

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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PHI INC

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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, 2011

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes: No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer: Accelerated filer: Non-accelerated filer: Smaller reporting company:

(Do not check if a smaller reporting company)

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

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 October 28, 2011
Voting Common Stock	2,852,616 shares
Non-Voting Common Stock	12,458,992 shares



PHI, INC.
Index – Form 10-Q

Part I – Financial Information

<u>Item 1. Financial Statements – Unaudited</u>	
<u>Condensed Consolidated Balance Sheets – September 30, 2011 and December 31, 2010</u>	3
<u>Condensed Consolidated Statements of Operations – Quarter and Nine Months ended September 30, 2011 and 2010</u>	4
<u>Condensed Consolidated Statements of Shareholders’ Equity – Nine Months ended September 30, 2011 and 2010</u>	5
<u>Condensed Consolidated Statements of Cash Flows – Nine Months ended September 30, 2011 and 2010</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7

<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24
--	----

<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	34
---	----

<u>Item 4. Controls and Procedures</u>	35
--	----

Part II – Other Information

<u>Item 1. Legal Proceedings</u>	36
----------------------------------	----

<u>Item 1.A. Risk Factors</u>	36
-------------------------------	----

<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
--	----

<u>Item 3. Defaults Upon Senior Securities</u>	36
--	----

<u>Item 4. (Removed and Reserved)</u>	36
---------------------------------------	----

<u>Item 5. Other Information</u>	36
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<u>Item 6. Exhibits</u>	37
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<u>Signatures</u>	38
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EX-4.4

EX-10.1

EX-10.2

EX-31.1

EX-31.2

EX-32.1

EX-32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

[Table of Contents](#)

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

PHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Thousand of dollars)
(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash	\$ 3,462	\$ 3,628
Short-term investments	99,896	150,072
Accounts receivable – net		
Trade	107,326	84,768
Other	761	4,891
Inventories of spare parts – net	57,139	59,336
Other current assets	12,968	16,233
Income taxes receivable	926	558
Total current assets	282,478	319,486
Other	33,128	29,120
Property and equipment – net	665,219	596,533
Total assets	<u>\$ 980,825</u>	<u>\$ 945,139</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 20,757	\$ 22,404
Accrued liabilities	37,206	28,319
Other current liabilities	22,900	–
Total current liabilities	80,863	50,723
Long-term debt	335,368	331,074
Deferred income taxes	83,110	81,988
Other long-term liabilities	7,383	8,938
Total liabilities	506,724	472,723
Commitments and contingencies (Note 3)		
Shareholders' Equity:		
Voting common stock – par value of \$0.10: 12,500,000 shares authorized, 2,852,616 issued and outstanding	285	285
Non-voting common stock – par value of \$0.10: 25,000,000 shares authorized, 12,458,992 issued and outstanding	1,246	1,246
Additional paid-in capital	291,403	291,403
Accumulated other comprehensive loss	(111)	(162)
Retained earnings	181,278	179,644
Total shareholders' equity	474,101	472,416
Total liabilities and equity	<u>\$ 980,825</u>	<u>\$ 945,139</u>

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

[Table of Contents](#)

PHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Thousands of dollars and shares, except per share data) (Unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Operating revenues, net	\$145,576	\$135,669	\$401,192	\$396,875
Gain (loss) on dispositions of assets, net	(638)	98	(415)	221
Other, principally interest income	50	22	686	58
	<u>144,988</u>	<u>135,789</u>	<u>401,463</u>	<u>397,154</u>
Expenses:				
Direct expenses	123,622	115,812	352,271	336,120
Selling, general and administrative expenses	8,400	7,688	25,679	22,091
Interest expense	6,997	4,208	20,790	12,387
Loss on debt restructuring	—	9,521	—	9,521
	<u>139,019</u>	<u>137,229</u>	<u>398,740</u>	<u>380,119</u>
Earnings (loss) before income taxes	5,969	(1,440)	2,723	17,035
Income tax expense	2,387	1,003	1,089	8,393
Net earnings (loss)	<u>\$3,582</u>	<u>\$(2,443)</u>	<u>\$1,634</u>	<u>\$8,642</u>
Weighted average shares outstanding:				
Basic	15,312	15,312	15,312	15,312
Diluted	15,474	15,312	15,474	15,312
Net earnings (loss) per share:				
Basic	\$0.23	\$(0.16)	\$0.11	\$0.56
Diluted	\$0.23	\$(0.16)	\$0.11	\$0.56

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

[Table of Contents](#)

PHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Thousands of dollars and shares)
(Unaudited)

	Voting Common Stock		Non-Voting Common Stock		Additional Paid-in Capital	Accumulated Other Com- prehensive Income (Loss)	Retained Earnings	Total Share- Holders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2010	2,853	\$285	12,459	\$1,246	\$291,403	\$ (162)	\$179,644	\$472,416
Net earnings	-	-	-	-	-	-	1,634	1,634
Unrealized gain on short-term investments	-	-	-	-	-	61	-	61
Changes in pension plan assets and benefit obligations	-	-	-	-	-	(10)	-	(10)
Total comprehensive income								1,685
Balance at September 30, 2011	2,853	\$285	12,459	\$1,246	\$291,403	\$ (111)	\$181,278	\$474,101
	Voting Common Stock		Non-Voting Common Stock		Additional Paid-in Capital	Accumulated Other Com- prehensive Income (Loss)	Retained Earnings	Total Share- Holders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2009	2,853	\$285	12,459	\$1,246	\$291,403	\$ (13)	\$172,527	\$465,448
Net earnings	-	-	-	-	-	-	8,642	8,642
Changes in pension plan assets and benefit obligations	-	-	-	-	-	(7)	-	(7)
Total comprehensive income, net of income taxes								8,635
Balance at September 30, 2010	2,853	\$285	12,459	\$1,246	\$291,403	\$ (20)	\$181,169	\$474,083

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

[Table of Contents](#)

PHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Thousands of dollars) (Unaudited)

	Nine Months Ended September 30,	
	2011	2010
Operating activities:		
Net earnings	\$1,634	\$8,642
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	23,186	20,587
Deferred income taxes	1,122	8,058
Gain (loss) on asset dispositions, net	415	(221)
Other	832	747
Loss on debt restructuring	–	9,521
Changes in operating assets and liabilities	(5,129)	4,169
Net cash provided by operating activities	<u>22,060</u>	<u>51,503</u>
Investing activities:		
Purchase of property and equipment	(66,747)	(39,739)
Proceeds from asset dispositions	3,804	1,171
Purchase of short-term investments	(193,557)	(102,710)
Proceeds from sale of short-term investments	241,989	24,260
Payment on deposits on aircraft	(13,009)	(3,660)
Refund on deposits on aircraft	1,000	–
Net cash used in investing activities	<u>(26,520)</u>	<u>(120,678)</u>
Financing activities:		
Proceeds from issuance of Senior Notes due 2018	–	300,000
Premium and costs to retire debt early	–	(7,293)
Repayment of Senior Notes due 2013	–	(189,490)
Debt issuance costs	–	(4,982)
Payments on line of credit	(40,323)	(37,518)
Proceeds from line of credit	<u>44,617</u>	<u>37,500</u>
Net cash provided by financing activities	<u>4,294</u>	<u>98,217</u>
(Decrease) increase in cash	(166)	29,042
Cash, beginning of period	<u>3,628</u>	<u>2,501</u>
Cash, end of period	<u>\$3,462</u>	<u>\$31,543</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest	<u>\$15,186</u>	<u>\$13,863</u>
Income taxes	<u>\$508</u>	<u>\$614</u>
Non-cash investing activities:		
Other current liabilities and accrued payables related topurchase of property and equipment	<u>\$326</u>	<u>\$1,065</u>

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

[Table of Contents](#)

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” or “we” or “our”). In the opinion of management, these condensed consolidated 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 consolidated financial statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 and the accompanying notes.

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, 2010. 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 use a combination of factors to identify reportable segments as required by Accounting Standards Codification 280, “Segment Reporting.” 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.

A segment’s operating profit is its operating revenues less its direct expenses and selling, general and administrative expenses. Each segment has a portion of selling, general and administrative expenses that are charged directly to the segment and a portion that is allocated. Direct charges represent the vast majority of the segment’s selling, general and administrative expenses. Allocated selling, general and administrative expenses are based primarily on total segment direct expenses as a percentage of total direct expenses. Unallocated overhead consists primarily of corporate selling, general, and administrative expenses that we do not allocate to the reportable segments.

Effective June 30, 2011, the Company made changes to the presentation of reportable segments to reflect changes in the way its chief operating decision maker evaluates the performance of its operations, develops strategy and allocates capital resources. These changes resulted from how our chief operating decision maker views the roles of certain corporate departments whose duties had previously been considered company-wide but now are considered to focus solely on our Oil & Gas segment’s operations. The change resulted in the reclassification of certain selling, general and administrative expenses from within the Company’s unallocated selling, general and administrative expenses to the Oil & Gas segment’s selling, general, and administrative expenses. The total amount of the reclassification was \$0.7 million for the three months ended September 30, 2010, and \$2.9 million for the nine months ended September 30, 2010. The Company’s historical segment disclosures have been recast to be consistent with the current presentation.

Oil and Gas Segment. Our Oil and Gas segment, headquartered in Lafayette, Louisiana, provides helicopter services primarily for the major integrated and independent oil and gas production companies transporting personnel and/or equipment to offshore platforms in the Gulf of Mexico. Our customers include Shell Oil Company, BP America Production Company and ConocoPhillips Company, with whom we have worked for 30 or more years, and ExxonMobil Production Co. and ENI Petroleum, with whom we have worked for more than 15 years. We currently operate 164 aircraft in this segment.

Table of Contents

Operating revenue from the Oil and Gas segment is derived mainly from 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. Total fuel cost is included in direct expense and reimbursement of a portion of these costs above a contracted per-gallon amount is included in revenue. Our Oil and Gas operations generated approximately 66% of our total operating revenue for the quarters ended September 30, 2011 and 2010, and approximately 66% and 68% of our total operating revenue for the nine months ended September 30, 2011 and 2010, respectively.

Air Medical Segment. 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.

We provide air medical transportation services for hospitals and emergency service agencies in 17 states using approximately 88 aircraft at 64 separate locations. Our Air Medical segment operates 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, and 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. For the quarters ended September 30, 2011 and 2010, approximately 32% and 33% of our total operating revenues were generated by our Air Medical operations, respectively. For the nine months ended September 30, 2011 and 2010, approximately 32% and 30% of our total operating revenues were generated by our Air Medical operations, respectively.

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 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 a historical payment analysis of accounts fully closed, 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 \$43.6 million and \$42.2 million as of September 30, 2011 and September 30, 2010, respectively. The allowance for uncompensated care was \$38.4 million and \$36.0 million as of September 30, 2011 and September 30, 2010, respectively.

Provisions for contractual discounts and estimated uncompensated care for Air Medical operations as a percentage of gross billings are as follows:

	Revenue							
	Quarter Ended September 30,		Nine Months Ended September 30,					
	2011	2010	2011	2010	2011	2010		
Gross billings	100	%	100	%	100	%	100	%
Provision for contractual discounts	54	%	50	%	54	%	52	%
Provision for uncompensated care	13	%	13	%	10	%	11	%

Net reimbursement per transport from commercial payors generally increases when a rate increase is implemented. Net reimbursement from certain commercial payors, as well as Medicare and Medicaid, does not increase proportionately with rate increases.

Table of Contents

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

	Quarter Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
Medicaid	15	%	15	%	15	%	16	%
Medicare	24	%	22	%	24	%	21	%
Insurance	60	%	62	%	60	%	62	%
Self-Pay	1	%	1	%	1	%	1	%

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 generated approximately 19% and 14% of the segment's revenues for the quarters ended September 30, 2011 and 2010, respectively, and approximately 19% and 16% of the segment's revenues for the nine months ended September 30, 2011 and 2010, respectively

Technical Services Segment. The Technical Services segment provides helicopter repair and overhaul services for customer owned aircraft. Costs associated with these services are primarily labor, and customers are generally billed at a percentage above cost. We currently operate five aircraft for the National Science Foundation in Antarctica under this segment.

Approximately 1% of our total operating revenues were generated by our Technical Services operations for the quarters ended September 30, 2011 and September 30, 2010. Approximately 2% of our total operating revenues were generated by our Technical Services operations for the nine months ended September 30, 2011 and September 30, 2010.

Table of Contents

Summarized financial information concerning our reportable operating segments for the quarters and nine months ended September 30, 2011 and 2010 is as follows:

Certain reclassifications have been made to prior fiscal year amounts to conform with the current fiscal year presentation, as discussed above. These changes had no impact on consolidated net sales or operating income.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Thousands of dollars)		(Thousands of dollars)	
Segment operating revenues				
Oil and Gas	\$96,611	\$89,797	\$264,292	\$269,471
Air Medical	46,894	44,254	129,490	120,924
Technical Services	2,071	1,618	7,410	6,480
Total operating revenues	<u>145,576</u>	<u>135,669</u>	<u>401,192</u>	<u>396,875</u>
Segment direct expenses (1)				
Oil and Gas	82,196	75,679	231,573	221,777
Air Medical	39,673	38,689	115,093	108,700
Technical Services	1,753	1,444	5,605	5,643
Total direct expenses	<u>123,622</u>	<u>115,812</u>	<u>352,271</u>	<u>336,120</u>
Segment selling, general and administrative expenses				
Oil and Gas	905	814	2,670	3,410
Air Medical	1,109	954	2,896	3,253
Technical Services	8	5	27	19
Total selling, general and administrative expenses	<u>2,022</u>	<u>1,773</u>	<u>5,593</u>	<u>6,682</u>
Total direct and selling, general and administrative expenses	<u>125,644</u>	<u>117,585</u>	<u>357,864</u>	<u>342,802</u>
Net segment profit				
Oil and Gas	13,510	13,304	30,049	44,284
Air Medical	6,112	4,611	11,501	8,971
Technical Services	310	169	1,778	818
Total	<u>19,932</u>	<u>18,084</u>	<u>43,328</u>	<u>54,073</u>
Other, net (2)	(588)	120	271	279
Unallocated selling, general and administrative costs (1)	(6,378)	(5,915)	(20,086)	(15,409)
Interest expense	(6,997)	(4,208)	(20,790)	(12,387)
Loss on debt restructuring	-	(9,521)	-	(9,521)
Earnings before income taxes	<u>\$5,969</u>	<u>\$(1,440)</u>	<u>\$2,723</u>	<u>\$17,035</u>

(1) Included in direct expenses and unallocated selling, general, and administrative costs are the depreciation expense amounts below:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Oil and Gas	\$5,473	\$4,814	\$15,798	\$13,521
Air Medical	2,095	1,990	6,354	5,941
Technical Services	(1)	8	95	153
Total	<u>\$7,567</u>	<u>\$6,812</u>	<u>\$22,247</u>	<u>\$19,615</u>
Unallocated SG&A	<u>\$303</u>	<u>\$333</u>	<u>\$940</u>	<u>\$972</u>

(2) Consists of gains (losses) on dispositions of property and equipment, and other income.

[Table of Contents](#)

3. Commitments and Contingencies

Commitments – In 2010, we executed a contract to acquire ten new medium aircraft related to our new contract with a major customer. Four of these aircraft have been delivered. The remaining six are scheduled for delivery in late 2011 and through late 2012, with an aggregate acquisition cost of approximately \$73.6 million. We have traded in two aircraft in exchange for a credit of approximately \$20.3 million towards these acquisition costs, of which a credit of \$13.5 million remained as of September 30, 2011.

During the second quarter of 2011, we entered into a contract to acquire six new heavy transport aircraft for an aggregate purchase price of approximately \$148.0 million. In June 2011, we took initial delivery of the first two baseline aircraft and title passed to PHI. The aircraft will be finally delivered in November 2011 when completion services are finished. In conjunction with the initial delivery of the baseline aircraft, we obtained short-term financing for the \$45.8 million initial delivery payment, which was recorded in other current liabilities. In September, we obtained an operating lease for one aircraft for \$22.9 million. We intend to fund the second aircraft with an operating lease with a commercial bank at final delivery in November. Two of the remaining aircraft have an initial delivery date in late 2011, and the balance of the deliveries will occur in 2012. These aircraft will be utilized in our Oil and Gas segment.

Due to anticipated increases in accelerated tax depreciation from our planned purchases of aircraft, net operating losses for tax purposes will increase in future years. Because of the net operating loss increases, certain foreign tax credits and certain net operating losses available in three states will not be used and will expire due to the time limit on the carry-forward of those credits. This resulted in a charge to tax expense of \$1.5 million during the quarter ended September 30, 2010. The \$1.5 million charge resulted in a variation in the customary relationship between the Company's loss before income taxes and income tax expense for that period. For the quarter and nine months ended September 30, 2011, our income tax expense was computed at our estimated annual effective tax rate of forty percent.

Total aircraft deposits of \$24.2 million are included in Other Assets. This amount represents deposits for the medium and heavy transport aircraft contracts.

Environmental Matters – We have recorded an aggregate estimated probable liability of \$0.2 million as of September 30, 2011 for environmental response costs. The Company has conducted environmental surveys of its former Lafayette facility located at the Lafayette Regional Airport, which it vacated in 2001, and has determined that limited soil and groundwater contamination exists at the facility. The Company has installed groundwater monitoring wells at the facility and periodically monitors and reports on the contamination to the Louisiana Department of Environmental Quality (“LDEQ”). The Company previously submitted a Risk Evaluation Corrective Action Plan (RECAP) Standard Site Assessment Report to the LDEQ fully delineating the extent and type of contamination and updated the Report to include additional analytical data in April 2006. LDEQ reviewed the Assessment Report and requested a Corrective Action Plan from the Company. LDEQ approved the Corrective Action Plan (“CAP”) for the remediation of the former PHI Plant I location on August 23, 2010. All Louisiana Department of Natural Resources (“DNR”) approvals were received and the project began on May 16, 2011. Sampling will be performed on a quarterly basis over the next year to evaluate the effectiveness of remedial actions. Based upon the May 2003 Site Assessment Report, the April 2006 update, ongoing monitoring, and the August 2010 CAP, the Company believes the ultimate remediation costs for the former Lafayette facility will not be material to its consolidated financial position, results of operations, or cash flows.

Legal Matters – The Company is 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 liability with respect to these actions will not have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

[Table of Contents](#)

Superior Offshore International Inc. v. Bristow Group Inc., ERA Helicopters, LLC, Seacor Holdings Inc., ERA Group Inc., ERA Aviation, Inc., and PHI, Inc., Civil Action No. 1:09-cv-00438 on the docket of the United States District Court for the District of Delaware. This purported class action was filed on June 12, 2009, on behalf of a class defined to include all direct purchasers of offshore helicopter services in the Gulf of Mexico from the defendants at any time from January 1, 2001 through December 31, 2005. The suit alleged that the defendants acted jointly to fix, maintain, or stabilize prices for offshore helicopter services during the above time frame in violation of the federal antitrust laws. The plaintiff sought unspecified treble damages, injunctive relief, costs, and attorneys' fees. On September 14, 2010, the Court granted defendants' motion to dismiss (filed on September 4, 2009) and dismissed the complaint. On November 30, 2010, the court granted plaintiff leave to amend the complaint, limited discovery to the new allegations, and established a schedule for briefing dispositive motions. The defendants filed a motion for summary judgment on February 11, 2011. On June 23, 2011, the court granted the defendants' motion for summary judgment, entered final judgment in favor of the defendants, and dismissed all of the plaintiff's claims. On July 22, 2011, the plaintiff filed a notice of appeal with the U.S. Court of Appeals, Third Circuit, and on October 11, 2011 filed its appeal brief. Given that plaintiff has not succeeded in advancing its claim beyond dispositive motions, management currently believes that the likelihood of loss to the Company from the litigation is remote.

