an effective rate of 40%.

Earnings Earnings before tax for the nine months ended September 30, 2007 were \$26.6 million, compared to earnings before tax of \$7.7 million for the nine months ended September 30, 2006. Net income after tax for the nine months ended September 30, 2007 was \$16.4 million, compared to net income after tax of \$4.6 million for the nine months ended September 30, 2006. Included in the nine months ended September 30, 2006 was a pretax charge of \$12.8 million (\$7.7 million, net of tax) recorded in April 2006 as a result of the early redemption of our 9 3/8% Senior notes. Included in earnings before tax for the nine months ended September 30, 2007, are gains on disposition of assets of \$15.6 million, compared to a loss of \$0.5 million for the same period in 2006. Earnings in 2007 have been affected by pilot staffing issues, although substantial progress has been made since the first quarter 2007.

Segment Discussion

Oil and Gas Oil and Gas segment revenues were \$213.8 million for the nine months ended September 30, 2007, compared to \$212.2 million for the nine months ended September 30, 2006. Flight hours were 82,583 for the nine months ended September 30, 2007, compared to 93,454 for the nine months ended September 30, 2006. Operating revenues increased \$1.6 million, due to an increase in medium and heavy aircraft flight hours and contractual rate increases, offset by a decrease in light aircraft flight hours and flight hours in our domestic operations due to pilot staffing levels, and a reduction of aircraft and flight hours in our foreign operations.

Direct expense for the nine months ended September 30, 2007 was \$185.0 million compared to \$169.7 million for the nine months ended September 30, 2006, an increase of \$15.3 million. The increase was due to increases in employee costs (\$4.5 million), primarily due to compensation increases including

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incentive and safety compensation accruals, aircraft lease expense (\$4.9 million), aircraft warranty costs (\$4.8 million) due to additional aircraft covered under manufacturer's warranty programs, contract labor costs (\$4.8 million), and other items, net (\$0.6 million). These increases were offset in part by a decrease in insurance expense (\$1.3 million), and aircraft parts usage (\$3.0 million).

Selling, general and administrative expense charged to the Oil and Gas segment was \$1.2 million for the nine months ended September 30, 2007 compared to \$1.0 million for the nine months ended September 30, 2006.

Oil and Gas segment operating income was \$27.6 million for the nine months ended September 30, 2007, compared to \$41.6 million for the nine months ended September 30, 2006. This decrease is due to pilot staffing levels, and a decrease in aircraft and flight hours in our foreign operations.

Operating margins were 13% for the nine months ended September 30, 2007, compared to 20% operating margins for the same period in 2006. The decrease in operating margins was caused by the reduction in flight hours due to pilot staffing levels and increases in certain direct expenses such as pilot overtime costs and other compensation expenses.

Air Medical Air Medical segment revenues were \$113.0 million for the nine months ended September 30, 2007, compared to \$100.0 million for the same period in the prior year. Transports increased from 15,794 in the nine month period ended September 30, 2006 to 16,463 in the comparable nine month period in 2007. Flight hours in this segment were 23,636 for the nine months ended September 30, 2007, as compared to 22,866 for the nine months ended September 30, 2006. The number of aircraft in the segment at September 30, 2007 was 72 compared to 69 at September 30, 2006. The increase in operating revenue was due to rate increases and increases in patient transports. Direct expense for the nine months ended September 30, 2007 was \$102.2 million compared to \$94.9 million for the nine months ended September 30, 2006, an increase of \$7.3 million. There was an increase in employee costs (\$4.2 million) primarily due to compensation increases including incentive and safety compensation accruals. There were also increases in base costs (\$1.8 million), which includes fees for outside medical personnel and collection services, aircraft warranty costs (\$1.1 million) due to additional aircraft covered under manufacturer's warranty programs, and other items, net (\$0.2 million).

Segment selling, general and administrative expenses were \$5.7 million for the nine months ended September 30, 2007 compared to \$5.4 million for the nine months ended September 30, 2006. Air Medical operations are headquartered in Phoenix, Arizona, where we maintain significant separate facilities and administrative staff dedicated to this segment. Those costs are charged directly to the Air Medical segment, resulting in higher selling, general and administrative costs as compared to our other reportable segments.

Air Medical segment operating income was \$5.1 million for the nine months ended September 30, 2007, compared to \$0.3 million operating loss for the nine months ended September 30, 2006. The increase was due to increased patient transports and increases in rates.

In the Air Medical segment, operating margins increased to 5% in the nine months ended September 30, 2007, compared to a loss in the same period in 2006. This increase is primarily due to the increase in patient transport volume, related to the expansion of new locations in this segment. Operating margins were lower in this segment compared to our other segments, as it takes some time for these programs to grow their revenues to a level that will cover their costs and produce operating income. Operating margins may also be affected by the mix of payors in any period. In addition to expected flight operation costs, the Air Medical segment incurs additional costs for necessary medical personnel.