As previously reported, the Company has been involved in Federal Court litigation in the Western District of Louisiana and the Fifth Circuit Court of Appeals with the Office and Professional Employees International Union ("OPEIU"), the union representing the Company's domestic pilots. This litigation involves claims of bad faith bargaining, compensation of striking pilots both at the time of the strike and upon their return to work under both the Railway Labor Act ("RLA") and Louisiana state law, and the terms of employment for the Company's pilots since the strike ended including non-payment of retention bonuses. After approximately two years of bargaining between the Company and OPEIU for a second collective bargaining agreement, including negotiations mediated by the National Mediation Board, both parties entered a self-help period as defined by the applicable labor law, the RLA. At that time the pilots commenced a strike in September 2006 and immediately prior to that strike the Company implemented its own terms and conditions of employment for the pilots. The strike ended in November 2006 and a court-approved return to work process began in January 2007 for those pilots who had not already returned to work or left the Company's employment. This process was essentially completed in April 2007. The Company's pilots continue to work under the terms and conditions of employment determined by the Company since the strike began. By Order dated July 9, 2010, the Court dismissed both the Company's and OPEIU's claims that the other had violated the RLA by bargaining in bad faith before exercising self-help. By Order dated July 30, 2010, the Court dismissed all claims that the Company violated the RLA in the manner in which it returned pilots to work following the strike. Also, the Court dismissed all but claims by 47 pilots under Louisiana state law. On August 27, 2010, the OPEIU and the individual pilot plaintiffs filed a notice of appeal with the Fifth Circuit Court of Appeals. Then, by Order entered September 27, 2010, the district court dismissed the Louisiana-law claims of the remaining 47 individual pilots. On October 22, 2010, the unions and the individual pilots filed a second notice of appeal to the Fifth Circuit Court of Appeals, by which they appeal the district court's dismissal of all their RLA and Louisiana-law wage payment claims against PHI. On November 5, 2010, PHI filed a cross-appeal of the district court's dismissal of PHI's bad-faith bargaining claim against the unions. By orders dated September 12, 2011, the Fifth Circuit Court of Appeals affirmed the dismissal of all claims brought against PHI by the OPEIU and the individual pilots, whether under the RLA or Louisiana law. That Court also remanded the Return-to-Work case to the district court for the sole purpose of calculating court costs payable to PHI. The OPEIU and individual pilots did not seek rehearing of the Fifth Circuit's judgment within the time permitted by the rules of appellate procedure. However, they have until approximately December 2, 2011 to file a petition for a writ of certiorari from the United States Supreme Court.

[Table of Contents](#)

On December 31, 2009, the OPEIU filed another case against the Company in the Western District of Louisiana in which the OPEIU asserts that its acceptance in 2009 of the terms and conditions of employment for the Company's pilots initially implemented by the Company prior to the strike has created a binding collective bargaining agreement and that the Company has inappropriately made unilateral revisions to those terms including failing to pay a retention bonus. The Court administratively stayed this case pending the completion of appellate briefing in the consolidated cases, which briefing concluded on April 15, 2011. The Court further administratively stayed this case pending the appellate court's decision in the consolidated cases described above, which cases have now been resolved by the September 12 judgments of the Fifth Circuit Court of Appeals described above. We therefore expect the district court to lift the administrative stay of this case at any time (the Court has not yet done so) and for discovery and/or motion practice to commence in this case. Management does not expect the outcome of this litigation to have a material effect on our consolidated financial position, results of operations or cash flows.

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 leases. Some of the facility leases contain renewal options. Aircraft leases contain purchase options exercisable at certain dates in the lease agreements.

At September 30, 2011, we had approximately \$156.9 million in aggregate commitments under operating leases of which approximately \$7.2 million is payable through December 31, 2011, and a total of \$28.3 million is payable over the twelve months ending September 30, 2012. The total lease commitments include \$142.3 million for aircraft and \$14.6 million for facility lease commitments.

As of September 30, 2011, we had options to purchase aircraft under lease becoming exercisable in 2012 through 2014 for the following aggregate purchase prices, respectively: \$45.0 million, \$38.8 million and \$114.4 million. Subject to market conditions, we intend to exercise these options as they become exercisable. There are no other lease purchase options in 2011.

4. Long-term Debt

As of September 30, 2011, our total long-term indebtedness was \$335.4 million, consisting of \$300 million of our 8.625% Senior Notes due 2018 (the "8.625% Senior Notes"), and \$35.4 million borrowed under our revolving credit facility.

On September 23, 2010, we issued \$300 million of 8.625% Senior Notes that mature in 2018. Interest is payable semi-annually in arrears on April 15 and October 15 of each year. Net proceeds of \$295.5 million were used to repurchase \$189.5 million of our \$200 million outstanding 7.125% Senior Notes due 2013 (the "7.125% Senior Notes") pursuant to a tender offer and consent solicitation that also settled on September 23, 2010. Our total cost to repurchase those notes was \$9.5 million, including the tender offer premium of \$7.6 million and \$1.9 million of unamortized issuance costs. We called for redemption on October 25, 2010 the remaining \$10.5 million of 7.125% Senior Notes outstanding, at a redemption price of 103.563% of their face amount plus accrued interest.

Mr. Al A. Gonsoulin, our Chairman and CEO and the Matzke Family Trust, of which Richard Matzke, one of our directors, is trustee, purchased \$2 million and \$1 million of the 8.625% Senior Notes, respectively.

The 8.625% Senior Notes are unconditionally guaranteed on a senior basis by our domestic subsidiaries, and are general, unsecured obligations of ours and the subsidiary guarantors. We have the option to redeem some or all of the notes at any time on or after October 15, 2014 at specified redemption prices, and prior to that time pursuant to certain make-whole provisions.

[Table of Contents](#)

The 8.625% Senior Notes contain restrictive covenants, including limitations on incurring indebtedness, creating liens, selling assets and entering into certain transactions with affiliates. The covenants limit our ability to pay cash dividends on common stock, repurchase or redeem common or preferred equity, prepay subordinated debt and make certain investments. There are no restrictions on dividends from a subsidiary to the parent company, nor any restrictions on contributions from the parent company to a subsidiary. Upon the occurrence of a "Change in Control" (as defined in the indenture governing the notes), each holder of the notes will have the right to require us purchase that holder's notes for a cash price equal to 101% of their principal amount. Upon the occurrence of an "Event of Default" (as defined in the indenture), the trustee or the holders of the notes may declare all of the outstanding notes to be due and payable immediately. We were in compliance with the covenants applicable to the notes as of September 30, 2011.

On September 26, 2011, we amended our senior secured revolving credit facility to extend the maturity date from September 1, 2012 to September 1, 2013. The facility permits borrowings up to \$75 million, contains a borrowing base of 80% of eligible receivables (as defined in the credit agreement) and 50% of the value of parts. The interest rate is the prime rate plus 100 basis points. We may prepay the revolving credit facility at any time in whole or in part without premium or penalty. All obligations under the revolving credit facility are secured by a perfected first priority security interest in all of our eligible receivables and parts, and are guaranteed by certain of our domestic subsidiaries.

As of September 30, 2011, we had \$35.4 million in borrowings under the facility. As of December 31, 2010, we had \$31.1 million in borrowings under the facility. We maintain a separate letter of credit facility that had \$5.5 million in letters of credit outstanding as of September 30, 2011 and December 31, 2010. During the nine months ended September 30, 2011 and 2010, the weighted average effective interest rate on amounts borrowed under the revolving credit facility was 4.25%. We reviewed interest expense for the quarters ended September 30, 2011 and 2010 that could be capitalized for certain projects and any such amounts were immaterial.

The revolving credit facility includes financial covenants related to working capital, funded debt to consolidated net worth, and consolidated net worth, and other covenants including restrictions on additional debt, liens and a change of control. Events of default include a change of control, a default in any other material credit agreement, including the 8.625% Senior Notes, and customary events of default. As of September 30, 2011, we were in compliance with all of the covenants under the revolving credit facility.

Our \$300 million outstanding 8.625% Senior Notes bear interest at a fixed rate of 8.625% and therefore changes in market interest rates do not affect our interest payment obligations on the notes. The fair market value of our 8.625% 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, 2011, the market value of the notes was approximately \$300.3 million, based on quoted market indications.

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, 2011 and December 31, 2010.

Revenues related to emergency flights generated by the Company's Air Medical segment are recorded net of contractual allowances under agreements with third party payors and estimated uncompensated care when the services are provided. The allowance for contractual discounts was \$43.6 million and \$34.7 million as of September 30, 2011 and December 31, 2010, respectively. The allowance for uncompensated care was \$38.4 million and \$39.3 million as of September 30, 2011 and December 31, 2010, respectively.

Table of Contents

The allowance for contractual discounts and estimated uncompensated care as a percentage of gross accounts receivable are as follows:

	September 30, 2011		December 31, 2010	
Gross Accounts Receivable	100	%	100	%
Allowance for Contractual Discounts	37	%	33	%
Allowance for Uncompensated Care	33	%	37	%

We have also established valuation reserves related to obsolete and excess inventory. The inventory valuation reserves were \$12.4 million at September 30, 2011 and \$11.4 million at December 31, 2010.

6. Employee Compensation

Employee Incentive Compensation – Pursuant to our incentive compensation plans, we accrued \$0.5 million for the quarter and nine months ended September 30, 2011. We accrued \$1.0 million and \$2.3 million incentive compensation expense for the quarter and nine months ended September 30, 2010, respectively.

We also have a Safety Incentive Plan related to Occupational Safety and Health Administration recordable incidents, for which we expensed \$0.1 million and \$0.5 million for the quarter and nine months ended September 30, 2011, respectively. For the quarter and nine months ended September 30, 2010, we expensed \$0.2 million and \$0.5 million, respectively.

7. Fair Value Measurements

Accounting standards require that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The following table summarizes the valuation of our short-term investments and financial instruments by the above pricing levels as of the valuation dates listed:

	<u>Total</u>	September 30, 2011	
		<u>(Level 1)</u>	<u>(Level 2)</u>
(Thousands of dollars)			
Short-term investments:			
Money Market Mutual Funds	\$59,695	\$59,695	\$–
Commercial Paper	2,989	–	2,989
Corporate bonds and notes	37,212	–	37,212
	<u>99,896</u>	<u>59,695</u>	<u>40,201</u>
Investments in other assets	<u>2,699</u>	<u>2,699</u>	<u>–</u>
Total	<u>\$102,595</u>	<u>\$62,394</u>	<u>\$40,201</u>

Table of Contents

	<u>Total</u>	December 31, 2010	
		<u>(Level 1)</u>	<u>(Level 2)</u>
(Thousands of dollars)			
Short-term investments:			
Money Market Mutual Funds	\$33,968	\$33,968	\$-
Commercial Paper	42,455	-	42,455
U.S. Government Agencies	8,013	-	8,013
Corporate bonds and notes	65,636	-	65,636
	<u>150,072</u>	<u>33,968</u>	<u>116,104</u>
Investments in other assets	<u>3,547</u>	<u>3,547</u>	<u>-</u>
Total	<u>\$153,619</u>	<u>\$37,515</u>	<u>\$116,104</u>

The Company holds its short-term investments in an investment fund consisting of high quality money market instruments of governmental and private issuers, which is classified as short-term investments. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. These items are traded with sufficient frequency and volume to provide pricing on an ongoing basis. The fair values of the shares of these funds are based on observable market prices, and therefore, have been categorized in Level 1 in the fair value hierarchy. Level 2 inputs reflect quoted prices for identical assets or liabilities that are not active. These items may not be traded daily; examples include corporate bonds and U.S. government agencies. Assets are valued based on prices derived by independent third parties that use inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. Prices are reviewed and can be challenged with the independent parties and/or overridden by the Company, if it is believed such would be more reflective of fair value. Investments included in other assets, which relate to the liability for the Officers' Deferred Compensation Plan, consist mainly of multiple investment funds that are highly liquid and diversified.

Cash, accounts receivable, accounts payable and accrued liabilities all had fair values approximating their carrying amounts at September 30, 2011 and December 31, 2010.

8. Investments

We classify all of our short-term investments as available-for-sale. We carry these at fair value and report unrealized gains and losses, net of taxes, in other comprehensive income until realized. These gains and losses are reflected as a separate component of shareholders' equity in our consolidated balance sheets and our consolidated statements of shareholders' equity. Cost, gains, and losses are determined using the specific identification method.

Investments consisted of the following as of September 30, 2011:

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Short-term investments:				
Money Market Mutual Funds	\$59,695	\$-	\$-	\$59,695
Commercial Paper	2,996	-	(7)	2,989
Corporate bonds and notes	37,340	14	(142)	37,212
Subtotal	<u>100,031</u>	<u>14</u>	<u>(149)</u>	<u>99,896</u>
Investments in other assets	<u>2,699</u>	<u>-</u>	<u>-</u>	<u>2,699</u>
Total	<u>\$102,730</u>	<u>\$14</u>	<u>\$(149)</u>	<u>\$102,595</u>

Table of Contents

Investments consisted of the following as of December 31, 2010:

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
	(Thousands of dollars)			
Short-term investments:				
Money Market Mutual Funds	\$33,968	\$-	\$-	\$33,968
Commercial Paper	42,471	-	(16)	42,455
U.S. Government Agencies	8,022	-	(10)	8,012
Corporate bonds and notes	65,847	4	(214)	65,637
Subtotal	150,308	4	(240)	150,072
Investments in other assets	3,547	-	-	3,547
Total	<u>\$153,855</u>	<u>\$4</u>	<u>\$(240)</u>	<u>\$153,619</u>

The following table presents the cost and fair value of our debt investments based on maturities as of September 30, 2011.

	<u>Amortized Cost</u>	<u>Fair Value</u>
	(Thousands of dollars)	
Due in one year or less	\$28,589	\$28,493
Due within two years	11,747	11,708
Total	<u>\$40,336</u>	<u>\$40,201</u>

The following table presents the cost and fair value of our debt investments based on maturities as of December 31, 2010.

	<u>Amortized Cost</u>	<u>Fair Value</u>
	(Thousands of dollars)	
Due in one year or less	\$58,740	\$58,704
Due within two years	57,600	57,400
Total	<u>\$116,340</u>	<u>\$116,104</u>

The following table presents the average coupon rate percentage and the average days to maturity of our debt investments as of September 30, 2011.

	<u>Average Coupon Rate (%)</u>	<u>Average Days To Maturity</u>
Commercial Paper	0.260	172
Corporate bonds and notes	5.215	273

The following table presents the fair value and unrealized losses related to our investments that have been in a continuous unrealized loss position for less than twelve months as of September 30, 2011.

	<u>Fair Value</u>	<u>Unrealized Losses</u>
	(Thousands of dollars)	
Commercial Paper	\$2,996	\$(7)
Corporate bonds and notes	31,420	(142)
	<u>\$34,416</u>	<u>\$(149)</u>

Table of Contents

The following table presents the fair value and unrealized losses related to our investments that have been in a continuous unrealized loss position for less than twelve months as of December 31, 2010.

	<u>Fair Value</u>	<u>Unrealized</u> <u>Losses</u>
	(Thousands of dollars)	
Commercial Paper	\$42,471	\$(16)
U.S. Government Agencies	3,993	(10)
Corporate bonds and notes	<u>60,501</u>	<u>(214)</u>
	<u>\$106,965</u>	<u>\$(240)</u>

As of September 30, 2011 and December 31, 2010, we had no investments in a continuous unrealized loss position for more than twelve months.

We consider the decline in market value to be due to market conditions, and we do not plan to sell these investments prior to a recovery of cost. For these reasons, we do not consider any of our investments to be other than temporarily impaired at September 30, 2011. The assessment of whether an investment in a debt security has suffered an other-than-temporary impairment is based on whether the Company has the intent to sell or more likely than not will be required to sell the debt security before recovery of its amortized costs. Further, if the Company does not expect to recover the entire amortized cost basis of the debt security, an other-than-temporary impairment is considered to have occurred and it is measured by the present value of cash flows expected to be collected less the amortized cost basis (credit loss). The Company did not have any other-than-temporary impairments relating to credit losses on debt securities for the nine months ended September 30, 2011.

9. Shareholders' Equity

We had an average of 15.3 million common shares outstanding for the quarters ended September 30, 2011 and 2010.

Accumulated other comprehensive loss is included in the shareholder's equity section of the condensed consolidated balance sheets of the Company. Accumulated other comprehensive loss in the condensed consolidated balance sheets included the following components:

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Unrealized gain (loss) on short-term investments	\$ (81)	\$ (142)
Changes in pension plan assets and benefit obligations	<u>(30)</u>	<u>(20)</u>
	<u>\$ (111)</u>	<u>\$ (162)</u>

10. Condensed Consolidating Financial Information

PHI, Inc. issued 8.625% Senior Notes that are fully and unconditionally guaranteed on a joint and several, senior basis by all of our domestic subsidiaries. All of our domestic subsidiaries are 100% owned.

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 eliminating entries eliminate investments in subsidiaries, intercompany balances, and intercompany revenues and expenses. The condensed consolidating financial statements have been prepared on the same basis as the consolidated financial statements of PHI, Inc. The equity method is followed by the parent company within these financials.

[Table of Contents](#)

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

	September 30, 2011			
	Parent Company Only	Guarantor Subsidiaries(1)	Eliminations	Consolidated
ASSETS				
Current Assets:				
Cash	\$2,799	\$ 663	\$ –	\$ 3,462
Short-term investments	99,896	–	–	99,896
Accounts receivable – net	97,968	10,119	–	108,087
Intercompany receivable	–	90,245	(90,245)	–
Inventories of spare parts – net	57,139	–	–	57,139
Other current assets	12,958	10	–	12,968
Income taxes receivable	926	–	–	926
Total current assets	<u>271,686</u>	<u>101,037</u>	<u>(90,245)</u>	<u>282,478</u>
Investment in subsidiaries and other	79,798	–	(79,798)	–
Other assets	33,106	22	–	33,128
Property and equipment – net	654,497	10,722	–	665,219
Total assets	<u>\$1,039,087</u>	<u>\$ 111,781</u>	<u>\$ (170,043)</u>	<u>\$ 980,825</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	\$19,134	\$ 1,623	\$ –	\$ 20,757
Accrued liabilities	29,553	7,653	–	37,206
Other current liabilities	22,900	–	–	22,900
Intercompany payable	90,245	–	(90,245)	–
Total current liabilities	<u>161,832</u>	<u>9,276</u>	<u>(90,245)</u>	<u>80,863</u>
Long-term debt	335,368	–	–	335,368
Deferred income taxes and other long-term liabilities	67,786	22,707	–	90,493
Shareholders' Equity:				
Common stock and paid-in capital	292,934	2,674	(2,674)	292,934
Accumulated other comprehensive loss	(111)	–	–	(111)
Retained earnings	181,278	77,124	(77,124)	181,278
Total shareholders' equity	<u>474,101</u>	<u>79,798</u>	<u>(79,798)</u>	<u>474,101</u>
Total liabilities and shareholders' equity	<u>\$1,039,087</u>	<u>\$ 111,781</u>	<u>\$ (170,043)</u>	<u>\$ 980,825</u>

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

[Table of Contents](#)

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

	December 31, 2010			
	Parent Company Only	Guarantor Subsidiaries(1)	Eliminations	Consolidated
ASSETS				
Current Assets:				
Cash	\$2,957	\$ 671	\$ –	\$ 3,628
Short-term investments	150,072	–	–	150,072
Accounts receivable – net	81,393	8,266	–	89,659
Intercompany receivable	–	79,810	(79,810)	–
Inventories of spare parts – net	59,336	–	–	59,336
Other current assets	16,224	9	–	16,233
Income taxes receivable	558	–	–	558
Total current assets	310,540	88,756	(79,810)	319,486
Investment in subsidiaries and others	75,114	–	(75,114)	–
Other assets	29,099	21	–	29,120
Property and equipment, net	583,091	13,442	–	596,533
Total assets	\$997,844	\$ 102,219	\$ (154,924)	\$ 945,139
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	\$22,191	\$ 213	\$ –	\$ 22,404
Accrued liabilities	23,482	4,837	–	28,319
Intercompany payable	79,810	–	(79,810)	–
Total current liabilities	125,483	5,050	(79,810)	50,723
Long-term debt	331,074	–	–	331,074
Deferred income taxes and other long-term liabilities	68,871	22,055	–	90,926
Shareholders' Equity:				
Common stock and paid-in capital	292,934	2,674	(2,674)	292,934
Accumulated other comprehensive loss	(162)	–	–	(162)
Retained earnings	179,644	72,440	(72,440)	179,644
Total shareholders' equity	472,416	75,114	(75,114)	472,416
Total liabilities and shareholders' equity	\$997,844	\$ 102,219	\$ (154,924)	\$ 945,139