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Technical Services The Technical Services segment operating revenues for the nine months ended September 30, 2007 were \$6.3 million, compared to \$5.6 million in the comparable period in the prior year. Direct expense was \$4.5 million for the nine months ended September 30, 2007, compared to \$4.9 million for the nine months ended September 30, 2006.

The Technical Services segment had operating income of \$1.7 million for the nine months ended September 30, 2007, compared to \$0.7 million for the nine months ended September 30, 2006. Operating margin in the Technical Services segment were 26% for the nine months ended September 30, 2007, compared to 13% for the same period in 2006. Technical Services includes maintenance and repairs performed primarily for our existing customers that own their aircraft. These services are generally labor intensive with higher operating margins as compared to other segments.

Liquidity and Capital Resources

General

Our ongoing liquidity requirements arise primarily from the funding of working capital needs, such as the acquisition or leasing of aircraft, the maintenance and refurbishment of aircraft, improvement and expansion of facilities, and acquisition of equipment and inventory. Our principal sources of liquidity historically have been net cash provided by our operations and borrowings under our revolving credit facility, as augmented in recent years by the issuance of senior notes in 2002, which we refinanced in 2006, and the sale of non-voting common stock in 2005 and 2006.

Cash Flow

Our cash position at September 30, 2007 was \$0.6 million, compared to \$0.8 million at December 31, 2006. Short-term investments at September 30, 2007 were \$86.9, compared to short-term investments of \$153.4 million at December 31, 2006. Working capital was \$207.3 million at September 30, 2007, as compared to \$254.1 million at December 31, 2006, a decrease of \$46.8 million. The decrease in working capital was a result of a decrease in short-term investments and cash of \$66.7 million used to fund aircraft acquisitions, and accounts payable and other current liabilities of \$1.2 million, offset by an increase in accounts receivable of \$15.6 million, and assets held for sale and other assets of \$5.5 million.

Cash flow from operating activities decreased \$6.3 million for the nine months ended September 30, 2007, compared to the same period in 2006 due to reduced revenues as a result of pilot staffing levels in the oil and gas segment. Increases in certain direct expenses included employee compensation increases, contract labor costs and legal expenses. This resulted in a reduction in earnings in 2007, compared to 2006, exclusive of the \$12.8 million loss on debt restructuring in 2006 and gains/losses on disposition of assets. The changes in operating assets and liabilities of \$17.5 million for the nine months ended September 30, 2007 included increases in accounts receivable (\$15.6 million), accounts payable and other accrued liabilities (\$0.2 million) and other items, net (\$2.1 million).

We expect cash flow from operations will increase for the remainder of 2007 since the pilots have returned to work and certain contract rate increases have been enacted, and will be sufficient to meet our current and future working capital, capital expenditure and debt obligations. We do not expect any material changes to future working capital requirements other than continued fleet expansion, which we intend to fund from existing cash, short-term investments, and/or operating leases, as required.

Financing Activities

On April 12, 2006, we completed the sale of 4,287,920 non-voting common shares at \$35.00 per share and on May 1, 2006, we completed the sale of another 578,680 shares pursuant to the underwriters' over-

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allotment option, also at \$35.00 per share. Proceeds from the offering were \$160.7 million, net of expenses, and are being used to fund the acquisition of aircraft delivered in 2006 through 2008. Also on April 12, 2006, we issued \$200 million of 7.125% Senior Notes due 2013. Net proceeds of \$196.0 million were used to repurchase \$184.8 million of our existing 9 3/8% Senior Notes, which were tendered by April 12, 2006, at a total cost of \$201.6 million including an early call premium and accrued interest. We redeemed the remaining \$15.2 million of 9 3/8% Senior Notes on May 1, 2006, at a redemption price of 104.688% of the face amount plus accrued interest. As a result of the refinancing of the 9 3/8% Senior Notes, we recorded a pretax charge of \$12.8 million (\$7.7 million, net of tax) in the quarter ended June 30, 2006, which consisted of a \$9.8 million early call premium, \$2.6 million of unamortized issuance costs, and \$0.4 million in related expenses of the tender for the outstanding notes.

The 7.125% Senior Notes mature April 15, 2013, and interest is payable semi-annually on April 15 and October 15. On October 15, 2007, we made a semi-annual interest payment of \$7.1 million. The notes contain restrictive covenants, including limitations on indebtedness, liens, dividends, repurchases of capital stock and other payments affecting restricted subsidiaries, issuance and sales of restricted subsidiary stock, dispositions of proceeds of asset sales, and mergers, consolidations and sales of assets. Estimated annual interest cost of the 7.125% Senior Notes is \$14.3 million, excluding amortization of issuance costs.

Credit Facility

We have a \$35 million revolving credit facility with a commercial bank that expires on September 1, 2009. As of September 30, 2007, there were \$1.8 million in borrowings and \$4.6 million in letters of credit outstanding under the facility. The facility includes covenants related to working capital, funded debt to net worth, and consolidated net worth. As of September 30, 2007, we were in compliance with these covenants.

Contractual Obligations

At September 30, 2007, one additional transport category aircraft was on order and scheduled for delivery in 2007 at an approximate cost of \$18.6 million. We also had orders for 34 additional aircraft for service primarily in the Oil and Gas segment with a total cost of \$161.8 million. Delivery dates are scheduled throughout 2007, 2008, and 2009. The table below sets out our contractual obligations related to operating lease obligations, notes payable and the 7.125% Senior Notes due 2013, issued April 12, 2006, as well as our aircraft purchase commitments. The operating leases are not recorded as liabilities on our balance sheet, but payments are treated as an expense as incurred. Each contractual obligation included in the table contains various terms, conditions, and covenants that, if violated, accelerate the payment of that obligation. We currently lease 18 aircraft included in the lease obligations below.

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		Payment Due by Year					
	Total	2007	2008	2009	2010	2011	Beyond 2011
				(Thousands of dollars)			
New aircraft purchase commitments ⁽¹⁾	\$ 161,751	\$ 57,910	\$ 80,311	\$ 23,530	\$	\$	\$
New aircraft purchase commitments ⁽²⁾	18,591		18,591				
Existing aircraft lease obligations	161,103	4,261	17,043	17,044	17,645	18,913	86,197
Other lease obligations	21,099	874	3,249	2,528	2,202	1,841	10,405
Long-term debt	201,750			1,750			200,000
	\$ 564,294	\$ 63,045	\$ 119,194	\$ 44,852	\$ 19,847	\$ 20,754	\$ 296,602

(1) These commitments are for aircraft that we intend to finance with remaining cash from the equity offering completed April 2006, with cash from operations, and operating leases.

(2) These commitments are for aircraft that we intend to finance with an operating lease. Once the leases are entered into, the lease payments will be spread out over future years.

Environmental Matters

We have an aggregate estimated liability of \$0.2 million as of September 30, 2007 and December 31, 2006 for environmental remediation costs that are probable and estimable. We have conducted environmental surveys of our former Lafayette Facility, which we vacated in 2001, and have determined that limited soil and groundwater contamination exists at the facility. We have installed groundwater monitoring wells at the facility and periodically monitor and report on the contamination. In May 2003, we submitted a Louisiana Risk Evaluation/Corrective Action Plan (RECAP) standard Site Assessment Report to the Louisiana Department of Environmental Quality (LDEQ) fully delineating the extent and type of contamination. The Site Assessment Report was updated in April, 2006 to include recent analytical data. We are currently preparing a report evaluating all available data against the LDEQ RECAP Management Option 1 Standard. Once that is complete, LDEQ will establish what cleanup standards must be met at the site. When the process is complete, we will be in a position to develop an appropriate remediation plan and determine the resulting cost of remediation. We have not recorded any estimated liability for remediation and contamination and, based upon the May, 2003 Site Assessment Report and ongoing monitoring, we believe the ultimate remediation costs for the former Lafayette facility will not be material to our consolidated financial position, results of operation or liquidity.

New Accounting Pronouncements

For a discussion of applicable new accounting pronouncements, see Note 7 to the Condensed Consolidated Financial Statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market value of our 7.125% Senior Notes will vary as changes occur to general market interest rates, the remaining maturity of the notes, and our credit worthiness. At September 30, 2007, the market value of the notes was approximately \$192.0 million.

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Item 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the design and operation of our disclosure controls and procedures were effective as of such date to provide assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding disclosure.

There have been no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We have been named as a defendant in various legal actions that have arisen in the ordinary course of our business and have not been finally adjudicated. In the opinion of management, the amount of the ultimate liability with respect to these actions will not have a material adverse effect on our consolidated financial condition, results of operations or liquidity.

As previously reported, on June 15, 2005, we received a subpoena from the United States Department of Justice relating to a grand jury investigation of potential antitrust violations among providers of helicopter transportation services in the Gulf of Mexico. We are cooperating fully with the investigation and believe we have provided all documents and other information required by the subpoena. We have not received any further communications from the Department of Justice since shortly after providing the requested information. At this stage, it is not possible to predict the outcome of this investigation, although based on the information available to us to date, management does not expect the outcome of the investigation to have a material adverse effect on our financial condition, results of operations, or liquidity.