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

Table of Contents

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

	For the quarter ended September 30, 2011			
	<u>Parent Company Only</u>	<u>Guarantor Subsidiaries(1)</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenues, net	\$130,180	\$ 15,396	\$ –	\$ 145,576
Management fees	616	–	(616)	–
Gain on dispositions of assets, net	(638)	–	–	(638)
Other, principally interest income	50	–	–	50
	<u>130,208</u>	<u>15,396</u>	<u>(616)</u>	<u>144,988</u>
Expenses:				
Direct expenses	111,133	12,489	–	123,622
Management fees	–	616	(616)	–
Selling, general and administrative expenses	8,076	324	–	8,400
Equity in net income of consolidated subsidiaries	(1,181)	–	1,181	–
Interest expense	6,997	–	–	6,997
	<u>125,025</u>	<u>13,429</u>	<u>565</u>	<u>139,019</u>
Earnings before income taxes	5,183	1,967	(1,181)	5,969
Income tax expense	1,601	786	–	2,387
Net earnings	<u>\$3,582</u>	<u>\$ 1,181</u>	<u>\$ (1,181)</u>	<u>\$ 3,582</u>
	For the quarter ended September 30, 2010			
	<u>Parent Company Only</u>	<u>Guarantor Subsidiaries(1)</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenues, net	\$120,381	\$ 15,288	\$ –	\$ 135,669
Management fees	611	–	(611)	–
Gain on dispositions of assets, net	98	–	–	98
Other, principally interest income	22	–	–	22
	<u>121,112</u>	<u>15,288</u>	<u>(611)</u>	<u>135,789</u>
Expenses:				
Direct expenses	102,934	12,878	–	115,812
Management fees	–	611	(611)	–
Selling, general and administrative expenses	7,371	317	–	7,688
Equity in net income of consolidated subsidiaries	(889)	–	889	–
Interest expense	4,208	–	–	4,208
Loss on debt restructuring	9,521	–	–	9,521
	<u>123,145</u>	<u>13,806</u>	<u>278</u>	<u>137,229</u>
(Loss) earnings before income taxes	(2,033)	1,482	(889)	(1,440)
Income tax expense	410	593	–	1,003
Net (loss) earnings	<u>\$(2,443)</u>	<u>\$ 889</u>	<u>\$(889)</u>	<u>\$(2,443)</u>

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

[Table of Contents](#)

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

	For the nine months ended September 30, 2011			
	Parent Company Only	Guarantor Subsidiaries(1)	Eliminations	Consolidated
Operating revenues, net	\$354,614	\$ 46,578	\$ –	\$ 401,192
Management fees	1,863	–	(1,863)	–
Gain on dispositions of assets, net	(415)	–	–	(415)
Other, principally interest income	686	–	–	686
	<u>356,748</u>	<u>46,578</u>	<u>(1,863)</u>	<u>401,463</u>
Expenses:				
Direct expenses	316,236	36,035	–	352,271
Management fees	–	1,863	(1,863)	–
Selling, general and administrative expenses	24,806	873	–	25,679
Equity in net income of consolidated subsidiaries	(4,684)	–	4,684	–
Interest expense	20,790	–	–	20,790
	<u>357,148</u>	<u>38,771</u>	<u>2,821</u>	<u>398,740</u>
Earnings before income taxes	(400)	7,807	(4,684)	2,723
Income tax expense	(2,034)	3,123	–	1,089
Net earnings	<u>\$1,634</u>	<u>\$ 4,684</u>	<u>\$ (4,684)</u>	<u>\$ 1,634</u>
	For the nine months ended September 30, 2010			
	Parent Company Only	Guarantor Subsidiaries(1)	Eliminations	Consolidated
Operating revenues, net	\$347,873	\$ 49,002	\$ –	\$ 396,875
Management fees	1,960	–	(1,960)	–
Gain on dispositions of assets, net	221	–	–	221
Other, principally interest income	58	–	–	58
	<u>350,112</u>	<u>49,002</u>	<u>(1,960)</u>	<u>397,154</u>
Expenses:				
Direct expenses	296,468	39,652	–	336,120
Management fees	–	1,960	(1,960)	–
Selling, general and administrative expenses	21,008	1,083	–	22,091
Equity in net income of consolidated subsidiaries	(3,784)	–	3,784	–
Interest expense	12,387	–	–	12,387
Loss on debt restructuring	9,521	–	–	9,521
	<u>335,600</u>	<u>42,695</u>	<u>1,824</u>	<u>380,119</u>
Earnings before income taxes	14,512	6,307	(3,784)	17,035
Income tax expense	5,870	2,523	–	8,393
Net earnings	<u>\$8,642</u>	<u>\$ 3,784</u>	<u>\$ (3,784)</u>	<u>\$ 8,642</u>

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

Table of Contents

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

	For the nine months ended September 30, 2011			
	Parent Company Only	Guarantor Subsidiaries(1)	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$22,068	\$ (8)	\$ –	\$ 22,060
Investing activities:				
Purchase of property and equipment	(66,747)	–	–	(66,747)
Proceeds from asset dispositions	3,804	–	–	3,804
Purchase of short-term investments	(193,557)	–	–	(193,557)
Proceeds from sale of short-term investments	241,989	–	–	241,989
Payments for deposits on aircraft	(12,009)	–	–	(12,009)
Net cash used in investing activities	(26,520)	–	–	(26,520)
Financing activities:				
Payment on line of credit, net	4,294	–	–	4,294
Net cash provided by financing activities	4,294	–	–	4,294
Increase in cash	(158)	(8)	–	(166)
Cash, beginning of period	2,957	671	–	3,628
Cash, end of period	\$2,799	\$ 663	\$ –	\$ 3,462
	For the nine months ended September 30, 2010			
	Parent Company Only	Guarantor Subsidiaries(1)	Eliminations	Consolidated
Net cash provided by operating activities	\$49,451	\$ 2,052	\$ –	\$ 51,503
Investing activities:				
Purchase of property and equipment	(37,551)	(2,188)	–	(39,739)
Proceeds from asset dispositions	1,171	–	–	1,171
Purchase of short-term investments	(102,710)	–	–	(102,710)
Proceeds from sale of short-term investments	24,260	–	–	24,260
Payments for deposits on aircraft	(3,660)	–	–	(3,660)
Net cash used in investing activities	(118,490)	(2,188)	–	(120,678)
Financing activities:				
Proceeds from issuance of Senior Notes due 2018	300,000	–	–	300,000
Premium and costs to retire debt early	(7,293)	–	–	(7,293)
Repayment of Senior Notes due 2013	(189,490)	–	–	(189,490)
Debt issuance costs	(4,982)	–	–	(4,982)
Proceeds (payment) line of credit, net	(18)	–	–	(18)
Net cash provided by financing activities	98,217	–	–	98,217
Increase in cash	29,178	(136)	–	29,042
Cash, beginning of period	1,678	823	–	2,501
Cash, end of period	\$30,856	\$ 687	\$ –	\$ 31,543

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

[Table of Contents](#)

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 consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2010, 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 and other periodic reports filed by PHI, Inc. ("PHI" or the "Company" or "we" or "our") under the Securities Exchange Act of 1934 and other written or oral statements made by it or on its behalf, are forward-looking statements. When used herein, the words "anticipates", "expects", "believes", "goals", "intends", "plans", "projects" and similar words and 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 the Company's actual results to differ materially from the expectations, beliefs, and estimates expressed or implied in such forward-looking statements. Although the Company believes 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 the Company's 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 and the level of exploration and production activity in the Gulf of Mexico, the effect on the demand for our services as a result of the Deepwater Horizon incident, the effect on our operating costs of volatile fuel prices, the availability of capital required to acquire aircraft, environmental risks, hurricanes and other adverse weather conditions, the activities of our competitors, changes in government regulation, unionization, operating hazards, risks related to operating in foreign countries, the ability to obtain adequate insurance at an acceptable cost and the ability of the Company to develop and implement successful business strategies. For a more detailed description of risks, see the "Risk Factors" section in Item 1.A. of our Form 10-K for the year ended December 31, 2010 and in Part II Item 1.A. of our subsequently filed quarterly reports on Form 10-Q (the "SEC Filings"). All forward-looking statements in this document are expressly qualified in their entirety by the cautionary statements in this paragraph and the Risk Factors section of our SEC Filings. PHI undertakes no obligation to update publicly 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, 2011 were \$145.6 million, compared to \$135.7 million for the three months ended September 30, 2010, an increase of \$9.9 million. Oil and Gas operating revenues increased \$6.8 million for the quarter ended September 30, 2011, related primarily to increased heavy aircraft flight hours and revenues, due to a slight increase in deepwater drilling activity as compared to the same period in 2010 when there was no deepwater drilling activity due to the moratorium. Also contributing to the revenue increase was increased medium aircraft ad hoc flights in the month of September for hurricane evacuations in the Gulf of Mexico. Operating revenues in the Air Medical segment increased \$2.6 million primarily due to increased revenues for hospital based contracts of \$2.5 million due to increased flight hours for those contracts.

Flight hours for the quarter ended September 30, 2011 were 39,223 compared to 39,192 for the quarter ended September 30, 2010. Oil and Gas segment's flight hours decreased 218 hours due to decreases in light and medium aircraft flight hours, partially offset by an increase in heavy aircraft flight hours. Air Medical segment flight hours increased 278 hours for the quarter ended September 30, 2011, due to increased flight activity in hospital based contracts. Individual patient transports in the Air Medical

Table of Contents

segment were 4,881 for the quarter ended September 30, 2011, compared to transports of 5,149 for the quarter ended September 30, 2010, a decrease of 268 transports.

Net Oil and Gas segment profit was \$13.5 million for the quarter ended September 30, 2011, compared to \$13.3 million for the quarter ended September 30, 2010. The increase of \$0.2 million was primarily due to increased revenues of \$6.8 million, partially offset by increased direct expenses of \$6.5 million, discussed further in the Segment Discussion.

Net segment profit for the Air Medical segment was \$6.1 million for the quarter ended September 30, 2011, compared to \$4.6 million for the quarter ended September 30, 2010. The increase in segment profit in the Air Medical segment was primarily due to the increased revenues.

Net income for the quarter ended September 30, 2011 was \$3.6 million, or \$0.23 per diluted share, compared to a net loss of \$2.4 million for the quarter ended September 30, 2010, or \$0.16 per diluted share. Pre-tax earnings were \$6.0 million for the quarter ended September 30, 2011, compared to a pre-tax loss of \$1.4 million for the same period in 2010. Interest expense increased \$2.8 million from \$4.2 million in the third quarter of 2010 to \$7.0 million in the third quarter of 2011, due to the issuance of the 8.625% Senior Notes. Included in the quarter ended September 30, 2010 was a pre-tax charge of \$9.5 million related to the early redemption of our 7.125% Senior Notes and a \$1.5 million charge to tax expense, primarily related to an increase in our valuation allowance for foreign tax credits, discussed in Note 3 to our financial statements included in this report.

Year to date operating revenues for September 30, 2011 were \$401.2 million, compared to \$396.9 million for the nine months ended September 30, 2010, an increase of \$4.3 million. Oil and Gas operating revenues decreased \$5.2 million for the nine months ended September 30, 2011, related primarily to decreased medium aircraft flight hours and revenues resulting mainly from the continuing impact on our business of the Deepwater Horizon incident. Operating revenues in the Air Medical segment increased \$8.6 million primarily due to increased revenues for hospital based contracts of \$5.6 million due to increased flight hours for those contracts. There was also an increase in revenues of \$3.0 million in the independent provider programs primarily due to an improved payor mix and rate increases implemented in the prior year.

Flight hours for the nine months ended September 30, 2011 were 110,395 compared to 114,061 for the nine months ended September 30, 2010. Oil and Gas segment's flight hours decreased 4,146 hours due to a decrease in deepwater drilling activity in the Gulf of Mexico. Air Medical segment flight hours increased 432 hours for the nine months ended September 30, 2011, due to increased flight activity in hospital based contracts. Individual patient transports in the Air Medical segment were 13,441 for the nine months ended September 30, 2011, compared to transports of 14,124 for the nine months ended September 30, 2010, a decrease of 683 transports.

Net Oil and Gas segment profit was \$30.0 million for the nine months ended September 30, 2011, compared to \$44.3 million for the nine months ended September 30, 2010. The decrease of \$14.3 million was primarily due to decreased revenues primarily in medium aircraft revenue related to the Deepwater Horizon impact, and increased direct expenses discussed further in the Segment Discussion.

Net segment profit for the Air Medical segment was \$11.5 million for the nine months ended September 30, 2011, compared to \$9.0 million for the nine months ended September 30, 2010. The increase in segment profit in the Air Medical segment was primarily due to the increased revenues of \$8.6 million, partially offset by increased direct expenses of \$6.4 million, discussed further in the Segment Discussion. Segment profit for the nine months ended September 30, 2010 includes a credit of \$3.1 million related to the termination of a manufacturer warranty program.

Net earnings for the nine months ended September 30, 2011 was \$1.6 million, or \$0.11 per diluted share, compared to net earnings of \$8.6 million for the nine months ended September 30, 2010, or \$0.56 per

[Table of Contents](#)

diluted share. Pre-tax earnings were \$2.7 million for the nine months ended September 30, 2011, compared to pre-tax earnings of \$17.0 million for the same period in 2010. The decrease in earnings is due primarily to the decrease in Oil and Gas segment profit of \$14.2 million, discussed above. In addition, the decrease is due to an increase in unallocated selling, general and administrative expense of \$4.7 million as discussed in Combined Operations for the nine months. Interest expense was \$20.8 million for the first nine months of 2011, compared to \$12.4 million for the first nine months of 2010, an increase of \$8.4 million due to the issuance of the 8.625% Senior Notes. Earnings for the nine months ended September 30, 2010 included a credit of \$4.3 million in direct expense related to termination of a manufacturer's warranty program on certain aircraft, a \$9.5 million pre-tax charge related to the early redemption of our 7.125% Senior Notes and a \$1.5 million charge to tax expense, discussed above.

Operating Statistics

The following tables present certain non-financial operational statistics for the quarters and nine months ended September 30, 2011 and 2010:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Flight hours:				
Oil and Gas	29,901	30,119	84,151	88,297
Air Medical (1)	9,322	9,044	25,682	25,250
Technical Services	–	29	562	514
Total	<u>39,223</u>	<u>39,192</u>	<u>110,395</u>	<u>114,061</u>
Air Medical Transports (2)	<u>4,881</u>	<u>5,149</u>	<u>13,441</u>	<u>14,124</u>
			September 30,	
			<u>2011</u>	<u>2010</u>
Aircraft operated at period end:				
Oil and Gas (3)			164	159
Air Medical (4)			88	87
Technical Services			5	5
Total (3) (4)			<u>257</u>	<u>251</u>

- (1) Flight hours include 2,729 flight hours associated with hospital-based contracts, compared to 2,127 flight hours in the prior year quarter, and 7,415 flight hours year-to-date, compared to 6,200 in the prior year-to-date period.
- (2) Represents individual patient transports for the period.
- (3) Includes nine aircraft as of September 30, 2011 and 2010 that are customer owned.
- (4) Includes seven aircraft as of September 30, 2011 and 2010 that are customer owned.

Results of Operations

Quarter Ended September 30, 2011 compared with Quarter Ended September 30, 2010

Combined Operations

Revenues – Operating revenues for the three months ended September 30, 2011 were \$145.6 million, compared to \$135.7 million for the three months ended September 30, 2010, an increase of \$9.9 million. Oil and Gas operating revenues increased \$6.8 million for the quarter ended September 30, 2011, related primarily to increased heavy aircraft flight hours and revenues. Also contributing to the revenue increase was increased medium aircraft ad hoc flight hours in the month of September for hurricane evacuations in the Gulf of Mexico. Operating revenues in the Air Medical segment increased \$2.6 million primarily due

[Table of Contents](#)

to increased revenues for hospital based contracts of \$2.5 million due to increased flight hours for those contracts.

Flight hours for the quarter ended September 30, 2011 were 39,223 compared to 39,192 for the quarter ended September 30, 2010. Oil and Gas segment's flight hours decreased 218 hours due to decreases in light and medium aircraft flight hours, partially offset by an increase in heavy aircraft flight hours. Air Medical segment flight hours increased 278 hours for the quarter ended September 30, 2011, due to increased flight hours in the hospital based contracts. Individual patient transports in the Air Medical segment were 4,881 for the quarter ended September 30, 2011, compared to transports of 5,149 for the quarter ended September 30, 2010, a decrease of 268 transports.

Other Income and Gains – During the third quarter, we recorded a loss related to the sale of certain aircraft and related inventory in the amount of \$0.8 million, resulting in losses on asset dispositions of \$0.6 million for the three months ended September 30, 2011. Gains on asset dispositions were \$0.1 million for the three months ended September 30, 2010.

Direct Expenses – Direct operating expense was \$123.6 million for the three months ended September 30, 2011, compared to \$115.8 million for the three months ended September 30, 2010, an increase of \$7.8 million. Aircraft fuel expense increased (\$3.1 million) primarily due to increased per-gallon fuel costs. Aircraft rent decreased (\$1.7 million) due to the purchase of four heavy aircraft in 2010, and two heavy and one medium aircraft in 2011 previously under lease pursuant to purchase options. Aircraft depreciation increased (\$0.8 million) due to additional aircraft purchased, including those purchased off lease. We also experienced an increase in aircraft parts usage (\$2.0 million), component repair costs (\$1.1 million) and employee compensation expenses (\$2.3 million). Other items increased, net (\$0.2 million).

Selling, General, and Administrative Expenses – Selling, general and administrative expenses were \$8.4 million for the three months ended September 30, 2011, compared to \$7.7 million for the three months ended September 30, 2010. The \$0.7 million increase is due to increased employee compensation costs (\$0.9 million), partially offset by decreased legal expenses (\$0.2 million).

Interest Expense – Interest expense was \$7.0 million for the three months ended September 30, 2011, compared to \$4.2 million for the three months ended September 30, 2010. The increase is due to refinancing our \$200 million 7.125% Senior Notes due 2013 with the \$300 million 8.625% Senior Notes due 2018.

Income Taxes – Income tax expense for the three months ended September 30, 2011 was \$2.4 million compared to income tax expense of \$1.0 million for the three months ended September 30, 2010. The effective tax rate was 40% for the three months ended September 30, 2011. Tax expense for the quarter ended September 30, 2010 includes a provision of \$1.5 million related to the expiration of foreign tax credits and state net operating loss carry-forwards, resulting from actual and scheduled purchases of aircraft. The acquisitions resulted in increased tax depreciation and net operating loss carry-forwards, which must be utilized before foreign tax credits can be utilized.

Net Earnings – Net income for the three months ended September 30, 2011 was \$3.6 million compared to a net loss of \$2.4 million for the three months ended September 30, 2010. Earnings before income taxes for the three months ended September 30, 2011 was \$6.0 million compared to a loss before tax of \$1.4 million for the same period in 2010. Earnings per diluted share was \$0.23 for the current quarter compared to a loss per diluted share of \$0.16 for the prior year quarter. We had 15.5 million common shares outstanding during the three months ended September 30, 2011, and 15.3 million common shares outstanding during the three months ended September 30, 2010. The increase in earnings before taxes for the quarter ended September 30, 2011 is related to the pre-tax charge of \$9.5 million recorded in the quarter ended September 30, 2010 related to the early redemption of our 7.125% Senior Notes.

[Table of Contents](#)

Segment Discussion

Oil and Gas – Oil and Gas segment revenues were \$96.6 million for the three months ended September 30, 2011, compared to \$89.8 million for the three months ended September 30, 2010, an increase of \$6.8 million. Flight hours were 29,901 for the current quarter compared to 30,119 for the same quarter in the prior year. The increase in revenue is primarily due to increased heavy aircraft flight hours and revenues, due to a slight increase in deepwater drilling activity compared to the same period in 2010 when there was no deepwater drilling activity due to the moratorium. Also contributing to the revenue increase was increased medium aircraft ad hoc flights in the month of September for hurricane evacuations in the Gulf of Mexico.

The number of aircraft in the segment was 164 at September 30, 2011, compared to 160 aircraft at September 30, 2010. We have sold or disposed of three light aircraft in the Oil and Gas segment since September 30, 2010. We also traded in two medium aircraft related to our contract for the acquisition of medium aircraft for a customer. We added eight new aircraft to the Oil and Gas segment since September 30, 2010, consisting of two light, four medium and two heavy aircraft. Inter-segment aircraft transfers account for the remaining amount. We also purchased two heavy and one medium aircraft off lease since September 30, 2010, which does not affect the segment aircraft count. In addition, in the second quarter of 2011, we entered into a heavy transport aircraft contract, as further discussed in Note 3 to our Financial Statements included in this report.

Direct expense in our Oil and Gas segment was \$82.2 million for the three months ended September 30, 2011, compared to \$75.7 million for the three months ended September 30, 2010, an increase of \$6.5 million. Fuel expense increased (\$3.2 million) as a result of increased per-gallon fuel costs. Total fuel cost is included in direct expense and reimbursement of a portion of these costs above a contracted per-gallon amount is included in revenue. Aircraft rent expense decreased (\$1.9 million) due to the exercise of lease purchase options of four heavy aircraft, two in October 2010 and two in April 2011, and the purchase of one medium aircraft in July 2011. There was an increase in aircraft depreciation (\$0.7 million) due to additional aircraft added to the fleet, including those purchased off lease. Component repair costs increased (\$2.2 million) due to the addition of AW139 model aircraft to the fleet and a reclassification of certain engine and transmission overhaul expenses from the Air Medical segment. Employee compensation expenses increased (\$2.4 million) due to compensation rate increases and increased overtime paid during hurricane season. Other items decreased, net (\$0.1 million).

Our Oil and Gas segment profit was \$13.5 million for the quarter ended September 30, 2011, compared to \$13.3 million for the quarter ended September 30, 2010. Operating margins (segment profit divided by operating revenues) were 14% for the three months ended September 30, 2011, compared to 15% for the three months ended September 30, 2010. The increase of \$0.2 million was primarily due to increased revenues of \$6.8 million, partially offset by increased direct expenses of \$6.5 million as previously discussed. The Oil and Gas segment revenues are primarily driven by contracted aircraft and flight hours. Costs are primarily fixed and are driven by the number of aircraft. The variable portion is driven by flight hours.

Air Medical – Air Medical segment revenues were \$46.9 million for the three months ended September 30, 2011, compared to \$44.3 million for the three months ended September 30, 2010, an increase of \$2.6 million. The increase was primarily due to increased revenue of \$2.5 million related to flight activity in hospital based contracts. Total patient transports were 4,881 for the three months ended September 30, 2011, compared to 5,149 for the three months ended September 30, 2010, a decrease of 268 transports.

Flight hours were 9,322 for the three months ended September 30, 2011, compared to 9,044 for the three months ended September 30, 2010. Since September 30, 2010, we added one medium aircraft related to a hospital contract. We also acquired two fixed wing aircraft, and sold or disposed of two fixed wing aircraft.

[Table of Contents](#)

Direct expense in our Air Medical segment was \$39.7 million for the three months ended September 30, 2011, compared to \$38.7 million for the three months ended September 30, 2010. There was an increase in aircraft parts usage (\$2.0 million), partially offset by a decrease in component repair costs (\$1.0 million).

Selling, general and administrative expenses were \$1.1 million for the three months ended September 30, 2011, compared to \$1.0 million for the three months ended September 30, 2010. The \$0.1 million increase is primarily due to increased employee compensation expenses.

Our Air Medical segment's operating income was \$6.1 million for the quarter ended September 30, 2011, compared to \$4.6 million for the quarter ended September 30, 2010. Operating margins were 13% for the three months ended September 30, 2011, compared to 10% for the three months ended September 30, 2010.

Technical Services – Technical Services revenues were \$2.1 million for the three months ended September 30, 2011, compared to \$1.6 million for the three months ended September 30, 2010. Direct expenses in our Technical Services segment were \$1.8 million for the three months ended September 30, 2011, compared to \$1.4 million for the three months ended September 30, 2010. Our Technical Services segment's operating income was \$0.3 million for the three months ended September 30, 2011, compared to operating income of \$0.2 million for the three months ended September 30, 2010.

Nine Months Ended September 30, 2011 compared with Nine Months Ended September 30, 2010

Combined Operations

Revenues – Operating revenues for the nine months ended September 30, 2011 were \$401.2 million, compared to \$396.9 million for the nine months ended September 30, 2010, an increase of \$4.3 million. Oil and Gas operating revenues decreased \$5.2 million for the nine months ended September 30, 2011, related primarily to decreased medium aircraft flight hours and revenues resulting mainly from the continuing impact on our business of the Deepwater Horizon incident. Operating revenues in the Air Medical segment increased \$8.6 million primarily due to increased revenues for hospital based contracts of \$5.6 million due to increased flight hours for those contracts. There was also an increase in revenues of \$3.0 million in the independent provider programs primarily due to an improved payor mix and rate increases implemented in the current year and prior year.

Flight hours for the nine months ended September 30, 2011 were 110,395 compared to 114,061 for the nine months ended September 30, 2010. Oil and Gas segment's flight hours decreased 4,146 hours due to a decrease in deepwater drilling activity in the Gulf of Mexico. Air Medical segment flight hours increased 432 hours for the nine months ended September 30, 2011. Individual patient transports in the Air Medical segment were 13,441 for the nine months ended September 30, 2011, compared to transports of 14,124 for the nine months ended September 30, 2010, a decrease of 683 transports.

Other Income and Gains – During the third quarter, we recorded a loss related to the sale of certain aircraft and related inventory in the amount of \$0.8 million, resulting in losses on asset dispositions of \$0.4 million for the nine months ended September 30, 2011. For the nine months ended September 30, 2010, gain on disposition of assets was \$0.2 million.

Other income was \$0.7 million for the nine months ended September 30, 2011, compared to less than \$0.1 million for the nine months ended September 30, 2010.

Direct Expenses – Direct operating expense was \$352.3 million for the nine months ended September 30, 2011, compared to \$336.1 million for the nine months ended September 30, 2010, an increase of \$16.2 million. Contributing to this increase was a \$4.3 million credit recorded in the prior year related to termination of a warranty program for certain aircraft. We also experienced increases in fuel expense

Table of Contents

(\$6.3 million) due to increased per-gallon fuel costs compared to the prior year, and increases in aircraft depreciation (\$2.7 million) and aircraft insurance (\$2.7 million) due to additional aircraft added to the fleet. Aircraft parts usage also increased (\$4.7 million). Aircraft rent decreased (\$4.8 million) due to the purchase of six heavy and one medium aircraft off lease.

Selling, General and Administrative Expenses – Selling, general and administrative expenses were \$25.7 million for the nine months ended September 30, 2011, compared to \$22.1 million for the nine months ended September 30, 2010. The \$3.6 million increase was primarily due to increased legal and accounting fees (\$1.2 million). Of this amount, \$1.0 million is due to expenses incurred in assessing a potential acquisition for which we were unsuccessful. Other increases included expense associated with the issuance of restricted stock units in 2010 (\$1.0 million), consultants and contract services (\$0.8 million), promotional and printing expenses (\$0.4 million), and other items, net (\$0.2 million).

Interest Expense – Interest expense was \$20.8 million for the nine months ended September 30, 2011, compared to \$12.4 million for the nine months ended September 30, 2010. This increase is due to refinancing our \$200 million 7.125% Senior Notes due 2013 with the \$300 million 8.625% Senior Notes due 2018.

Income Taxes – Income tax expense was \$1.1 million for the nine months ended September 30, 2011, compared to \$8.4 million for the nine months ended September 30, 2010. The effective tax rate was 40% for the nine months ended September 30, 2011. Tax expense for the nine months ended September 30, 2010 includes a provision of \$1.5 million related to the expiration of foreign tax credits and state net operating loss carry-forwards, resulting from actual and scheduled purchases of aircraft. The acquisitions resulted in increased tax depreciation and net operating loss carry-forwards, which must be utilized before foreign tax credits can be utilized.

Net Earnings – Net earnings for the nine months ended September 30, 2011 was \$1.6 million, or \$0.11 per diluted share, compared to net earnings of \$8.6 million for the nine months ended September 30, 2010, or \$0.56 per diluted share. Pre-tax earnings were \$2.7 million for the nine months ended September 30, 2011, compared to pre-tax earnings of \$17.0 million for the same period in 2010. The decrease in earnings is due primarily to the decrease in Oil and Gas segment profit of \$14.2 million, and an increase in selling, general and administrative expense of \$3.6 million. Interest expense increased \$8.4 million from \$12.4 million in the nine months of 2010 to \$20.8 million in the nine months of 2011, due to the issuance of the 8.625% Senior Notes. Earnings for the nine months ended September 30, 2010 included a credit of \$4.3 million in direct expense related to termination of a manufacturer's warranty program on certain aircraft, a \$9.5 million pre-tax charge related to the early redemption of our 7.125% Senior Notes and a \$1.5 million charge to tax expense, discussed above. We had 15.5 million common shares outstanding during the nine months ended September 30, 2011, and 15.3 million common shares outstanding during the nine months ended September 30, 2010.

Segment Discussion

Oil and Gas – Oil and Gas segment revenues were \$264.2 million for the nine months ended September 30, 2011, compared to \$269.5 million for the nine months ended September 30, 2010, a decrease of \$5.3 million. Flight hours were 84,151 for the nine months ended September 30, 2011, compared to 88,297 for the same period in 2010. The decrease in Oil and Gas revenues was related primarily to decreased medium aircraft flight hours and revenue due to decreased deepwater drilling activity in the Gulf of Mexico related to the Deepwater Horizon incident in 2010 and delays in the resumption of drilling due to the new regulatory drilling permit process.

Direct expense in our Oil and Gas segment was \$231.6 million for the nine months ended September 30, 2011, compared to \$221.8 million for the nine months ended September 30, 2010, an increase of \$9.8 million. Fuel expense increased (\$5.8 million) as a result of increased pre-gallon fuel costs. Total fuel cost is included in direct expense and reimbursement of a portion of these costs above a contracted per-

Table of Contents

gallon amount is included in revenue. Aircraft rent expense decreased (\$5.0 million) due to the purchase of six heavy and one medium aircraft previously under lease in 2010, and aircraft insurance increased (\$2.1 million) due to additional aircraft added to the fleet. There was an increase in aircraft depreciation (\$2.3 million) due to additional aircraft added to the fleet, including those purchased off lease. Employee compensation expenses increased (\$2.8 million) due to compensation rate increases and increased overtime paid during hurricane evacuation. Aircraft parts usage also increased (\$2.1 million), and other items decreased, net (\$0.3 million).

Selling, general and administrative expenses were \$2.7 million for the nine months ended September 30, 2011, compared to \$3.4 million for the nine months ended September 30, 2010. The decrease was primarily related to decreased employee compensation expenses related primarily to severance costs in the prior year.

Our Oil and Gas segment's operating income was \$30.1 million for the nine months ended September 30, 2011, compared to \$44.3 million for the nine months ended September 30, 2010. The \$14.2 million decrease was due to the decrease in revenue of \$5.2 million and the increase in direct expenses of \$9.8 million, partially offset by the decrease in selling, general and administrative expenses of \$0.7 million. Operating margins were 11% for the nine months ended September 30, 2011, compared to 16% for the nine months ended September 30, 2010. The decrease in operating income and margin is primarily due to decreased medium aircraft revenue due to decreased deepwater drilling activity in the Gulf of Mexico as discussed above. The Oil and Gas segment revenues are primarily driven by contracted aircraft and flight hours. Costs are primarily fixed and are driven by the number of aircraft, and a portion is variable which is driven by flight hours.

Air Medical – Air Medical segment revenues were \$129.5 million for the nine months ended September 30, 2011, compared to \$120.9 million for the nine months ended September 30, 2010, an increase of \$8.6 million or 7%. Patient transports were 13,441 for the nine months ended September 30, 2011, compared to 14,124 for the nine months ended September 30, 2010, a decrease of 683 transports. Flight hours were 25,682 for the nine months ended September 30, 2011, compared to 25,250 for the nine months ended September 30, 2010. This increase was due to the increase in hospital based contract flight hours.

Direct expense in our Air Medical segment was \$115.1 million for the nine months ended September 30, 2011, compared to \$108.7 million for the nine months ended September 30, 2010. The \$6.4 million increase is primarily due to increased aircraft warranty costs (\$2.7 million) due to a \$3.1 million credit recorded in segment direct expense in the first quarter of 2010. All new aircraft come with a manufacturer's warranty that covers defective parts. The warranty we terminated was an additional warranty purchased from the manufacturer to cover replacement or refurbishment of aircraft parts on certain aircraft in accordance with manufacturer specifications. A monthly fee was paid to the manufacturer based on flight hours for the aircraft covered under this warranty. In return, the manufacturer provided replacement parts required for maintaining the aircraft. There were also increases in aircraft parts usage (\$2.6 million) and aircraft fuel (\$0.5 million). Aircraft depreciation also increased (\$0.4 million) due to additional aircraft added to the segment's fleet. Other items increased, net (\$0.2 million).

Selling, general and administrative expenses were \$2.9 million for the nine months ended September 30, 2011, compared to \$3.3 million for the nine months ended September 30, 2010. The \$0.4 million decrease was primarily due to decreased employee costs.

Our Air Medical segment's operating income was \$11.5 million for the nine months ended September 30, 2011, compared to \$9.0 million for the nine months ended September 30, 2010. Operating margins were 9% and 7% for the nine months ended September 30, 2011 and 2010, respectively. Operating income for the nine months ended September 30, 2010 includes a credit of \$3.1 million related to the termination of a manufacturer's warranty program. The increase in revenue and decrease in selling, general and administrative expenses contributed to the improved operating margin in the Air Medical segment.

Table of Contents

Technical Services – Technical Services revenues were \$7.4 million for the nine months ended September 30, 2011, compared to \$6.5 million for the nine months ended September 30, 2010. Direct expenses in our Technical Services segment were \$5.6 million for the nine months ended September 30, 2011 and the nine months ended September 30, 2010. Our Technical Services segment's operating income was \$1.8 million for the nine months ended September 30, 2011, compared to operating income of \$0.8 million for the nine months ended September 30, 2010.

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. In addition, the Technical Services segment conducts flight operations for the National Science Foundation in Antarctica, which are typically conducted in the first and fourth quarters each year.

Liquidity and Capital Resources

General

Our ongoing liquidity requirements arise primarily from the funding of working capital needs, the purchase or leasing of aircraft, the maintenance and refurbishment of aircraft, improvement 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, senior notes, and the sale of non-voting common stock in 2005 and 2006. To the extent we do not use cash, short-term investments or borrowings to finance our aircraft acquisitions, we can typically enter into operating leases to fund these acquisitions.

On September 23, 2010, we issued \$300 million of 8.625% Senior Notes due 2018 and have repurchased or redeemed all of our \$200 million 7.125% Senior Notes due 2013. These transactions are discussed in Note 4 to our financial statements included in this report, and below under "Long Term Debt."

We expect our existing cash and short-term investments, cash flow from operations and borrowings under our revolving credit facility will fund our cash requirements for the next twelve months.

Cash Flow

Our cash position was \$3.5 million at September 30, 2011, compared to \$3.6 million at December 31, 2010. Short-term investments were \$99.9 million at September 30, 2011, compared to \$150.1 million at December 31, 2010. Working capital was \$201.6 million at September 30, 2011, compared to \$268.8 million at December 31, 2010, a decrease of \$67.2 million. The decrease was primarily due to a decrease in short-term investments of \$50.2 million and an increase in other current liabilities of \$22.9 million. The \$22.9 million other current liability due November 1, 2011, was incurred in connection with a contract to purchase heavy transport aircraft, described in Note 3 to the financial statements, upon delivery of the baseline aircraft in June 2011. The one aircraft related to the \$22.9 million other current liability is reflected in property and equipment – net, as of September 30, 2011. Proceeds from the sale of short-term investments were used primarily to purchase two aircraft off lease for \$25.6 million and to pay down the revolver balance in the first quarter, \$25.5 million.

Net cash provided by operating activities was \$22.1 million for the nine months ended September 30, 2011, compared to \$51.5 million for the same period in 2010, a decrease of \$29.4 million. This decrease is primarily due to a decrease in net earnings of \$7.0 million and an increase in accounts receivable of \$18.4 million related to increased revenues.

Net cash used in investing activities was \$26.5 million for the nine months ended September 30, 2011, compared to a use of cash of \$120.7 million for the same period in 2010. Purchases and sales of short-

[Table of Contents](#)

term investments provided a net \$48.4 million in cash during the nine months ended September 30, 2011 compared to a net use of \$78.4 million in the comparable prior year period. The increased net proceeds from short-term investments in 2011 were used to reduce the revolving credit facility balance and purchase two heavy aircraft off lease. The increase in purchases of short-term investments results primarily from the investment of approximately \$82.0 million of net proceeds of our 8.625% Senior Notes remaining after the repurchase of our 7.125% Senior Notes and payment of related fees and costs. Capital expenditures were \$66.7 million for the nine months ended September 30, 2011, compared to \$39.7 million for the same period in 2010. Capital expenditures for 2011 included \$62.7 million for aircraft purchases, upgrades, and refurbishments. Capital expenditures for 2010 included \$32.6 million for aircraft purchases, upgrades, and refurbishments. Gross proceeds from aircraft dispositions were \$3.8 million for the nine months ended September 30, 2011, compared to \$1.2 million for the same period in 2010.

Financing activities for the nine months ended September 30, 2011 include only proceeds of and payments on the revolving credit facility. In 2011, we had net borrowing of \$4.3 million, compared to net borrowing of less than \$0.1 for the same period in 2010.

Long Term Debt

As of September 30, 2011, our total long-term debt was \$335.4 million, consisting of our \$300 million 8.625% Senior Notes due 2018 and \$35.4 million outstanding on our revolving credit facility.

Our senior secured credit facility provides a \$75 million revolving credit facility maturing in September 2013. On September 26, 2011, we amended the facility to extend the maturity date from September 1, 2012 to September 1, 2013. The interest rate is the prime rate plus 100 basis points. At September 30, 2011, we had \$35.4 million in borrowings under the facility. During the quarter ended September 30, 2011, \$35.4 million was the highest loan balance, with a weighted average balance of \$24.8 million. During the same period for 2010, \$24.8 million was the highest loan balance, with a weighted average balance of \$16.5 million.

On September 23, 2010, we issued \$300 million of 8.625% Senior Notes that mature October 15, 2018. Net proceeds of \$295.5 million were used to repurchase \$189.5 million of our \$200 million outstanding 7.125% Senior Notes due 2013 pursuant to a tender offer and consent solicitation that also settled on September 23, 2010. The tender offer for the 7.125% Senior Notes included a tender premium and interest totaling \$7.6 million. The remaining \$10.5 million of 7.125% Senior Notes outstanding were redeemed October 25, 2010, at a redemption price of 103.563% of their face amount plus accrued interest. As a result of these transactions, we incurred a loss on debt restructuring of \$9.5 million during the quarter ended September 30, 2010.

For a description of our 8.625% Senior Notes and our senior secured revolving credit facility, see Note 4 to our financial statements included in this report.

[Table of Contents](#)

Contractual Obligations

The table below sets out our contractual obligations as of September 30, 2011 related to our operating lease obligations, aircraft purchase commitments, revolving credit facility, and the 8.625% Senior Notes due 2018. The operating leases are not recorded as liabilities on our balance sheet. Each contractual obligation included in the table contains various terms, conditions, and covenants that, if violated, accelerate the payment of that obligation. We were in compliance with the covenants applicable to these contractual obligations as of September 30, 2011, and expect to remain in compliance through the year ending December 31, 2011. As of September 30, 2011, we leased 19 aircraft included in the lease obligations below.

	Payment Due by Year						Beyond 2015
	Total	2011	2012	2013	2014	2015	
Aircraft purchase commitments (1)	\$220,085	84,467	\$128,028	\$7,590	\$-	\$-	\$-
Aircraft lease obligations	142,316	6,316	25,695	26,060	26,060	25,783	32,402
Other lease obligations	14,627	844	2,513	1,891	1,587	1,507	6,285
Other current liabilities (1)	22,900	22,900	-	-	-	-	-
Long-term debt	335,368	-	-	35,368	-	-	300,000
Senior notes interest	182,203	6,469	25,875	25,875	25,875	25,875	72,234
	<u>\$917,499</u>	<u>\$120,996</u>	<u>\$182,111</u>	<u>\$96,784</u>	<u>\$53,522</u>	<u>\$53,165</u>	<u>\$410,921</u>

(1) For information about these aircraft purchase commitments and other current liabilities, see footnote 3 to the financial statements in this report.

As of September 30, 2011, we had options to purchase aircraft under lease becoming exercisable in 2012 through 2014 for the following aggregate purchase prices, respectively: \$45.0 million, \$38.8 million and \$114.4 million. Subject to market conditions, we intend to exercise these options as they become exercisable. There are no other lease purchase options in 2011

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our earnings are subject to changes in short-term interest rates due to the variable interest rate on our revolving credit facility. Based on the \$35.4 million in borrowings outstanding at September 30, 2011, a 10% increase (0.425%) in the interest rate would reduce our annual pre-tax earnings approximately \$0.1 million.

Our \$300 million outstanding 8.625% Senior Notes due 2018 bear interest at a fixed rate of 8.625% and therefore changes in market interest rates do not affect our interest payment obligations on the notes. The fair market value of our 8.625% 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, 2011, the market value of the notes was approximately \$300.3 million, based on quoted market indications.