Item 1. A. RISK FACTORS

All phases of our operations are subject to significant uncertainties, risks, and other influences. Important factors that could cause our actual results to differ materially from anticipated results or other expectations include the following:

RISKS INHERENT IN OUR BUSINESS

Our operations are affected by adverse weather conditions and seasonal factors.

We are subject to three types of weather-related or seasonal factors:

Ø the tropical storm and hurricane season in the Gulf of Mexico;

Ø poor weather conditions that often prevail during winter and can develop in any season; and;

Ø reduced daylight hours during the winter months.

Poor visibility, high winds and heavy precipitation can affect the operation of helicopters and significantly reduce our flight hours. A significant portion of our operating revenue is dependent on actual flight hours and a substantial portion of our direct costs is fixed. Thus, prolonged periods of adverse weather can materially and adversely affect our operating revenues and net earnings.

In the Gulf of Mexico, the months of December, January and February have more days of adverse weather conditions than the other months of the year. Also, June through November is tropical storm and hurricane season in the Gulf of Mexico, with August and September typically being the most active months. During tropical storms, we are unable to operate in the area of the storm and can incur significant expense in moving our aircraft to safer locations. In addition, as most of our facilities are located along the Gulf of Mexico coast, tropical storms and hurricanes may cause substantial damage to our property, including helicopters that we are unable to relocate.

Because the fall and winter months have fewer hours of daylight, our flight hours are generally lower at those times, which typically results in a reduction in operating revenues during those months. Currently, only 44 of the 155 helicopters used in our oil and gas operations are equipped to fly under instrument flight rules, or IFR, which enables these aircraft, when manned by IFR-rated pilots and co-pilots, to operate when poor visibility or darkness prevents flight by aircraft that can fly only under visual flight rules, or VFR. Not all of our pilots are IFR rated.

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We may not be able to obtain acceptable customer contracts covering some of our new helicopters, and there will be a delay between the time that a helicopter is delivered to us and the time that it can begin generating revenues.

We are substantially expanding our fleet of helicopters. Many of our new oil and gas helicopters may not be covered by customer contracts when they are placed into service, and we cannot assure you as to when we will be able to utilize these new helicopters or on what terms. In addition, with respect to those helicopters that will be covered by customer contracts when they are placed into service, our contract terms generally are too short to recover our cost of purchasing the helicopter at current rates. Thus, we are subject to the risk that we will be unable to recoup our investment in the helicopters.

Once a new helicopter is delivered to us, we generally spend between two and five months installing mission-specific and/or customer-specific equipment before we place it into service. As a result, there can be a significant delay between the delivery date for a new helicopter and the time that it is able to generate revenues for us.

There is also a possibility that our customers may request new helicopters in lieu of our existing helicopters, which could adversely affect the utilization of our existing fleet.

Our contracts generally can be terminated or downsized by our customers without penalty.

Most of our fixed-term contracts contain provisions permitting early termination by the customer, sometimes with as little as 30 days' notice for any reason and generally without penalty. In addition, many of our contracts permit our customers to decrease the number of aircraft under contract with a corresponding decrease in the fixed monthly payments without penalty. As a result, you should not place undue reliance on our customer contracts or the terms of those contracts.

Increased governmental regulations could increase our costs or reduce our ability to operate successfully.

Our operations are regulated by a number of federal and state agencies. All of our flight operations are regulated by the Federal Aviation Administration, or FAA. Aircraft accidents are subject to the jurisdiction of the National Transportation Safety Board. Standards relating to the workplace health and safety are monitored by the federal Occupational Safety and Health Administration, or OSHA. We are also subject to various federal and state environmental statutes.

The FAA has jurisdiction over many aspects of our business, including personnel, aircraft and ground facilities. We are required to have an Air Taxi Certificate, granted by the FAA, to transport personnel and property in our helicopters. This certificate contains operating specifications that allow us to conduct our present operations, but it is potentially subject to amendment, suspension or revocation in accordance with procedures set forth in the Federal Aviation Act. The FAA is responsible for ensuring that we comply with all FAA regulations relating to the operation of our aviation business, and conducts regular inspections regarding the safety, training and general regulatory compliance of our U.S. aviation operations. Additionally, the FAA requires us to file reports confirming our continued compliance.

FAA regulations require that at least 75% of our voting securities be owned or controlled by citizens of the U.S. or one of its possessions, and that our president and at least two-thirds of our directors be U.S. citizens. Our Chief Executive Officer and all of our directors are U.S. citizens, and our organizational documents provide for the automatic reduction in voting power of each share of voting common stock owned or controlled by a non-U.S. citizen if necessary to comply with these regulations.