[Table of Contents](#)

Market risk is the risk of changes in the value of financial instruments, or in future net income or cash flows, in response to changing market conditions. The Company holds financial instruments that are exposed to the following significant market risks: the interest rate risk associated with the Company's investments in money market funds, U.S. Government Agencies, commercial paper, and corporate bonds and notes. See Note 8 to the financial statements for details regarding our short-term investments.

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 our disclosure controls and procedures were effective as of such date to ensure 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, including to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required 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.

[Table of Contents](#)

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

For information regarding legal proceedings, see “Legal Matters” in Note 3 to our financial statements included in this report, which is incorporated herein by reference.

Item 1. A. RISK FACTORS

Item 1.A. “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2010 includes a discussion of our risk factors. Except as described below, there have been no significant changes to our risk factors.

We must obtain additional financing in order to fund our aircraft purchase and other obligations.

As of September 30, 2011, we had obligations related to aircraft purchase commitments totaling approximately \$220.0 million due in 2011 and 2012, along with other significant contractual obligations as described in this report. As of September 30, 2011, we had approximately \$103.4 million in cash and short-term investments and \$39.6 million available under our \$75.0 million revolving credit facility. We intend to seek to obtain operating leases and/or additional debt financing to fund these obligations. We have no current commitments or arrangements with respect to such financing, and no assurances can be given that such financing will be available to us on acceptable terms. Our inability to obtain such financing could have a material adverse affect on our business, financial condition and results of operations.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. (REMOVED AND RESERVED)

Item 5. OTHER INFORMATION

On October 12, 2011, the Board of Directors of PHI, Inc. appointed Didier Keller to serve as a director on the Board of Directors of PHI, Inc., effective October 12, 2011. Mr. Keller will also serve as a member of the Audit Committee and Compensation Committee.

Mr. Keller served as Chief Executive of SBM Offshore N.V., a Dutch public company serving the offshore oil and gas industry on a global basis by supplying engineered products, vessels and systems, and offshore oil and gas production services, from 2004 until his retirement in May 2008. He joined SBM Offshore (formerly IHC Caland N.V.) in 1977, and during the next 31 years held positions of increasing responsibility in project management, business development, marketing, sales, and management, including serving as President of SBM Offshore’s American subsidiary from 1991 to 1994. Since May 2008, he has been engaged as an independent consultant in the oil and gas industry, and currently serves as a Supervisory Director of Dietsmann NV, a privately-held company headquartered in the Netherlands and a leading independent provider of integrated operation and maintenance services for oil, gas, and LNG production facilities and power plants. Mr. Keller graduated from the civil engineering school ESTACA in Paris in 1969 and holds a PhD French equivalent degree in aeronautics.

On November 4, 2011, the Compensation Committee of the Board of Directors of PHI, Inc. granted the Company’s Chairman and Chief Executive Officer Al A. Gonsoulin restricted stock units to acquire

Table of Contents

83,978 shares of the Company's voting common stock under the Company's Amended and Restated 1995 Incentive Compensation Plan. The restricted stock units will vest on January 1, 2013, if Mr. Gonsoulin continues to be employed by the Company on that vesting date. Vesting will be accelerated upon death, disability or upon a change of control of the Company. The Restricted Stock Unit Agreement with respect to the grants to Mr. Gonsoulin is included as Exhibit 10.2.

Item 6. EXHIBITS

(a) Exhibits

- 3.1 (i) Composite Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to PHI's Report on Form 10-Q filed on August 7, 2008).
- (ii) Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3(ii) to PHI's Report on Form 8-K filed October 13, 2011).
- 4.1 Amended and Restated Loan Agreement dated as of March 31, 2008 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 4.1 to PHI's Report on Form 10-Q filed on May 8, 2008).
- 4.2 First Amendment dated as of August 5, 2009 to Amended and Restated Loan Agreement dated as of March 31, 2008 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 4.2 to PHI's Report on Form 10-Q filed on August 10, 2009).
- 4.3 Second Amendment dated September 13, 2010 to Amended and Restated Loan Agreement dated March 31, 2008 by and among PHI, Inc., Air Evac Services, Inc., PHI Tech Services, Inc. and International Helicopter Transport, Inc., and Whitney National Bank (incorporated by reference to Exhibit 4.3 to PHI's Report on Form 10-Q filed on November 8, 2010).
- 4.4 Third Amendment dated September 26, 2011 to Amended and Restated Loan Agreement dated March 31, 2008 by and among PHI, Inc., PHI Air Medical, L.L.C., successor to Air Evac Services, Inc., PHI Tech Services, Inc. and International Helicopter Transport, Inc., and Whitney National Bank.
- 4.5 Indenture dated as of September 23, 2010 by and among PHI, Inc., the subsidiary guarantors and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to PHI's Report on Form 8-K filed on September 23, 2010).
- 4.6 Form of 8.625% Senior Note due 2018 (incorporated by reference to Exhibit 4.2 to PHI's Report on Form 8-K filed on September 23, 2010).
- 10.1 Form of Indemnity Agreement dated November 4, 2011 between PHI, Inc. and each of its directors.
- 10.2 Form of Restricted Stock Unit Agreement under the Amended and Restricted Petroleum Helicopters, Inc. 1995 Incentive Compensation Plan between PHI, Inc. and Al A. Gonsoulin dated as of November 4, 2011.

Table of Contents

- 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.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

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 7, 2011

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

November 7, 2011

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

THIRD AMENDMENT TO AMENDED AND RESTATED LOAN AGREEMENT DATED AS OF MARCH 31, 2008

This Third Amendment to Amended and Restated Loan Agreement dated and effective as of September 26, 2011 (“Third Amendment”) is by and among **PHI, Inc., formerly named Petroleum Helicopters, Inc. (“PHI”), PHI Air Medical, L.L.C., successor to Air Evac Services, Inc., PHI Tech Services, Inc., formerly named Evangeline Airmotive, Inc., International Helicopter Transport, Inc., (individually, collectively and interchangeably, the “Subsidiary Guarantors”), and Whitney Bank (“Bank”).**

WHEREAS, PHI, Subsidiary Guarantors and Bank entered into an Amended and Restated Loan Agreement dated as of March 31, 2008 pursuant to which Bank extended the Revolving Line of Credit (as defined in the Loan Agreement) to PHI; which loan agreement was amended by First Amendment to Loan Agreement dated as of August 5, 2009, pursuant to which the Revolving Line of Credit was increased to \$75,000,000 and the maturity thereof was extended to September 1, 2011 and by Second Amendment to Amended and Restated Loan Agreement Dated as of September 1, 2010 (as amended, the “Loan Agreement”);

WHEREAS, the parties to the Loan Agreement desire to extend the maturity of the Revolving Line of Credit to September 1, 2013;

NOW THEREFOR, for good and adequate consideration, the receipt of which is hereby acknowledged, PHI, the Subsidiary Guarantors and Bank do hereby amend the Loan Agreement as follows:

1. Paragraph A on page one of the Loan Agreement entitled “**THE LOAN OR LOANS**” is hereby amended and restated in its entirety as follows:

“**A. THE LOAN OR LOANS.** Provided PHI performs all obligations in favor of Bank contained in this Agreement and in any other agreement, whether now existing or hereafter arising:

Bank shall make available to PHI a secured revolving line of credit (the “Revolving Line of Credit”) in the principal amount of SEVENTY-FIVE MILLION (\$75,000,000) DOLLARS, that may be drawn upon by PHI on any business day of Bank during the period hereof until and including September 1, 2013, on at least one day’s telephonic notice to Bank. The Revolving Line of Credit shall be evidenced by a commercial note, payable to Bank (the “Note”) and shall contain additional terms and conditions and be identified with this Agreement.

A sublimit of TWENTY MILLION (\$20,000,000) DOLLARS is hereby established for the issuance of letters of credit with a maturity not exceeding that of the Note, which may be issued by Bank or any bank participating in the Revolving Line of Credit upon application by PHI.”

2. In addition, on or about July 5, 2011, Subsidiary Guarantor, Air Evac Services, Inc. changed its name to PHI Air Medical, Inc. and thereafter converted to a limited liability company named “PHI Air Medical, L.L.C.” PHI, Subsidiary Guarantors and Bank hereby add PHI Air Medical, L.L.C. as a Subsidiary Guarantor to the Loan Agreement as the successor to Air Evac Services, Inc.

3. PHI Air Medical, L.L.C. hereby joins as a Subsidiary Guarantor to the Loan Agreement and further agrees to be bound as a Subsidiary Guarantor by all the terms and conditions thereof.

4. In connection with the foregoing, the Loan Agreement is hereby amended, but in all other respects, all of the terms and conditions of the Loan Agreement remain unaffected and in full force and effect as originally written.

IN WITNESS WHEREOF, this Third Amendment is dated as of September 26, 2011.

PHI, INC., formerly named Petroleum Helicopters, Inc.

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

PHI Air Medical, L.L.C., successor to AIR EVAC SERVICES, INC.

By: /s/ Michael J. McCann
Name: Michael J. McCann
Title: Manager

WHITNEY BANK

By: /s/ H. Elder Gwin
Name: H. Elder Gwin
Title: Vice President

PHI TECH SERVICES, INC., formerly named Evangeline Airmotive, Inc.

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

INTERNATIONAL HELICOPTER TRANSPORT, INC.

By: /s/ Michael J. McCann

Name: Michael J. McCann

Title: Chief Financial Officer

FORM OF INDEMNITY AGREEMENT

This **INDEMNITY AGREEMENT** is made as of November 4, 2011 between PHI, Inc. (the "Corporation"), and _____ ("Indemnitee").

In consideration of Indemnitee's continued service after the date hereof, the Corporation and Indemnitee do hereby agree as follows:

1. Agreement to Serve. Indemnitee shall serve or continue to serve as a director of the Corporation, and any other corporation, subsidiary, partnership, joint venture, trust or other enterprise of which he is serving at the request of the Corporation, and agrees to serve in such capacities for so long as he is duly elected or appointed and qualified or until such earlier time as he tenders his resignation in writing.

2. Definitions. As used in this Agreement:

(a) The term "Claim" shall mean any threatened, pending or completed claim, action, suit or proceeding, including appeals, whether civil, criminal, administrative or investigative, and whether made judicially or extra-judicially, including any action by or in the right of the Corporation or a plan, entity or enterprise described in clauses (ii) and (iii) of Section 5(a) hereof, or any separate issue or matter therein, as the context requires.

(b) The term "Determining Body" shall mean (i) those members of the Board of Directors who are not named (or, in the case of a threatened claim, not threatened to be named) as parties to the Claim for which indemnification is sought ("Impartial Directors"), if there are at least two Impartial Directors, or (ii) a committee of at least two Impartial Directors appointed by the Board or a duly authorized committee thereof (regardless whether the directors voting on such appointment are Impartial Directors), or (iii) if there are fewer than two Impartial Directors or if the Board of Directors or the committee appointed pursuant to clause (ii) of this paragraph so directs (regardless whether the directors voting on such appointment are Impartial Directors), independent legal counsel, which may be the regular outside counsel of the Corporation, as designated by the Impartial Directors or, if no such directors exist, the full Board of Directors.

(c) The term "Disbursing Officer" shall mean the Chief Executive Officer of the Corporation or, if the Chief Executive Officer has an interest in the Claim for which indemnification is being sought, any officer who does not have such an interest and who is designated by the Chief Executive Officer to be the Disbursing Officer with respect to indemnification requests related to the Claim, which designation shall be made promptly after receipt of the initial request for indemnification with respect to such Claim.

(d) The term "Expenses" shall mean any expenses or costs including, without limitation, attorney's fees, judgments, punitive or exemplary damages, fines, excise taxes or amounts paid in settlement, and if any of the foregoing amounts paid on behalf of Indemnitee are not deductible by Indemnitee for federal or state income tax purposes, the term shall include an

amount that, after taking into account taxes on such amount, equals Indemnitee' s incremental tax liability.

(e) The term "Insurance Policies" shall mean the directors and officers liability and company reimbursement liability policies in effect on the date of this Agreement, a list of which has been provided to Indemnitee contemporaneously with the execution and delivery of this Agreement.

(f) The term "Standard of Conduct" shall have the meaning set forth in Section 5(b) hereof.

3. Limitation of Liability. To the fullest extent permitted by Article VI of the Articles of Incorporation of the Corporation as in effect on the date hereof, and, if and to the extent such Article VI is amended to permit further limitations, in effect at any time prior to the determination of liability that would exist but for the provisions of this Agreement, Indemnitee shall not be liable for any breach of his fiduciary duty of care to the Corporation.

4. Maintenance of Insurance and Self-Insurance. (a) The Corporation represents and warrants that it presently maintains in force and effect the Insurance Policies, and Indemnitee shall be furnished with a copy thereof upon his request. Subject only to the provisions of Section 4(b) hereof, the Corporation hereby agrees that, so long as Indemnitee shall continue to serve as a director or officer or in any other capacity referred to in Section 5(a) hereof and thereafter so long as Indemnitee shall be subject to any possible Claim, the Corporation shall use its commercially reasonable best efforts to purchase and maintain in effect for the benefit of Indemnitee one or more valid and enforceable policies of directors and officers liability insurance providing, in all respects, coverage at least comparable to that currently provided pursuant to the Insurance Policies.

(b) The Corporation shall not be required to purchase and maintain the Insurance Policies or any comparable policy or policies in effect if directors and officers liability insurance is not reasonably available or if, in the reasonable business judgment of the then directors of the Corporation, either (i) the premium cost for such insurance is excessive in light of the amount of coverage or (ii) the coverage provided by such insurance is so limited by exclusions, retentions, deductibles or otherwise that there is insufficient benefit to the Corporation from such insurance.

(c) If the Corporation does not purchase and maintain in effect the Insurance Policies pursuant to the provisions of Section 4(b) hereof, the Corporation agrees to hold harmless and indemnify Indemnitee to the full extent of the coverage that would otherwise have been provided for the benefit of Indemnitee pursuant to the Insurance Policies.

5. Additional Indemnity; Advancement of Expenses.

(a) To the extent any Expenses incurred by Indemnitee are in excess of the amounts reimbursed or indemnified pursuant to the provisions of Section 4 hereof, the Corporation shall indemnify and hold harmless Indemnitee against any Expenses actually and reasonably incurred by Indemnitee in connection with any Claim against Indemnitee, or involving Indemnitee solely as a witness or person required to give evidence, by reason of the

fact that he is or was a (i) director or officer of the Corporation, (ii) director or officer of any subsidiary of the Corporation or a fiduciary with respect to any employee benefit plan of the Corporation, or (iii) director, officer, partner, employee or agent of another corporation, partnership, limited liability company, joint venture, trust or other for-profit or not-for-profit entity or enterprise, if such position is or was held at the request of the Corporation, whether relating to service in such position before or after the effective date of this Agreement, if (A) Indemnitee is successful in his defense of the Claim on the merits or otherwise or (B) Indemnitee has been found by the Determining Body to have met the Standard of Conduct; provided that (1) the amount of Expenses for which the Corporation shall indemnify Indemnitee may be reduced by the Determining Body to such amount as it deems proper if it determines that the Claim involved the receipt of personal benefit by Indemnitee, and (2) no indemnification shall be made in respect of any Claim as to which Indemnitee shall have been adjudged by a court of competent jurisdiction, after exhaustion of all appeals therefrom, to be liable for willful or intentional misconduct in the performance of his duty to the Corporation or to such plan, entity or enterprise or to have obtained an improper personal benefit, unless, and only to the extent that, a court shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such Expenses which the court shall deem proper; and provided further that, if the Claim involves Indemnitee by reason of his or her position with a plan, entity or enterprise described in clause (ii) or (iii) of this Section 5(a) and if Indemnitee may be entitled to indemnification with respect to such Claim from such plan, entity or enterprise or reimbursement or indemnification from insurance policies or programs of such plan, entity or enterprise, Indemnitee shall be entitled to indemnification hereunder only (x) if he or she has applied to such entity or enterprise for indemnification with respect to the Claim and (y) to the extent that indemnification to which he or she would be entitled hereunder but for this proviso exceeds the indemnification paid by such plan, entity or enterprise and the amounts reimbursed or indemnified by insurance policies and programs of such plan, entity or enterprise.

(b) For purposes of this Agreement, the "Standard of Conduct" is met when conduct by Indemnitee, with respect to which a Claim is asserted, was conduct performed in good faith that he or she reasonably believed to be in, or not opposed to, the best interest of the Corporation or a plan, entity or enterprise described in clause (ii) or (iii) of Section 5(a) hereof and in the case of a Claim that is a criminal action or proceeding, conduct that Indemnitee had no reasonable cause to believe was unlawful. The termination of any Claim by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that Indemnitee did not meet the Standard of Conduct.

(c) Promptly upon becoming aware of the existence of any Claim as to which Indemnitee may be indemnified for Expenses and as to which Indemnitee desires to obtain indemnification, Indemnitee shall notify the Chief Executive Officer of the corporation, but the failure to promptly notify the Chief Executive Officer shall not relieve the Corporation from any obligation hereunder, except and to the extent that such failure has materially and irrevocably harmed the Corporation's ability to defend against such Claim. Upon receipt of such request, the Chief Executive Officer shall promptly advise the members of the Board of Directors of the request and that the establishment of a Determining Body with respect thereto will be a matter to be considered at the next regularly scheduled meeting of the Board. If a meeting of the Board of Directors is not regularly scheduled within 120 calendar days of the date the Chief Executive

Officer receives notice of the claim, the Chief Executive Officer shall cause a special meeting of the Board of Directors to be called within such period in accordance with the provisions of the Corporation's By-laws. After the Determining Body has been established, the Chief Executive Officer shall inform Indemnitee of the constitution of the Determining Body, and Indemnitee shall provide the Determining Body with all facts relevant to the Claim known to him or her and deliver to the Determining Body all documents relevant to the Claim in his possession. Before the 60th day (the "Determination Date") after its receipt from Indemnitee of such information, together with such additional information as the Determining Body may reasonably request of Indemnitee prior to such date (the receipt of which shall not begin a new 60-day period), the Determining Body shall determine whether or not Indemnitee has met the Standard of Conduct and shall advise Indemnitee of its determination. If Indemnitee shall have supplied the Determining Body with all relevant information, including all additional information reasonably requested by the Determining Body, any failure of the Determining Body to make a determination by or on the Determination Date as to whether the Standard of Conduct was met shall be deemed to be a determination that the Standard of Conduct was met by Indemnitee; provided, however, that the Determining Body may extend the Determination Date but only for one additional 60-day period.

(d) If at any time Indemnitee becomes aware of any relevant facts or documents not theretofore provided by him to the Determining Body, Indemnitee shall promptly inform the Determining Body of such facts or documents, unless the Determining Body has obtained such facts or documents from another source. The provision of such facts to the Determining Body before the Determining Date shall not begin a new 60-day period.

(e) The Determining Body shall have no power to revoke a determination that Indemnitee met the Standard of Conduct unless Indemnitee (i) submits fraudulent information to the Determining Body or (ii) fails to comply with the provisions of Sections 5(c) or 5(d) hereof, including without limitation Indemnitee's obligation to submit information or documents relevant to the Claim reasonably requested by the Determining Body.

(f) In the case of any Claim not involving any proposed, threatened or pending criminal proceeding,

(i) If Indemnitee has, in the judgment of the Determining Body, met the Standard of Conduct, the Corporation may, except as otherwise provided below, individually or jointly with any other indemnifying party similarly notified, assume responsibility for the defense of the Claim with counsel reasonably satisfactory to Indemnitee, and the Corporation and Indemnitee shall keep each other informed as to the progress of such defense, including prompt disclosure of any proposals for settlement; provided that if the Corporation is a party to the Claim and Indemnitee shall have concluded reasonably that there may be a conflict of interest between the Corporation and Indemnitee with respect to the Claim, then Indemnitee shall be entitled to conduct his defense with counsel of his choice at the Corporation's expense; and provided further that Indemnitee shall in any event be entitled at his expense to employ counsel chosen by him to participate in the defense of the Claim; and

(ii) the Corporation shall fairly consider any proposals by Indemnitee for settlement of the Claim. If the Corporation proposes a settlement of the Claim and such

settlement is acceptable to the person asserting the Claim, or the Corporation believes a settlement proposed by the person asserting the Claim should be accepted, it shall inform Indemnatee of the terms of such proposed settlement and shall fix a reasonable date by which Indemnatee shall respond. If Indemnatee agrees to such terms, he shall execute such documents as shall be necessary to make final the settlement. If Indemnatee does not agree with such terms, Indemnatee may proceed with the defense of the Claim in any manner he chooses, provided that if Indemnatee is not successful on the merits or otherwise, the Corporation's obligation to indemnify such Indemnatee as to any Expenses incurred following his disagreement with the Corporation shall be limited to the lesser of (A) the total Expenses incurred by Indemnatee following his decision not to agree to such proposed settlement or (B) the amount that the Corporation would have paid pursuant to the terms of the proposed settlement. If, however, the proposed settlement would impose upon Indemnatee any requirement to act or refrain from acting that would materially interfere with the conduct of Indemnatee's affairs, Indemnatee may refuse such settlement and continue his defense of the Claim, if he so desires, at the Corporation's expense in accordance with the terms and conditions of this Agreement without regard to the limitations imposed by the immediately preceding sentence. In any event, the Corporation shall not be obligated to indemnify Indemnatee for any amount paid in a settlement that the Corporation has not approved.