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We are subject to significant regulatory oversight by OSHA and similar state agencies. We are also subject to the Communications Act of 1934 because of our ownership and operation of a radio communications flight-following network throughout the Gulf of Mexico.

Numerous other federal statutes and rules regulate our offshore operations and those of our customers, pursuant to which the federal government has the ability to suspend, curtail or modify certain or all offshore operations. A suspension or substantial curtailment of offshore oil and gas operations for any prolonged period would have an immediate and material adverse effect on us. A substantial modification of current offshore operations could adversely affect the economics of such operations and result in reduced demand for our services.

The helicopter services business is highly competitive.

All segments of our business are highly competitive. Many of our contracts are awarded after competitive bidding, and the competition for those contracts generally is intense. The principal aspects of competition are safety, price, reliability, availability and service.

We have two major competitors and several small competitors operating in the Gulf of Mexico, and most of our customers and potential customers could operate their own helicopter fleets if they chose to do so. At least one of our primary competitors is in the process of significantly expanding its fleet.

Our Air Medical segment competes for business primarily under the independent provider model and, to a lesser extent, under the hospital-based model. Under the independent provider model, we have no contracts and no fixed revenue stream, but must compete for transport referrals on a daily basis with other independent operators in the area. Under the hospital-based model, we contract directly with the hospital to provide their transportation services, with the contracts typically awarded on a competitive bid basis. Under both models, we compete against national and regional companies, and there is usually more than one competitor in each local market. In addition, we compete against hospitals that operate their own helicopters and, in some cases, against ground ambulances as well.

The failure to maintain our safety record would seriously harm our ability to attract new customers and maintain our existing customers.

A favorable safety record is one of the primary factors a customer reviews in selecting an aviation provider. If we fail to maintain our safety and reliability record, our ability to attract new customers and maintain our current customers will be materially adversely affected.

Helicopter operations involve risks that may not be covered by our insurance or may increase the cost of our insurance.

The operation of helicopters inherently involves a high degree of risk. Hazards such as aircraft accidents, collisions, fire and adverse weather are hazards that must be managed by providers of helicopter services and may result in loss of life, serious injury to employees and third parties, and losses of equipment and revenues.

We maintain hull and liability insurance on our aircraft, which insures us against physical loss of, or damage to, our aircraft and against certain legal liabilities to others. In addition, we carry war risk, expropriation, confiscation and nationalization insurance for our aircraft involved in international operations. In some instances, we are covered by indemnity agreements from our customers in lieu of, or in addition to, our insurance. Our aircraft are not insured for loss of use.

While we believe that our insurance and indemnification arrangements provide reasonable protection for most foreseeable losses, they do not cover all potential losses and are subject to deductibles, retentions, coverage limits and coverage exceptions such that severe casualty losses, or the expropriation or

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confiscation of significant assets could materially and adversely affect our financial condition or results of operations. The occurrence of an event that is not fully covered by insurance could have a material adverse impact on our financial condition and results of operations.

Our air medical operations, which we are expanding, expose us to numerous special risks, including collection risks, high start-up costs and potential medical malpractice claims.

We recently have expanded our air medical business. These operations are highly competitive and expose us to a number of risks that we do not encounter in our oil and gas operations. For instance, the fees for our air medical services generally are paid by individual patients, insurance companies, or government agencies such as Medicare and Medicaid. As a result, our profitability in this business depends not only on our ability to generate an acceptable volume of patient transports, but also on our ability to collect our transport fees. We are not permitted to refuse service to patients based on their inability to pay.

As a result of our recent expansion, even if we are able to generate an acceptable volume of patient transports, we cannot assure you that our new markets will be profitable for us. We generally incurred significant startup costs and lower utilization rates when we entered new air medical markets, which impacted our profitability. Finally, we employ paramedics, nurses and other medical professionals for these operations, which can give rise to medical malpractice claims against us, which, if not fully covered by our medical malpractice insurance, could materially adversely affect our financial condition and results of operations.

Our international operations are subject to political, economic and regulatory uncertainty.

Our international operations, which represented approximately 6% of our total operating revenues for the year ended December 31, 2006, are subject to a number of risks inherent in operating in lesser developed countries, including:

Ø political, social and economic instability;

Ø terrorism, kidnapping and extortion;

Ø potential seizure or nationalization of assets;

Ø import-export quotas; and

Ø currency fluctuations or devaluation.

Additionally, our competitiveness in international markets may be adversely affected by government regulation, including regulations requiring:

Ø the awarding of contracts to local contractors;

Ø the employment of local citizens; and

Ø the establishment of foreign subsidiaries with significant ownership positions reserved by the foreign government for local ownership.

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

Our ability to attract and retain qualified pilots, mechanics, nurses, paramedics and other highly trained personnel will be an important factor in determining our future success. Many of our customers require pilots of aircraft that service them to have inordinately high levels of flight experience. The market for these experienced and highly trained personnel is extremely competitive. Accordingly, we cannot assure you that we will be successful in our efforts to attract and retain such persons. Some of our pilots and mechanics, and those of our competitors, are members of the U.S. military reserves and could be called to

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active duty. If significant numbers of such persons are called to active duty, it would reduce the supply of such workers, possibly curtailing our operations and likely increasing our labor costs.

RISKS SPECIFIC TO OUR COMPANY

We are highly dependent on the offshore oil and gas industry.

Approximately 60% of our 2006 operating revenue was attributable to helicopter support for domestic offshore oil and gas exploration and production companies. Our business is highly dependent on the level of activity by the oil and gas companies, particularly in the Gulf of Mexico. The level of activity by our customers operating in the Gulf of Mexico depends on factors that we cannot control, such as:

- Ø the supply of, and demand for, oil and natural gas and market expectations regarding supply and demand;
- Ø weather-related or other natural causes;
- Ø actions of OPEC, and Middle Eastern and other oil producing countries, to control prices or change production levels;
- Ø general economic conditions in the United States and worldwide;
- Ø war, civil unrest or terrorist activities;
- Ø governmental regulation; and
- Ø the price and availability of alternative fuels.

Any substantial or extended decline in the prices of oil and natural gas could depress the level of helicopter activity in support of exploration and production activity, and thus have a material adverse effect on our business, results of operations and financial condition.

Additionally, the Gulf of Mexico is generally considered to be a mature area for oil and gas exploration, which may result in a continuing decrease in activity over time. This could materially adversely affect our business, results of operations and financial condition. In addition, the concentrated nature of our operations subjects us to the risk that a regional event could cause a significant interruption in our operations or otherwise have a material affect on our profitability.

Moreover, companies in the oil and gas exploration and production industry continually seek to implement cost-savings measures. As part of these measures, oil and gas companies have attempted to improve operating efficiencies with respect to helicopter support services. For example, certain oil and gas companies have pooled helicopter services among operators, reduced staffing levels by using technology to permit unmanned production installations and decreased the frequency of transportation of employees offshore by increasing the lengths of shifts offshore. The continued implementation of such measures could reduce demand for helicopter services and have a material adverse effect on our business, results of operations and our financial condition.

Our pilot workforce represented by Office and Professional Employees International Union conducted a general strike beginning on September 20, 2006.

On September 20, 2006, approximately 236 pilots commenced a strike. On November 10, the OPEIU made a purported unconditional offer for the strikers to return to work and an end to strike activities. On January 11, 2007, the United States District Court for the Western District of Louisiana agreed to PHI's return to work criteria and process for the remaining strikers, and the processing of those pilots was substantially completed by the end of April. Pilots are currently working under the terms and conditions of employment set forth in the final contract proposals made by the Company and implemented at the end of collective bargaining negotiations on August 28, 2006.

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Other issues surrounding PHI's allegations that the OPEIU engaged in bad faith bargaining, as well as the OPEIU's counterclaims and claims arising out of the OPEIU's purported unconditional offer to return to work remain outstanding and are expected to be addressed by the same Federal Court. A trial on these matters is currently set to start April 21, 2008. It is not possible to predict the outcome of the remaining claims and counterclaims

We depend on a small number of large oil and gas industry customers for a significant portion of our revenues, and our credit exposure within this industry is significant.

We derive a significant amount of our revenue from a small number of major and independent oil and gas companies. For the year ended December 31, 2006, 17% of our revenues were attributable to our largest customer. The loss of one of our significant customers, if not offset by revenues from new or other existing customers, would have a material adverse effect on our business and operations. In addition, this concentration of customers may impact our overall credit risk in that these entities may be similarly affected by changes in economic and other conditions.

Our Chairman of the Board and Chief Executive Officer is also our principal stockholder and has voting control of the Company.

Al A. Gonsoulin, our Chairman of the Board and Chief Executive Officer, beneficially owns stock representing approximately 52% of our total voting power. As a result, he exercises control over the election of all of our directors and the outcome of most matters requiring a stockholder vote. This ownership also may delay or prevent a change in our management or a change in control of us, even if such changes would benefit our other stockholders and were supported by a majority of our stockholders.

Our substantial indebtedness could adversely affect our financial condition and impair our ability to operate our business.