(g) In the case of any Claim involving a proposed, threatened or pending criminal proceeding, Indemnatee shall be entitled to conduct the defense of the Claim with counsel of his choice and to make all decisions with respect thereto, provided, however, that the Corporation shall not be obliged to indemnify Indemnatee for any amount paid in settlement of such a Claim that the Corporation has not approved.

(h) After notifying the Corporation of the existence of a Claim, Indemnatee may from time to time request the Corporation to pay the Expenses (other than judgments, fines, penalties or amounts paid in settlement) that he incurs in pursuing a defense of the Claim prior to the time that the Determining Body determines whether the Standard of Conduct has been met. The Disbursing Officer shall pay to Indemnatee the amount requested (regardless of Indemnatee's apparent ability to repay such amount) upon receipt of an undertaking by or on behalf of Indemnatee to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation under the circumstances, provided, however, that if the Disbursing Officer does not believe such amount to be reasonable, he shall advance the amount deemed by him to be reasonable and Indemnatee may apply directly to the Determining Body for the remainder of the amount requested.

(i) After the Determining Body has determined that the Standard of Conduct has been met, for so long as and to the extent that the Corporation is required to indemnify Indemnatee under this Agreement, the provisions of Section 5(h) hereof shall continue to apply with respect to Expenses incurred after such time except that (i) no undertaking shall be required of Indemnatee and (ii) the Disbursing Officer shall pay to Indemnatee the amount of any fines, penalties or judgments against him which have become final and for which he is entitled to indemnification hereunder, and any amount of indemnification ordered to be paid to him by a court.

(j) Any determination by the Corporation with respect to settlement of a Claim shall be made by the Determining Body.

(k) All determinations and judgments made by the Determining Body hereunder shall be made in good faith.

6. Enforcement.

(a) The rights provided by this Agreement shall be enforceable by Indemnitee in any court of competent jurisdiction.

(b) If Indemnitee seeks a judicial adjudication of his rights under, or to recover damages for breach of, this Agreement, Indemnitee shall be entitled to recover from the Corporation, and shall be indemnified by the Corporation against, any and all expenses actually and reasonably incurred by him in connection with such proceeding, but only if he prevails therein. If it shall be determined that Indemnitee is entitled to receive part but not all of the relief sought, then Indemnitee shall be entitled to be reimbursed for all Expenses incurred by him in connection with such judicial adjudication if the amount to which he is determined to be entitled exceeds 50% of the amount of his Claim. Otherwise, the Expenses incurred by Indemnitee in connection with such judicial adjudication shall be appropriately prorated.

(c) In any judicial proceeding described in this Section 6, the Corporation shall bear the burden of proving that Indemnitee is not entitled to the relief sought.

7. Saving Clause. If any provision of this Agreement is determined by a court having jurisdiction over the matter to violate or conflict with applicable law, the court shall be empowered to modify or reform such provision so that, as modified or reformed, such provision provides the maximum indemnification and Expense advancement permitted by law, and such provision, as so modified or reformed, and the balance of this Agreement, shall be applied in accordance with their terms. Without limiting the generality of the foregoing, if any portion of this Agreement shall be invalidated on any ground, the Corporation shall nevertheless indemnify and advance Expenses to Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated and to the full extent permitted by law with respect to that portion that has been invalidated.

8. Non-Exclusivity. (a) The indemnification and advancement of Expenses provided by or granted pursuant to this Agreement shall not be deemed exclusive of any other rights to which Indemnitee is or may become entitled under any statute, articles of incorporation, bylaw, authorization of shareholders or directors, agreement, or otherwise.

(b) If applicable law would permit the Corporation to provide broader indemnification and Expense advancement rights than are currently permitted, the Corporation shall indemnify and hold harmless Indemnitee and advance Expenses to Indemnitee to the fullest extent permitted by applicable law notwithstanding that the other terms of this Agreement would provide for lesser indemnification or lesser Expense advancement.

9. Confidentiality. The Corporation and Indemnitee shall keep confidential to the extent permitted by law and their fiduciary obligations all information and determinations

provided pursuant to or arising out of the operations of this Agreement and the Corporation and Indemnatee shall instruct its or his or her agents and employees to do likewise.

10. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall constitute an original but all of which taken together shall be deemed to constitute a single instrument.

11. Applicable Law. This Agreement shall be governed by and construed in accordance with the substantive laws of the State of Louisiana.

12. Successors and Assigns. This Agreement shall be binding upon Indemnatee and upon the Corporation, its successors and assigns, and shall inure to the benefit of Indemnatee's heirs, personal representatives, and assigns and to the benefit of the Corporation, its successors and assigns.

13. Amendment. No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in writing signed by the Corporation and Indemnatee. Notwithstanding any amendment, modification, termination or cancellation of this Agreement or any portion hereof, Indemnatee shall be entitled to indemnification and Expense advancement in accordance with the provisions hereof with respect to any acts or omissions of Indemnatee which occur prior to such amendment, modification, termination or cancellation.

14. Gender. All pronouns and variations thereof used in this Agreement shall be deemed to refer to the masculine, feminine or neuter gender, singular or plural, as the identity of the person, persons, entity or entities referred to may require.

15. Supersedes Prior Indemnity Agreement. This Agreement supersedes and replaces that prior Indemnity Agreement by and between Indemnatee and the Corporation dated _____, _____ and is intended to enhance and not limit the rights provided in such former agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and signed as of the date and year first above written.

PHI, INC.

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

INDEMNITEE:

FORM OF PHI, INC.
RESTRICTED STOCK UNIT AGREEMENT
under
the
AMENDED AND RESTATED
PETROLEUM HELICOPTERS, INC.
1995 INCENTIVE COMPENSATION PLAN

EMPLOYEE: Al Gonsoulin; Employee Number: _____

AWARD DATE: November 4, 2011

TOTAL NUMBER OF RESTRICTED STOCK UNITS: 83,978

VESTING SCHEDULE: January 1, 2013

This document (referred to below as the "Agreement" or the "Award Agreement") spells out the terms and conditions of the Restricted Stock Units provided by PHI, Inc., a Louisiana corporation (the "Company"), to the individual employee designated above (the "Employee") pursuant to the Amended and Restated Petroleum Helicopters, Inc. 1995 Incentive Compensation Plan (the "Plan") on and as of the Award Date designated above. Except as otherwise defined herein, capitalized terms used in this Agreement have the respective meanings set forth in the Plan.

The parties hereto agree as follows:

1. Grant of Restricted Stock Units. Pursuant to the approval and direction of the Compensation Committee of the Company's Board of Directors (the "Committee") under the authority provided in Section 10 of the Plan for the grant of "Stock Awards," the Company hereby grants to the Employee, the number of restricted stock units specified above (the "Restricted Stock Units"). Each Restricted Stock Unit constitutes the right to receive one share of voting Common Stock in the future, subject to the terms and conditions of the Plan and this Agreement.

2. Restrictions. The Restricted Stock Units may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, whether voluntarily or involuntarily. The Employee shall have no rights in the shares of Company voting Common Stock underlying the Restricted Stock Units until the termination of the applicable Period of Restriction (as defined in Section 4 below) or as otherwise provided in the Plan or this Agreement. The Employee shall not have any voting rights with respect to the Restricted Stock Units.

3. Restricted Stock Unit Account and Dividend Equivalents. The Company shall maintain an account (the "Account") on its books in the name of the Employee. Such Account shall reflect the number of Restricted Stock Units awarded to the Employee, as such number may be adjusted under the terms of the Plan, as well as any additional Restricted Stock Units credited as a result of dividend equivalents, administered as follows:

(a) The Account shall be for recordkeeping purposes only, and no assets or other amounts shall be set aside from the Company's general assets with respect to such Account.

(b) As of each record date with respect to which a cash dividend is to be paid with respect to shares of voting Common Stock, the Company shall credit the Employee's Account with an equivalent number of Restricted Stock Units based upon the value of voting Common Stock on such date.

(c) If dividends are paid in the form of shares of Common Stock rather than cash, then the Employee will be credited with one additional Restricted Stock Unit for each share of Common Stock that would have been received as a dividend had the Employee's outstanding Restricted Stock Units been shares of voting Common Stock.

(d) Additional Restricted Stock Units credited via dividend equivalents shall vest or be forfeited at the same time and on the same terms as the Restricted Stock Units to which they relate.

4. Period of Restriction. Subject to the provisions of the Plan and this Agreement, unless vested or forfeited earlier as described in Section 5, 6 or 7 of this Agreement, as applicable, the Restricted Stock Units awarded hereunder shall become vested as of the vesting date or dates indicated in the introduction to this Agreement. The period prior to the vesting date with respect to each Restricted Stock Unit is referred to as the "Period of Restriction."

5. Vesting upon Disability or Death. If, while the Restricted Stock Units are subject to a Period of Restriction, the Employee becomes disabled (as "Disability" is defined in the Company's long-term disability policy) or dies, then any portion of the Restricted Stock Units subject to a Period of Restriction shall become fully vested as of the date of such Disability or death without regard to the Period of Restriction set forth in Section 4 of this Agreement.

6. Forfeiture upon Termination due to Reason Other than Disability or Death. If, while the Restricted Stock Units are subject to a Period of Restriction, the Employee's employment with the Company (or a Subsidiary of the Company if the Employee is then in the employ of such Subsidiary) terminates for a reason other than the Employee's Disability or death, then the Employee shall forfeit any portion of the Restricted Stock Units that is subject to a Period of Restriction on the date of such employment termination.

7. Vesting upon Change of Control. In the event of a Change of Control of the Company, as defined in Section 12.12 of the Plan, pursuant to Section 12.12 of the Plan the Restricted Stock Units shall vest and shall cease to be subject to the Period of Restriction set forth in Section 4 of this Agreement.

8. Settlement of Vested Restricted Stock Units. Except as otherwise provided below under certain circumstances, as promptly as practicable after Restricted Stock Units cease to be subject to a Period of Restriction and within the thirty (30) day period ending on the date the Period of Restriction ends, the Company shall transfer to the Employee one share of voting Common Stock for each Restricted Stock Unit becoming vested at such time. The Employee shall have no rights as a stockholder with respect to the Restricted Stock Units awarded

hereunder prior to the date of issuance to the Employee of a certificate or certificates for the underlying shares of Common Stock or book entry evidence of ownership. Certificates for the shares of Common Stock shall be issued and delivered to the Employee, the Employee's legal representative, or a brokerage account for the benefit of the Employee, as the case may be, or such shares may be held in book entry form.

9. Settlement Following Disability. In the event of Disability, settlement of the Restricted Stock Units shall occur as promptly as practicable following the determination of Disability, but no later than 30 days following Disability; provided, however, that if the Restricted Stock Units are subject to the requirements of Internal Revenue Code Section 409A and the regulations thereunder ("Section 409A"), and if the Disability does not also qualify as a "disability" within the meaning provided in Section 409A, then the Restricted Stock Units shall become vested on the date of the Disability, as such term is defined in the Company's long-term disability policy, but settlement shall not occur until the date settlement would occur if the Period of Restriction had ended on the vesting date indicated in the introduction to the Agreement and as provided in Section 8.

10. Settlement Following Change of Control. In connection with or after the occurrence of a Change of Control, as defined in Section 12.12 of the Plan, settlement of the Restricted Stock Units shall occur upon or as promptly as practicable following the Change of Control but no later than 30 days following the Change of Control; provided, however, that if the Restricted Stock Units are subject to Section 409A and

(a) if the Change of Control is not also considered a "change in control" within the meaning of Section 409A, then the Restricted Stock Units shall become vested on the date of the Change of Control, but settlement shall not occur until the date settlement would occur if the Period of Restriction had ended on the Vesting Date indicated in the introduction to the Agreement and as provided in Section 8; and

(b) notwithstanding the terms of the Plan, the Committee cannot take any action with respect to such settlement that would result in settlement occurring other than as provided in this Section 10, unless otherwise in compliance with Section 409A.

11. Adjustment in Capitalization. In the event of any change in the Common Stock of the Company, the provisions of Section 12.6 of the Plan shall govern such that the number of Restricted Stock Units subject to this Agreement shall be equitably adjusted by the Committee.

12. Tax Withholding.

(a) Whenever a Period of Restriction applicable to the Employee's rights to some or all of the Restricted Stock Units lapses or another taxable event occurs, the Company or its agent shall notify the Employee of the related amount of tax that must be withheld under applicable tax laws. Regardless of any action the Company, any Subsidiary of the Company, or the Employee's employer takes or does not take with respect to any or all income tax, social security, payroll tax, payment on account or other tax-related withholding ("Tax") that the Employee is required to bear pursuant to all applicable laws, the Employee hereby acknowledges

and agrees that the ultimate liability for all Tax is and remains the responsibility of the Employee.

(b) Prior to receipt of any shares that correspond to Restricted Stock Units that vest in accordance with this Agreement, the Employee shall pay or make adequate arrangements satisfactory to the Company and/or any Subsidiary of the Company to satisfy all withholding and payment on account obligations of the Company and/or any Subsidiary of the Company. Finally, the Employee agrees to pay the Company or any Subsidiary of the Company any amount of any Tax that the Company or any Subsidiary of the Company may be required to withhold as a result of the Employee's participation in the Plan that cannot be satisfied. The Company may refuse to deliver Common Stock if the Employee fails to comply with its obligations in connection with the tax as described in this section.

(c) The Employee may elect to have shares of Common Stock withheld from the settlement to satisfy the Employee's withholding tax obligation as described in Section 12.8 of the Plan only with the prior approval of the Committee.

(d) The Company advises the Employee to consult his or her legal and/or tax advisors with respect to the tax consequences for the Employee under the Plan.

13. No Employment or Compensation Rights. Participation in the Plan is subject to all of the terms and conditions of the Plan and this Agreement. This Agreement shall not confer upon the Employee any right to continuation of employment by the Company or its Subsidiaries, nor shall this Agreement interfere in any way with the Company's or its Subsidiaries' right to terminate Employee's employment at any time. Neither the Plan nor this Agreement forms any part of any contract of employment between the Company or any Subsidiary and the Employee, and neither the Plan nor this Agreement confers on the Employee any legal or equitable rights (other than those related to the Restricted Stock Unit award) against the Company or any Subsidiary or directly or indirectly gives rise to any cause of action in law or in equity against the Company or any Subsidiary.

14. Plan Terms and Committee Authority. This Agreement and the rights of the Employee hereunder are subject to all of the terms and conditions of the Plan, as it may be amended from time to time, as well as to such rules and regulations as the Committee may adopt for administration of the Plan. It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate for the administration of the Plan and this Agreement, all of which shall be binding upon Employee. Any inconsistency between this Agreement and the Plan shall be resolved in favor of the Plan. The Employee hereby acknowledges receipt of a copy of the Plan and this Agreement.

15. Amendment or Modification. Waiver. No provision of this Agreement may be amended or waived unless such amendment or waiver is agreed to in writing, signed by the Employee and by a duly authorized officer of the Company. No waiver of any condition or provision of this Agreement shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time.

16. Governing Law and Jurisdiction. This Agreement is governed by the substantive and procedural laws of the state of Louisiana. The Employee and the Company shall submit to the exclusive jurisdiction of, and venue in, the courts in Louisiana in any dispute relating to this Agreement.

17. Section 409A. It is intended that the payments and benefits provided under this Agreement will comply with the requirements of Section 409A or an exemption therefrom. The Agreement shall be interpreted, construed, administered, and governed in a manner that effects such intent. No acceleration of the settlement of Restricted Stock Units shall be permitted unless permitted under Section 409A.

18. Recovery of Compensation. The Employee acknowledges and agrees that the compensation awarded through this Agreement shall be recoverable by the Company if required by federal law or requirements of applicable stock exchanges.

IN WITNESS WHEREOF, this Agreement has been executed by a duly authorized officer of the Company, and the Employee, to evidence his consent and approval of all the terms of this Agreement, has duly executed this Agreement, as of the Award Date specified on page one of this Agreement.

COMPANY:

PHI, INC.

By: _____

Name:

Title:

EMPLOYEE:

Al Gonsoulin

**CHIEF EXECUTIVE OFFICER' S
CERTIFICATION UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Al A. Gonsoulin, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PHI, Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact

2. necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all

3. material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and

4. procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under
a) our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: November 7, 2011

By: /s/ Al A. Gonsoulin

Al A. Gonsoulin
Chairman and Chief Executive Officer

**CHIEF FINANCIAL OFFICER' S
CERTIFICATION UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael J. McCann, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PHI, Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact

2. necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all

3. material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and

4. procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under
a) our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: November 7, 2011

By: /s/ Michael J. McCann

Michael J. McCann
Chief Financial Officer

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Al A. Gonsoulin, Chairman and Chief Executive Officer of PHI, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. the Quarterly Report on Form 10-Q for the period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2011

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

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Michael J. McCann, Chief Financial Officer of PHI, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- the Quarterly Report on Form 10-Q for the period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
1. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2011

By: /s/ Michael J. McCann _____

Michael J. McCann
Chief Financial Officer

**Condensed Consolidated
Balance Sheets (Unaudited) Sep. 30, 2011 Dec. 31, 2010
(Parenthetical) (USD \$)**

Shareholders' Equity:

<u>Common stock, par value</u>	\$ 0.10	\$ 0.10
<u>Common stock, shares authorized</u>	12,500,000	12,500,000
<u>Common stock, shares issued</u>	2,852,616	2,852,616
<u>Common stock, shares outstanding</u>	2,852,616	2,852,616

Non-Voting Common Stock

Shareholders' Equity:

<u>Common stock, par value</u>	\$ 0.10	\$ 0.10
<u>Common stock, shares authorized</u>	25,000,000	25,000,000
<u>Common stock, shares issued</u>	12,458,992	12,458,992
<u>Common stock, shares outstanding</u>	12,458,992	12,458,992

**Condensed Consolidated
Statements of Operations**
(Unaudited) (USD \$)
In Thousands, except Per
Share data

3 Months Ended

9 Months Ended

**Sep. 30,
2011**

**Sep. 30,
2010**

**Sep. 30,
2011**

**Sep. 30,
2010**

Condensed Consolidated Statements of Operations

[Abstract]

<u>Operating revenues, net</u>	\$ 145,576	\$ 135,669	\$ 401,192	\$ 396,875
<u>Gain (loss) on dispositions of assets, net</u>	(638)	98	(415)	221
<u>Other, principally interest income</u>	50	22	686	58
<u>Total</u>	144,988	135,789	401,463	397,154
<u>Expenses:</u>				
<u>Direct expenses</u>	123,622	115,812	352,271	336,120
<u>Selling, general and administrative expenses</u>	8,400	7,688	25,679	22,091
<u>Interest expense</u>	6,997	4,208	20,790	12,387
<u>Loss on debt restructuring</u>		9,521		9,521
<u>Expenses, total</u>	139,019	137,229	398,740	380,119
<u>Earnings (loss) before income taxes</u>	5,969	(1,440)	2,723	17,035
<u>Income tax expense</u>	2,387	1,003	1,089	8,393
<u>Net earnings (loss)</u>	\$ 3,582	\$ (2,443)	\$ 1,634	\$ 8,642
<u>Weighted average shares outstanding:</u>				
<u>Basic</u>	15,312	15,312	15,312	15,312
<u>Diluted</u>	15,474	15,312	15,474	15,312
<u>Net earnings (loss) per share:</u>				
<u>Basic</u>	\$ 0.23	\$ (0.16)	\$ 0.11	\$ 0.56
<u>Diluted</u>	\$ 0.23	\$ (0.16)	\$ 0.11	\$ 0.56

Document and Entity Information (USD \$)	9 Months Ended		
	Sep. 30, 2011	Oct. 28, 2011	Jun. 30, 2010
Entity Registrant Name	PHI INC		
Entity Central Index Key	0000350403		
Document Type	10-Q		
Document Period End Date	Sep. 30, 2011		
Amendment Flag	false		
Document Fiscal Year Focus	2011		
Document Fiscal Period Focus	Q3		
Current Fiscal Year End Date	--12-31		
Entity Well-known Seasoned Issuer	No		
Entity Voluntary Filers	No		
Entity Current Reporting Status	Yes		
Entity Filer Category	Accelerated Filer		
Entity Public Float			\$ 187,804,604
Entity Common Stock, Shares Outstanding		2,852,616	
Non-Voting Common Stock			
Entity Common Stock, Shares Outstanding		12,458,992	

Employee Compensation

**9 Months Ended
Sep. 30, 2011**

[Employee Compensation](#)

[\[Abstract\]](#)

[Employee Compensation](#)

6. Employee Compensation

Employee Incentive Compensation — Pursuant to our incentive compensation plans, we accrued \$0.5 million for the quarter and nine months ended September 30, 2011. We accrued \$1.0 million and \$2.3 million incentive compensation expense for the quarter and nine months ended September 30, 2010, respectively.

We also have a Safety Incentive Plan related to Occupational Safety and Health Administration recordable incidents, for which we expensed \$0.1 million and \$0.5 million for the quarter and nine months ended September 30, 2011, respectively. For the quarter and nine months ended September 30, 2010, we expensed \$0.2 million and \$0.5 million, respectively.

Segment Information

9 Months Ended
Sep. 30, 2011

[Segment Information](#)

[\[Abstract\]](#)

[Segment Information](#)

2. Segment Information

PHI is primarily a provider of helicopter services, including helicopter maintenance and repair services. We use a combination of factors to identify reportable segments as required by Accounting Standards Codification 280, "Segment Reporting." 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.

A segment's operating profit is its operating revenues less its direct expenses and selling, general and administrative expenses. Each segment has a portion of selling, general and administrative expenses that are charged directly to the segment and a portion that is allocated. Direct charges represent the vast majority of the segment's selling, general and administrative expenses. Allocated selling, general and administrative expenses are based primarily on total segment direct expenses as a percentage of total direct expenses. Unallocated overhead consists primarily of corporate selling, general, and administrative expenses that we do not allocate to the reportable segments.

Effective June 30, 2011, the Company made changes to the presentation of reportable segments to reflect changes in the way its chief operating decision maker evaluates the performance of its operations, develops strategy and allocates capital resources. These changes resulted from how our chief operating decision maker views the roles of certain corporate departments whose duties had previously been considered company-wide but now are considered to focus solely on our Oil & Gas segment's operations. The change resulted in the reclassification of certain selling, general and administrative expenses from within the Company's unallocated selling, general and administrative expenses to the Oil & Gas segment's selling, general, and administrative expenses. The total amount of the reclassification was \$0.7 million for the three months ended September 30, 2010, and \$2.9 million for the nine months ended September 30, 2010. The Company's historical segment disclosures have been recast to be consistent with the current presentation.

Oil and Gas Segment. Our Oil and Gas segment, headquartered in Lafayette, Louisiana, provides helicopter services primarily for the major integrated and independent oil and gas production companies transporting personnel and/or equipment to offshore platforms in the Gulf of Mexico. Our customers include Shell Oil Company, BP America Production Company and ConocoPhillips Company, with whom we have worked for 30 or more years, and ExxonMobil Production Co. and ENI Petroleum, with whom we have worked for more than 15 years. We currently operate 164 aircraft in this segment.

Operating revenue from the Oil and Gas segment is derived mainly from 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. Total fuel cost is included in direct expense and reimbursement of a portion of these costs above a contracted per-gallon amount is included in revenue. Our Oil and Gas operations generated approximately 66% of our total operating revenue for the quarters ended September 30, 2011 and 2010, and approximately 66% and 68% of our total operating revenue for the nine months ended September 30, 2011 and 2010, respectively.

Air Medical Segment. 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.

We provide air medical transportation services for hospitals and emergency service agencies in 17 states using approximately 88 aircraft at 64 separate locations. Our Air Medical segment operates

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, and 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. For the quarters ended September 30, 2011 and 2010, approximately 32% and 33% of our total operating revenues were generated by our Air Medical operations, respectively. For the nine months ended September 30, 2011 and 2010, approximately 32% and 30% of our total operating revenues were generated by our Air Medical operations, respectively.

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 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 a historical payment analysis of accounts fully closed, 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 \$43.6 million and \$42.2 million as of September 30, 2011 and September 30, 2010, respectively. The allowance for uncompensated care was \$38.4 million and \$36.0 million as of September 30, 2011 and September 30, 2010, respectively.

Provisions for contractual discounts and estimated uncompensated care for Air Medical operations as a percentage of gross billings are as follows:

	Revenue			
	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Gross billings	100 %	100 %	100 %	100 %
Provision for contractual discounts	54 %	50 %	54 %	52 %
Provision for uncompensated care	13 %	13 %	10 %	11 %

Net reimbursement per transport from commercial payors generally increases when a rate increase is implemented. Net reimbursement from certain commercial payors, as well as Medicare and Medicaid, does not increase proportionately with rate increases.

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

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Medicaid	15 %	15 %	15 %	16 %
Medicare	24 %	22 %	24 %	21 %
Insurance	60 %	62 %	60 %	62 %
Self-Pay	1 %	1 %	1 %	1 %

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 generated approximately 19% and 14% of the segment's revenues for the quarters ended September 30, 2011 and 2010, respectively, and approximately 19% and 16% of the segment's revenues for the nine months ended September 30, 2011 and 2010, respectively

Technical Services Segment. The Technical Services segment provides helicopter repair and overhaul services for customer owned aircraft. Costs associated with these services are primarily labor, and customers are generally billed at a percentage above cost. We currently operate five aircraft for the National Science Foundation in Antarctica under this segment.

Approximately 1% of our total operating revenues were generated by our Technical Services operations for the quarters ended September 30, 2011 and September 30, 2010. Approximately

2% of our total operating revenues were generated by our Technical Services operations for the nine months ended September 30, 2011 and September 30, 2010.

Summarized financial information concerning our reportable operating segments for the quarters and nine months ended September 30, 2011 and 2010 is as follows:

Certain reclassifications have been made to prior fiscal year amounts to conform with the current fiscal year presentation, as discussed above. These changes had no impact on consolidated net sales or operating income.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Thousands of dollars)		(Thousands of dollars)	
Segment operating revenues				
Oil and Gas	\$96,611	\$89,797	\$264,292	\$269,471
Air Medical	46,894	44,254	129,490	120,924
Technical Services	2,071	1,618	7,410	6,480
Total operating revenues	<u>145,576</u>	<u>135,669</u>	<u>401,192</u>	<u>396,875</u>
Segment direct expenses (1)				
Oil and Gas	82,196	75,679	231,573	221,777
Air Medical	39,673	38,689	115,093	108,700
Technical Services	1,753	1,444	5,605	5,643
Total direct expenses	<u>123,622</u>	<u>115,812</u>	<u>352,271</u>	<u>336,120</u>
Segment selling, general and administrative expenses				
Oil and Gas	905	814	2,670	3,410
Air Medical	1,109	954	2,896	3,253
Technical Services	8	5	27	19
Total selling, general and administrative expenses	<u>2,022</u>	<u>1,773</u>	<u>5,593</u>	<u>6,682</u>
Total direct and selling, general and administrative expenses	<u>125,644</u>	<u>117,585</u>	<u>357,864</u>	<u>342,802</u>
Net segment profit				
Oil and Gas	13,510	13,304	30,049	44,284
Air Medical	6,112	4,611	11,501	8,971
Technical Services	310	169	1,778	818
Total	<u>19,932</u>	<u>18,084</u>	<u>43,328</u>	<u>54,073</u>
Other, net (2)	(588)	120	271	279
Unallocated selling, general and administrative costs (1)	(6,378)	(5,915)	(20,086)	(15,409)
Interest expense	(6,997)	(4,208)	(20,790)	(12,387)
Loss on debt restructuring	—	(9,521)	—	(9,521)
Earnings before income taxes	<u>\$5,969</u>	<u>\$(1,440)</u>	<u>\$2,723</u>	<u>\$17,035</u>

(1) Included in direct expenses and unallocated selling, general, and administrative costs are the depreciation expense amounts below:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Oil and Gas	\$5,473	\$4,814	\$15,798	\$13,521
Air Medical	2,095	1,990	6,354	5,941
Technical Services	(1)	8	95	153

Total	<u>\$7,567</u>	<u>\$6,812</u>	<u>\$22,247</u>	<u>\$19,615</u>
Unallocated SG&A	<u>\$303</u>	<u>\$333</u>	<u>\$940</u>	<u>\$972</u>

(2) Consists of gains (losses) on dispositions of property and equipment, and other income.

Investments

**9 Months Ended
Sep. 30, 2011**

[Investments \[Abstract\]](#)
[Investments](#)

8. Investments

We classify all of our short-term investments as available-for-sale. We carry these at fair value and report unrealized gains and losses, net of taxes, in other comprehensive income until realized. These gains and losses are reflected as a separate component of shareholders' equity in our consolidated balance sheets and our consolidated statements of shareholders' equity. Cost, gains, and losses are determined using the specific identification method.

Investments consisted of the following as of September 30, 2011:

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
		(Thousands of dollars)		
Short-term investments:				
Money Market Mutual Funds	\$59,695	\$—	\$—	\$59,695
Commercial Paper	2,996	—	(7)	2,989
Corporate bonds and notes	37,340	14	(142)	37,212
Subtotal	100,031	14	(149)	99,896
Investments in other assets	2,699	—	—	2,699
Total	<u>\$102,730</u>	<u>\$ 14</u>	<u>\$(149)</u>	<u>\$102,595</u>

Investments consisted of the following as of December 31, 2010:

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
		(Thousands of dollars)		
Short-term investments:				
Money Market Mutual Funds	\$33,968	\$—	\$—	\$33,968
Commercial Paper	42,471	—	(16)	42,455
U.S. Government Agencies	8,022	—	(10)	8,012
Corporate bonds and notes	65,847	4	(214)	65,637
Subtotal	150,308	4	(240)	150,072
Investments in other assets	3,547	—	—	3,547
Total	<u>\$153,855</u>	<u>\$ 4</u>	<u>\$(240)</u>	<u>\$153,619</u>

The following table presents the cost and fair value of our debt investments based on maturities as of September 30, 2011.

	<u>Amortized Cost</u>	<u>Fair Value</u>
	(Thousands of dollars)	
Due in one year or less	\$28,589	\$28,493
Due within two years	11,747	11,708
Total	<u>\$40,336</u>	<u>\$40,201</u>

The following table presents the cost and fair value of our debt investments based on maturities as of December 31, 2010.

	<u>Amortized Cost</u>	<u>Fair Value</u>
	(Thousands of dollars)	
Due in one year or less	\$58,740	\$58,704
Due within two years	57,600	57,400

Total	<u>\$116,340</u>	<u>\$116,104</u>
-------	------------------	------------------

The following table presents the average coupon rate percentage and the average days to maturity of our debt investments as of September 30, 2011.

	Average Coupon Rate (%)	Average Days To Maturity
Commercial Paper	0.260	172
Corporate bonds and notes	5.215	273

The following table presents the fair value and unrealized losses related to our investments that have been in a continuous unrealized loss position for less than twelve months as of September 30, 2011.

	<u>Fair Value</u>	<u>Unrealized Losses</u>
	(Thousands of dollars)	
Commercial Paper	\$2,996	\$(7)
Corporate bonds and notes	31,420	(142)
	<u>\$34,416</u>	<u>\$(149)</u>

The following table presents the fair value and unrealized losses related to our investments that have been in a continuous unrealized loss position for less than twelve months as of December 31, 2010.

	<u>Fair Value</u>	<u>Unrealized Losses</u>
	(Thousands of dollars)	
Commercial Paper	\$42,471	\$(16)
U.S. Government Agencies	3,993	(10)
Corporate bonds and notes	60,501	(214)
	<u>\$106,965</u>	<u>\$(240)</u>

As of September 30, 2011 and December 31, 2010, we had no investments in a continuous unrealized loss position for more than twelve months.

We consider the decline in market value to be due to market conditions, and we do not plan to sell these investments prior to a recovery of cost. For these reasons, we do not consider any of our investments to be other than temporarily impaired at September 30, 2011. The assessment of whether an investment in a debt security has suffered an other-than-temporary impairment is based on whether the Company has the intent to sell or more likely than not will be required to sell the debt security before recovery of its amortized costs. Further, if the Company does not expect to recover the entire amortized cost basis of the debt security, an other-than-temporary impairment is considered to have occurred and it is measured by the present value of cash flows expected to be collected less the amortized cost basis (credit loss). The Company did not have any other-than-temporary impairments relating to credit losses on debt securities for the nine months ended September 30, 2011.

Shareholders Equity

**9 Months Ended
Sep. 30, 2011**

[Shareholders' Equity](#)

[\[Abstract\]](#)

[Shareholders' Equity](#)

9. Shareholders' Equity

We had an average of 15.3 million common shares outstanding for the quarters ended September 30, 2011 and 2010.

Accumulated other comprehensive loss is included in the shareholder's equity section of the condensed consolidated balance sheets of the Company. Accumulated other comprehensive loss in the condensed consolidated balance sheets included the following components:

	September 30, 2011	December 31, 2010
Unrealized gain (loss) on short-term investments	\$ (81)	\$ (142)
Changes in pension plan assets and benefit obligations	(30)	(20)
	<u>\$ (111)</u>	<u>\$ (162)</u>

Fair Value Measurements

9 Months Ended
Sep. 30, 2011

[Fair Value Measurements](#)

[\[Abstract\]](#)

[Fair Value Measurements](#)

7. Fair Value Measurements

Accounting standards require that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The following table summarizes the valuation of our short-term investments and financial instruments by the above pricing levels as of the valuation dates listed:

	<u>Total</u>	September 30, 2011	
		<u>(Level 1)</u>	<u>(Level 2)</u>
	(Thousands of dollars)		
Short-term investments:			
Money Market Mutual Funds	\$59,695	\$59,695	\$—
Commercial Paper	2,989	—	2,989
Corporate bonds and notes	37,212	—	37,212
	<u>99,896</u>	<u>59,695</u>	<u>40,201</u>

Investments in other assets	<u>2,699</u>	<u>2,699</u>	<u>—</u>
Total	<u>\$102,595</u>	<u>\$62,394</u>	<u>\$40,201</u>

	<u>Total</u>	December 31, 2010	
		<u>(Level 1)</u>	<u>(Level 2)</u>
	(Thousands of dollars)		
Short-term investments:			
Money Market Mutual Funds	\$33,968	\$33,968	\$—
Commercial Paper	42,455	—	42,455
U.S. Government Agencies	8,013	—	8,013
Corporate bonds and notes	65,636	—	65,636
	<u>150,072</u>	<u>33,968</u>	<u>116,104</u>

Investments in other assets	<u>3,547</u>	<u>3,547</u>	<u>—</u>
Total	<u>\$153,619</u>	<u>\$37,515</u>	<u>\$116,104</u>

The Company holds its short-term investments in an investment fund consisting of high quality money market instruments of governmental and private issuers, which is classified as short-term investments. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. These items are traded with sufficient frequency and volume to provide pricing on an ongoing basis. The fair values of the shares of these funds are based on observable market prices, and therefore, have been categorized in Level 1 in the fair value hierarchy. Level 2 inputs reflect quoted prices for identical assets or liabilities that are not active. These items may not be traded daily; examples include corporate bonds and U.S. government agencies. Assets are valued based on prices derived by independent third parties that use inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. Prices are reviewed and can be challenged with the independent parties and/or overridden by the Company, if it is believed such would be more reflective of fair value. Investments included in other assets, which relate to the liability for the Officers' Deferred Compensation Plan, consist mainly of multiple investment funds that are highly liquid and diversified.

Cash, accounts receivable, accounts payable and accrued liabilities all had fair values approximating their carrying amounts at September 30, 2011 and December 31, 2010.

**Condensed Consolidated
Statements of Cash Flows
(Unaudited) (USD \$)
In Thousands**

**9 Months Ended
Sep. 30, Sep. 30,
2011 2010**

Operating activities:

Net earnings \$ 1,634 \$ 8,642

Adjustments to reconcile net earnings to net cash provided by operating activities:

Depreciation 23,186 20,587

Deferred income taxes 1,122 8,058

Gain (loss) on asset dispositions, net 415 (221)

Other 832 747

Loss on debt restructuring 9,521

Changes in operating assets and liabilities (5,129) 4,169

Net cash provided by operating activities 22,060 51,503

Investing activities:

Purchase of property and equipment (66,747) (39,739)

Proceeds from asset dispositions 3,804 1,171

Purchase of short-term investments (193,557) (102,710)

Proceeds from sale of short-term investments 241,989 24,260

Payment on deposits on aircraft (13,009) (3,660)

Refund on deposits on aircraft 1,000

Net cash used in investing activities (26,520) (120,678)

Financing activities:

Proceeds from issuance of Senior Notes due 2018 300,000

Premium and costs to retire debt early (7,293)

Repayment of Senior Notes due 2013 (189,490)

Debt issuance costs (4,982)

Payments on line of credit (40,323) (37,518)

Proceeds from line of credit 44,617 37,500

Net cash provided by financing activities 4,294 98,217

(Decrease) increase in cash (166) 29,042

Cash, beginning of period 3,628 2,501

Cash, end of period 3,462 31,543

Cash paid during the period for:

Interest 15,186 13,863

Income taxes 508 614

Non-cash investing activities:

Other current liabilities and accrued payables related to purchase of property and equipment \$ 326 \$ 1,065

Commitments and Contingencies

9 Months Ended
Sep. 30, 2011

[Commitments and Contingencies \[Abstract\]](#)

[Commitments and Contingencies](#)

3. Commitments and Contingencies

Commitments — In 2010, we executed a contract to acquire ten new medium aircraft related to our new contract with a major customer. Four of these aircraft have been delivered. The remaining six are scheduled for delivery in late 2011 and through late 2012, with an aggregate acquisition cost of approximately \$73.6 million. We have traded in two aircraft in exchange for a credit of approximately \$20.3 million towards these acquisition costs, of which a credit of \$13.5 million remained as of September 30, 2011.

During the second quarter of 2011, we entered into a contract to acquire six new heavy transport aircraft for an aggregate purchase price of approximately \$148.0 million. In June 2011, we took initial delivery of the first two baseline aircraft and title passed to PHI. The aircraft will be finally delivered in November 2011 when completion services are finished. In conjunction with the initial delivery of the baseline aircraft, we obtained short-term financing for the \$45.8 million initial delivery payment, which was recorded in other current liabilities. In September, we obtained an operating lease for one aircraft for \$22.9 million. We intend to fund the second aircraft with an operating lease with a commercial bank at final delivery in November. Two of the remaining aircraft have an initial delivery date in late 2011, and the balance of the deliveries will occur in 2012. These aircraft will be utilized in our Oil and Gas segment.

Due to anticipated increases in accelerated tax depreciation from our planned purchases of aircraft, net operating losses for tax purposes will increase in future years. Because of the net operating loss increases, certain foreign tax credits and certain net operating losses available in three states will not be used and will expire due to the time limit on the carry-forward of those credits. This resulted in a charge to tax expense of \$1.5 million during the quarter ended September 30, 2010. The \$1.5 million charge resulted in a variation in the customary relationship between the Company's loss before income taxes and income tax expense for that period. For the quarter and nine months ended September 30, 2011, our income tax expense was computed at our estimated annual effective tax rate of forty percent.

Total aircraft deposits of \$24.2 million are included in Other Assets. This amount represents deposits for the medium and heavy transport aircraft contracts.

Environmental Matters — We have recorded an aggregate estimated probable liability of \$0.2 million as of September 30, 2011 for environmental response costs. The Company has conducted environmental surveys of its former Lafayette facility located at the Lafayette Regional Airport, which it vacated in 2001, and has determined that limited soil and groundwater contamination exists at the facility. The Company has installed groundwater monitoring wells at the facility and periodically monitors and reports on the contamination to the Louisiana Department of Environmental Quality ("LDEQ"). The Company previously submitted a Risk Evaluation Corrective Action Plan (RECAP) Standard Site Assessment Report to the LDEQ fully delineating the extent and type of contamination and updated the Report to include additional analytical data in April 2006. LDEQ reviewed the Assessment Report and requested a Corrective Action Plan from the Company. LDEQ approved the Corrective Action Plan ("CAP") for the remediation of the former PHI Plant I location on August 23, 2010. All Louisiana Department of Natural Resources ("DNR") approvals were received and the project began on May 16, 2011. Sampling will be performed on a quarterly basis over the next year to evaluate the effectiveness of remedial actions. Based upon the May 2003 Site Assessment Report, the April 2006 update, ongoing monitoring, and the August 2010 CAP, the Company believes the ultimate remediation costs for the former Lafayette facility will not be material to its consolidated financial position, results of operations, or cash flows.