We are a highly leveraged company and, as a result, have significant debt service obligations. As of September 30, 2007, our total indebtedness was \$201.8 million, including \$200 million of our 7.125% Senior Notes due 2013. On April 12, 2006, we completed the sale of 4,287,920 non-voting common shares, and then on May 1, 2006 we completed the sale of the over-allotment of shares of 578,680 non-voting common shares. These transactions resulted in an increase in shareholder equity of \$160.7 million, net of expenses. We also issued \$200 million of 7.125% Senior Notes due April 15, 2013. Proceeds of the Notes were used to retire our existing \$200 million 9 3/8% Senior Notes due May 1, 2009. As a result of these transactions, our debt to equity ratio at December 31, 2006 was 0.51 to 1.00, as compared to 0.85 to 1.00 at December 31, 2005.

At September 30, 2007, we had \$1.8 million in borrowings and \$4.6 million in letters of credit outstanding under our revolving line of credit. As of September 30, 2007, availability for borrowings under our revolving credit facility was \$28.6 million.

Our substantial indebtedness could have significant negative consequences to us that you should consider. For example, it could:

- Ø require us to dedicate a substantial portion of our cash flow from operations to pay principal of, and interest on, our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures or other general corporate purposes, or to carry out other aspects of our business plan;
- Ø increase our vulnerability to general adverse economic and industry conditions and limit our ability to withstand competitive pressures;

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- Ø limit our flexibility in planning for, or reacting to, changes in our business and future business opportunities;
- Ø place us at a competitive disadvantage compared to our competitors that have less debt; and limit our ability to obtain additional financing to fund future working capital, capital expenditures and other aspects of our business plan;
- Ø limit our ability to obtain additional financing for working capital, capital expenditures and other aspects of our business plan.

Our ability to meet our debt obligations and other expenses will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors, many of which we are unable to control. When our 7.125% Senior Notes come due in 2013, we will likely need to enter into new financing arrangements at that time to repay those notes. We may be unable to obtain that financing on favorable terms, which could adversely affect our business, financial condition and results of operations. For more information on our indebtedness, please see the financial statements included elsewhere herein.

The DOJ investigation could result in criminal proceedings and the imposition of fines and penalties.

On June 15, 2005, we received a subpoena from the United States Department of Justice relating to a grand jury investigation of potential antitrust violations among providers of helicopter transportation services in the Gulf of Mexico. We are cooperating fully with the investigation and believe we have provided all documents and other information required by the subpoena. We will respond to any DOJ request for further information, and will continue to cooperate with the investigation.

We cannot predict the ultimate outcome of the DOJ investigation. The outcome of the DOJ investigation and any related legal proceedings could include civil injunctive or criminal proceedings, the imposition of fines and other penalties, remedies and/or sanctions, referral to other governmental agencies and/or the payment of damages in civil litigation, any of which could have a material adverse effect on our business, financial condition and results of operations. Additionally, the cost of defending such an action or actions against us could be significant.

Our stock has a low trading volume.

Our common stock is listed for trading on The NASDAQ Global Market under the symbol **PHIIK** for our non-voting common stock and **PHII** for our voting common stock. Both classes of common stock have low trading volume. As a result, a stockholder may not be able to sell shares of our common stock at the time, in the amounts, or at the price desired.

We do not pay dividends.

We have not paid any dividends on our common stock since 1999 and do not anticipate that we will pay dividends on our common stock in the foreseeable future. In addition, our ability to pay dividends is restricted by the indenture governing our 7.125% Senior Notes due 2013 and our bank credit facility.

Provisions in our articles of incorporation and by-laws and Louisiana law make it more difficult to effect a change in control, which could discourage a takeover of our company and adversely affect the price of our common stock.

Although an attempted takeover of our company is unlikely by virtue of the ownership by our chief executive officer of more than 50% of the total voting power of our capital stock, there are also provisions in our articles of incorporation and by-laws that may make it more difficult for a third party to acquire

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control, even if a change in control would result in the purchase of your shares at a premium to the market price or would otherwise be beneficial to you. For example, our articles of incorporation authorize our board of directors to issue preferred stock without stockholder approval. If our board of directors elects to issue preferred stock, it could be more difficult for, or discourage, a third party to acquire us.

In addition, provisions of our by-laws, such as giving the board the exclusive right to fill all board vacancies, could make it more difficult for a third party to acquire control of us. In addition to the provisions contained in our articles of incorporation and by-laws, the Louisiana Business Corporation Law (LBCL), includes certain provisions applicable to Louisiana corporations, such as us, which may be deemed to have an anti-takeover effect. Such provisions give stockholders the right to receive the fair value of their shares of stock following a control transaction from a controlling person or group and set forth requirements relating to certain business combinations. Our descriptions of these provisions are only abbreviated summaries of detailed and complex statutes. For a complete understanding of the statutes, you should read them in their entirety.

The LBCL s control share acquisition statute provides that any person who acquires control shares will be able to vote such shares only if the right to vote is approved by the affirmative vote of at least a majority of both (i) all the votes entitled to be cast by stockholders and (ii) all the votes entitled to be cast by stockholders excluding interested shares. The control share acquisition statute permits the articles of incorporation or bylaws of a company to exclude from the statute s application acquisitions occurring after the adoption of the exclusion. Our by-laws do contain such an exclusion; however, our board of directors or stockholders, by an amendment to our by-laws, could reverse this exclusion.

Future sales of our shares could depress the market price of our non-voting common stock.

The market price of our non-voting common stock could decline as a result of issuances and sales by us of additional shares of non-voting or voting common stock pursuant to our existing shelf registration statement or otherwise. The market price of our non-voting common stock could also decline as the result of the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS

(a) Exhibits

- 3.1 (i) Amended and Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit No. 3.1(i) to PHI's Report on Form 10-Q for the quarterly period ended June 30, 2006).
- (ii) Amended and Restated By-laws of the Company (as amended through May 1, 2002) (incorporated by reference to Exhibit 3.1(iii) to PHI's Report on Form 10-K for the year ended December 31, 2006).
- 4.1 Loan Agreement dated as of April 23, 2002 by and among Petroleum Helicopters, Inc., Acadian Composites, LLC, Air Evac Services, Inc., Evangeline Airmotive Inc., and International Helicopter Transport, Inc. and Whitney National Bank (incorporated by reference to Exhibit 10.3 to PHI's Report on Form 10-Q for the quarterly period ended June 30, 2002; File No. 0-9827).
- 4.2 1st Amendment to Loan Agreement dated as of April 23, 2002 by and among Petroleum Helicopters, Inc., Acadian Composites, LLC, Air Evac Services, Inc., Evangeline Airmotive Inc., and International Helicopter Transport, Inc. and Whitney National Bank (incorporated by reference to Exhibit 10.4 to PHI's Report on Form 10-Q for the quarterly period ended June 30, 2004).
- 4.3 First Supplemental Indenture dated April 12, 2006, among PHI, Inc., the Subsidiary Guarantors named therein and The Bank of New York, as Trustee (incorporated by reference to Exhibit 10.1 to PHI's Report on Form 8-K filed on April 13, 2006).
- 4.4 Indenture dated April 12, 2006 among PHI, Inc., the Subsidiary Guarantors named therein and The Bank of New York, as Trustee (incorporated by reference to Exhibit 10.2 to PHI's Report on Form 8-K filed on April 13, 2006).
- 4.5 Third Amendment to Loan Agreement dated April 12, 2006 by and among PHI, Inc., Air Evac Services, Inc., PHI Tech Services, Inc. (formerly Evangeline Airmotive, Inc.), and International Helicopter Transport, Inc. and Whitney National Bank (incorporated by reference to Exhibit 10.4 to PHI's Report on Form 8-K filed on April 13, 2006).
- 4.6 Registration Rights Agreement dated April 12, 2006 (incorporated by reference to Exhibit 10.3 to PHI's Report on Form 8-K filed on April 13, 2006).
- 4.7 Second Amendment to Loan Agreement dated September 30, 2005 by and among Petroleum Helicopters, Inc., Air Evac Services, Inc., Evangeline Airmotive, Inc., and International Helicopter Transport, Inc. and Whitney National Bank.
- 4.8 Fourth Amendment to Loan Agreement dated September 30, 2006 by and among PHI, Inc., Air Evac Services, Inc., PHI Tech Services, Inc. (formerly Evangeline Airmotive, Inc.), and International Helicopter Transport, Inc. and Whitney National Bank.
- 4.9 Fifth Amendment to Loan Agreement dated August 1, 2007 by and among PHI, Inc., Air Evac Services, Inc., PHI Tech Services, Inc. (formerly Evangeline Airmotive, Inc.), and International Helicopter Transport, Inc. and Whitney National Bank.

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- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Al A. Gonsoulin, Chairman and Chief Executive Officer.
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Michael J. McCann, Chief Financial Officer.
- 32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Al A. Gonsoulin, Chairman and Chief Executive Officer.
- 32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Michael J. McCann, Chief Financial Officer.

SIGNATURES

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

PHI, Inc.

November 8, 2007

By: /s/ Al A. Gonsoulin
Al A. Gonsoulin
Chairman and Chief Executive Officer

November 8, 2007

By: /s/ Michael J. McCann
Michael J. McCann
Chief Financial Officer

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