Legal Matters — The Company is 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 liability with respect to these actions will not have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

Superior Offshore International Inc. v. Bristow Group Inc., ERA Helicopters, LLC, Seacor Holdings Inc., ERA Group Inc., ERA Aviation, Inc., and PHI, Inc., Civil Action No. 1:09-cv-00438 on the docket of the United States District Court for the District of Delaware. This purported class action was filed on June 12, 2009, on behalf of a class defined to include all direct purchasers of offshore helicopter services in the Gulf of Mexico from the defendants at any time from January 1, 2001 through December 31, 2005. The suit alleged that the defendants acted jointly to fix, maintain, or stabilize prices for offshore helicopter services during the above time frame in violation of the federal antitrust laws. The plaintiff sought unspecified treble damages, injunctive relief, costs, and attorneys' fees. On September 14, 2010, the Court granted defendants' motion to dismiss (filed on September 4, 2009) and dismissed the complaint. On November 30, 2010, the court granted plaintiff leave to amend the complaint, limited discovery to the new allegations, and established a schedule for briefing dispositive motions. The defendants filed a motion for summary judgment on February 11, 2011. On June 23, 2011, the court granted the defendants' motion for summary judgment, entered final judgment in favor of the defendants, and dismissed all of the plaintiff's claims. On July 22, 2011, the plaintiff filed a notice of appeal with the U.S. Court of Appeals, Third Circuit, and on October 11, 2011 filed its appeal brief. Given that plaintiff has not succeeded in advancing its claim beyond dispositive motions, management currently believes that the likelihood of loss to the Company from the litigation is remote.

As previously reported, the Company has been involved in Federal Court litigation in the Western District of Louisiana and the Fifth Circuit Court of Appeals with the Office and Professional Employees International Union ("OPEIU"), the union representing the Company's domestic pilots. This litigation involves claims of bad faith bargaining, compensation of striking pilots both at the time of the strike and upon their return to work under both the Railway Labor Act ("RLA") and Louisiana state law, and the terms of employment for the Company's pilots since the strike ended including non-payment of retention bonuses. After approximately two years of bargaining between the Company and OPEIU for a second collective bargaining agreement, including negotiations mediated by the National Mediation Board, both parties entered a self-help period as defined by the applicable labor law, the RLA. At that time the pilots commenced a strike in September 2006 and immediately prior to that strike the Company implemented its own terms and conditions of employment for the pilots. The strike ended in November 2006 and a court-approved return to work process began in January 2007 for those pilots who had not already returned to work or left the Company's employment. This process was essentially completed in April 2007. The Company's pilots continue to work under the terms and conditions of employment determined by the Company since the strike began. By Order dated July 9, 2010, the Court dismissed both the Company's and OPEIU's claims that the other had violated the RLA by bargaining in bad faith before exercising self-help. By Order dated July 30, 2010, the Court dismissed all claims that the Company violated the RLA in the manner in which it returned pilots to work following the strike. Also, the Court dismissed all but claims by 47 pilots under Louisiana state law. On August 27, 2010, the OPEIU and the individual pilot plaintiffs filed a notice of appeal with the Fifth Circuit Court of Appeals. Then, by Order entered September 27, 2010, the district court dismissed the Louisiana-law claims of the remaining 47 individual pilots. On October 22, 2010, the unions and the individual pilots filed a second notice of appeal to the Fifth Circuit Court of Appeals, by which they appeal the district court's dismissal of all their RLA and Louisiana-law wage payment claims against PHI. On November 5, 2010, PHI filed a cross-appeal of the district court's dismissal of PHI's bad-faith bargaining claim against the unions. By orders dated September 12, 2011, the Fifth Circuit Court of Appeals affirmed the dismissal of all claims brought against PHI by the OPEIU and the individual pilots, whether under the RLA or Louisiana law. That Court also remanded the Return-to-Work case to the district court for the sole purpose of calculating court costs payable to PHI. The OPEIU and individual pilots did not seek rehearing of the Fifth Circuit's judgment within the time permitted by the rules of appellate procedure. However, they have until approximately December 2, 2011 to file a petition for a writ of certiorari from the United States Supreme Court.

On December 31, 2009, the OPEIU filed another case against the Company in the Western District of Louisiana in which the OPEIU asserts that its acceptance in 2009 of the terms and

conditions of employment for the Company's pilots initially implemented by the Company prior to the strike has created a binding collective bargaining agreement and that the Company has inappropriately made unilateral revisions to those terms including failing to pay a retention bonus. The Court administratively stayed this case pending the completion of appellate briefing in the consolidated cases, which briefing concluded on April 15, 2011. The Court further administratively stayed this case pending the appellate court's decision in the consolidated cases described above, which cases have now been resolved by the September 12 judgments of the Fifth Circuit Court of Appeals described above. We therefore expect the district court to lift the administrative stay of this case at any time (the Court has not yet done so) and for discovery and/or motion practice to commence in this case. Management does not expect the outcome of this litigation to have a material effect on our consolidated financial position, results of operations or cash flows.

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 leases. Some of the facility leases contain renewal options. Aircraft leases contain purchase options exercisable at certain dates in the lease agreements.

At September 30, 2011, we had approximately \$156.9 million in aggregate commitments under operating leases of which approximately \$7.2 million is payable through December 31, 2011, and a total of \$28.3 million is payable over the twelve months ending September 30, 2012. The total lease commitments include \$142.3 million for aircraft and \$14.6 million for facility lease commitments.

As of September 30, 2011, we had options to purchase aircraft under lease becoming exercisable in 2012 through 2014 for the following aggregate purchase prices, respectively: \$45.0 million, \$38.8 million and \$114.4 million. Subject to market conditions, we intend to exercise these options as they become exercisable. There are no other lease purchase options in 2011.

Long-term Debt

**9 Months Ended
Sep. 30, 2011**

[Long-term Debt \[Abstract\]](#)

[Long-term Debt](#)

4. Long-term Debt

As of September 30, 2011, our total long-term indebtedness was \$335.4 million, consisting of \$300 million of our 8.625% Senior Notes due 2018 (the "8.625% Senior Notes"), and \$35.4 million borrowed under our revolving credit facility.

On September 23, 2010, we issued \$300 million of 8.625% Senior Notes that mature in 2018. Interest is payable semi-annually in arrears on April 15 and October 15 of each year. Net proceeds of \$295.5 million were used to repurchase \$189.5 million of our \$200 million outstanding 7.125% Senior Notes due 2013 (the "7.125% Senior Notes") pursuant to a tender offer and consent solicitation that also settled on September 23, 2010. Our total cost to repurchase those notes was \$9.5 million, including the tender offer premium of \$7.6 million and \$1.9 million of unamortized issuance costs. We called for redemption on October 25, 2010 the remaining \$10.5 million of 7.125% Senior Notes outstanding, at a redemption price of 103.563% of their face amount plus accrued interest.

Mr. Al A. Gonsoulin, our Chairman and CEO and the Matzke Family Trust, of which Richard Matzke, one of our directors, is trustee, purchased \$2 million and \$1 million of the 8.625% Senior Notes, respectively.

The 8.625% Senior Notes are unconditionally guaranteed on a senior basis by our domestic subsidiaries, and are general, unsecured obligations of ours and the subsidiary guarantors. We have the option to redeem some or all of the notes at any time on or after October 15, 2014 at specified redemption prices, and prior to that time pursuant to certain make-whole provisions.

The 8.625% Senior Notes contain restrictive covenants, including limitations on incurring indebtedness, creating liens, selling assets and entering into certain transactions with affiliates. The covenants limit our ability to pay cash dividends on common stock, repurchase or redeem common or preferred equity, prepay subordinated debt and make certain investments. There are no restrictions on dividends from a subsidiary to the parent company, nor any restrictions on contributions from the parent company to a subsidiary. Upon the occurrence of a "Change in Control" (as defined in the indenture governing the notes), each holder of the notes will have the right to require us purchase that holder's notes for a cash price equal to 101% of their principal amount. Upon the occurrence of an "Event of Default" (as defined in the indenture), the trustee or the holders of the notes may declare all of the outstanding notes to be due and payable immediately. We were in compliance with the covenants applicable to the notes as of September 30, 2011.

On September 26, 2011, we amended our senior secured revolving credit facility to extend the maturity date from September 1, 2012 to September 1, 2013. The facility permits borrowings up to \$75 million, contains a borrowing base of 80% of eligible receivables (as defined in the credit agreement) and 50% of the value of parts. The interest rate is the prime rate plus 100 basis points. We may prepay the revolving credit facility at any time in whole or in part without premium or penalty. All obligations under the revolving credit facility are secured by a perfected first priority security interest in all of our eligible receivables and parts, and are guaranteed by certain of our domestic subsidiaries.

As of September 30, 2011, we had \$35.4 million in borrowings under the facility. As of December 31, 2010, we had \$31.1 million in borrowings under the facility. We maintain a separate letter of credit facility that had \$5.5 million in letters of credit outstanding as of September 30, 2011 and December 31, 2010. During the nine months ended September 30, 2011 and 2010, the weighted average effective interest rate on amounts borrowed under the revolving credit facility was 4.25%. We reviewed interest expense for the quarters ended September 30, 2011 and 2010 that could be capitalized for certain projects and any such amounts were immaterial.

The revolving credit facility includes financial covenants related to working capital, funded debt to consolidated net worth, and consolidated net worth, and other covenants including restrictions on additional debt, liens and a change of control. Events of default include a change of control, a default in any other material credit agreement, including the 8.625% Senior Notes, and customary events of default. As of September 30, 2011, we were in compliance with all of the covenants under the revolving credit facility.

Our \$300 million outstanding 8.625% Senior Notes bear interest at a fixed rate of 8.625% and therefore changes in market interest rates do not affect our interest payment obligations on the notes. The fair market value of our 8.625% 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, 2011, the market value of the notes was approximately \$300.3 million, based on quoted market indications.

Valuation Accounts

9 Months Ended
Sep. 30, 2011

[Valuation Accounts](#)

[\[Abstract\]](#)

[Valuation Accounts](#)

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, 2011 and December 31, 2010.

Revenues related to emergency flights generated by the Company's Air Medical segment are recorded net of contractual allowances under agreements with third party payors and estimated uncompensated care when the services are provided. The allowance for contractual discounts was \$43.6 million and \$34.7 million as of September 30, 2011 and December 31, 2010, respectively. The allowance for uncompensated care was \$38.4 million and \$39.3 million as of September 30, 2011 and December 31, 2010, respectively.

The allowance for contractual discounts and estimated uncompensated care as a percentage of gross accounts receivable are as follows:

	September 30, 2011		December 31, 2010	
Gross Accounts Receivable	100	%	100	%
Allowance for Contractual Discounts	37	%	33	%
Allowance for Uncompensated Care	33	%	37	%

We have also established valuation reserves related to obsolete and excess inventory. The inventory valuation reserves were \$12.4 million at September 30, 2011 and \$11.4 million at December 31, 2010.

Condensed Consolidated Statements Of Shareholders' Equity (Unaudited) (USD \$) In Thousands	Total	Voting Common Stock	Non-Voting Common Stock	Additional Paid-in Capital	Accumulated Other Com-prehensive Income (Loss)	Retained Earnings
<u>Balance at Dec. 31, 2009</u>	\$ 465,448	\$ 285	\$ 1,246	\$ 291,403	\$ (13)	\$ 172,527
<u>Balance, shares at Dec. 31, 2009</u>		2,853	12,459			
<u>Net earnings</u>	8,642					8,642
<u>Changes in pension plan assets and benefit obligations</u>	(7)				(7)	
<u>Total comprehensive income</u>	8,635					
<u>Balance at Sep. 30, 2010</u>	474,083	285	1,246	291,403	(20)	181,169
<u>Balance, shares at Sep. 30, 2010</u>		2,853	12,459			
<u>Balance at Dec. 31, 2010</u>	472,416	285	1,246	291,403	(162)	179,644
<u>Balance, shares at Dec. 31, 2010</u>		2,853	12,459			
<u>Net earnings</u>	1,634					1,634
<u>Unrealized gain on short-term investments</u>	61				61	
<u>Changes in pension plan assets and benefit obligations</u>	(10)				(10)	
<u>Total comprehensive income</u>	1,685					
<u>Balance at Sep. 30, 2011</u>	\$ 474,101	\$ 285	\$ 1,246	\$ 291,403	\$ (111)	\$ 181,278
<u>Balance, shares at Sep. 30, 2011</u>		2,853	12,459			

General

**9 Months Ended
Sep. 30, 2011**

[General \[Abstract\]](#)

[General](#)

1. General

The accompanying unaudited condensed consolidated financial statements include the accounts of PHI, Inc. and subsidiaries (“PHI” or the “Company” or “we” or “our”). In the opinion of management, these condensed consolidated 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 consolidated financial statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 and the accompanying notes.

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, 2010. 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.

**Condensed Consolidating
Financial Information**

**Condensed Consolidating
Financial Information**

[Abstract]

**Condensed Consolidating
Financial Information**

**9 Months Ended
Sep. 30, 2011**

10. Condensed Consolidating Financial Information

PHI, Inc. issued 8.625% Senior Notes that are fully and unconditionally guaranteed on a joint and several, senior basis by all of our domestic subsidiaries. All of our domestic subsidiaries are 100% owned.

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 eliminating entries eliminate investments in subsidiaries, intercompany balances, and intercompany revenues and expenses. The condensed consolidating financial statements have been prepared on the same basis as the consolidated financial statements of PHI, Inc. The equity method is followed by the parent company within these financials.

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

	September 30, 2011			
	<u>Parent Company Only</u>	<u>Guarantor Subsidiaries(1)</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS				
Current Assets:				
Cash	\$2,799	\$ 663	\$ —	\$ 3,462
Short-term investments	99,896	—	—	99,896
Accounts receivable — net	97,968	10,119	—	108,087
Intercompany receivable	—	90,245	(90,245)	—
Inventories of spare parts — net	57,139	—	—	57,139
Other current assets	12,958	10	—	12,968
Income taxes receivable	926	—	—	926
Total current assets	<u>271,686</u>	<u>101,037</u>	<u>(90,245)</u>	<u>282,478</u>
Investment in subsidiaries and other	79,798	—	(79,798)	—
Other assets	33,106	22	—	33,128
Property and equipment — net	<u>654,497</u>	<u>10,722</u>	<u>—</u>	<u>665,219</u>
Total assets	<u>\$1,039,087</u>	<u>\$ 111,781</u>	<u>\$ (170,043)</u>	<u>\$ 980,825</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	\$19,134	\$ 1,623	\$ —	\$ 20,757
Accrued liabilities	29,553	7,653	—	37,206
Other current liabilities	22,900	—	—	22,900
Intercompany payable	<u>90,245</u>	<u>—</u>	<u>(90,245)</u>	<u>—</u>
Total current liabilities	<u>161,832</u>	<u>9,276</u>	<u>(90,245)</u>	<u>80,863</u>
Long-term debt	335,368	—	—	335,368

Deferred income taxes and other long-term liabilities	67,786	22,707	—	90,493
Shareholders' Equity:				
Common stock and paid-in capital	292,934	2,674	(2,674)	292,934
Accumulated other comprehensive loss	(111)	—	—	(111)
Retained earnings	181,278	77,124	(77,124)	181,278
Total shareholders' equity	474,101	79,798	(79,798)	474,101
Total liabilities and shareholders' equity	\$1,039,087	\$ 111,781	\$ (170,043)	\$ 980,825

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

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

	December 31, 2010			
	Parent Company Only	Guarantor Subsidiaries(1)	Eliminations	Consolidated
ASSETS				
Current Assets:				
Cash	\$2,957	\$ 671	\$ —	\$ 3,628
Short-term investments	150,072	—	—	150,072
Accounts receivable — net	81,393	8,266	—	89,659
Intercompany receivable	—	79,810	(79,810)	—
Inventories of spare parts — net	59,336	—	—	59,336
Other current assets	16,224	9	—	16,233
Income taxes receivable	558	—	—	558
Total current assets	310,540	88,756	(79,810)	319,486
Investment in subsidiaries and others	75,114	—	(75,114)	—
Other assets	29,099	21	—	29,120
Property and equipment, net	583,091	13,442	—	596,533
Total assets	\$997,844	\$ 102,219	\$ (154,924)	\$ 945,139
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	\$22,191	\$ 213	\$ —	\$ 22,404
Accrued liabilities	23,482	4,837	—	28,319
Intercompany payable	79,810	—	(79,810)	—
Total current liabilities	125,483	5,050	(79,810)	50,723
Long-term debt	331,074	—	—	331,074
Deferred income taxes and other long-term liabilities	68,871	22,055	—	90,926
Shareholders' Equity:				
Common stock and paid-in capital	292,934	2,674	(2,674)	292,934
Accumulated other comprehensive loss	(162)	—	—	(162)

Retained earnings	179,644	72,440	(72,440)	179,644
Total shareholders' equity	472,416	75,114	(75,114)	472,416
Total liabilities and shareholders' equity	\$997,844	\$ 102,219	\$ (154,924)	\$ 945,139

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

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

	For the quarter ended September 30, 2011			
	Parent Company Only	Guarantor Subsidiaries(1)	Eliminations	Consolidated
Operating revenues, net	\$130,180	\$ 15,396	\$ —	\$ 145,576
Management fees	616	—	(616)	—
Gain on dispositions of assets, net	(638)	—	—	(638)
Other, principally interest income	50	—	—	50
	<u>130,208</u>	<u>15,396</u>	<u>(616)</u>	<u>144,988</u>
Expenses:				
Direct expenses	111,133	12,489	—	123,622
Management fees	—	616	(616)	—
Selling, general and administrative expenses	8,076	324	—	8,400
Equity in net income of consolidated subsidiaries	(1,181)	—	1,181	—
Interest expense	6,997	—	—	6,997
	<u>125,025</u>	<u>13,429</u>	<u>565</u>	<u>139,019</u>
Earnings before income taxes	5,183	1,967	(1,181)	5,969
Income tax expense	1,601	786	—	2,387
Net earnings	<u>\$3,582</u>	<u>\$ 1,181</u>	<u>\$ (1,181)</u>	<u>\$ 3,582</u>

	For the quarter ended September 30, 2010			
	Parent Company Only	Guarantor Subsidiaries(1)	Eliminations	Consolidated
Operating revenues, net	\$120,381	\$ 15,288	\$ —	\$ 135,669
Management fees	611	—	(611)	—
Gain on dispositions of assets, net	98	—	—	98
Other, principally interest income	22	—	—	22
	<u>121,112</u>	<u>15,288</u>	<u>(611)</u>	<u>135,789</u>
Expenses:				
Direct expenses	102,934	12,878	—	115,812
Management fees	—	611	(611)	—
Selling, general and administrative expenses	7,371	317	—	7,688
Equity in net income of consolidated subsidiaries	(889)	—	889	—

Interest expense	4,208	—	—	4,208
Loss on debt restructuring	9,521	—	—	9,521
	<u>123,145</u>	<u>13,806</u>	<u>278</u>	<u>137,229</u>
(Loss) earnings before income taxes	(2,033)	1,482	(889)	(1,440)
Income tax expense	410	593	—	1,003
Net (loss) earnings	<u>\$ (2,443)</u>	<u>\$ 889</u>	<u>\$ (889)</u>	<u>\$ (2,443)</u>

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

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

	<u>For the nine months ended September 30, 2011</u>			
	<u>Parent Company Only</u>	<u>Guarantor Subsidiaries(1)</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenues, net	\$354,614	\$ 46,578	\$ —	\$ 401,192
Management fees	1,863	—	(1,863)	—
Gain on dispositions of assets, net	(415)	—	—	(415)
Other, principally interest income	686	—	—	686
	<u>356,748</u>	<u>46,578</u>	<u>(1,863)</u>	<u>401,463</u>
Expenses:				
Direct expenses	316,236	36,035	—	352,271
Management fees	—	1,863	(1,863)	—
Selling, general and administrative expenses	24,806	873	—	25,679
Equity in net income of consolidated subsidiaries	(4,684)	—	4,684	—
Interest expense	20,790	—	—	20,790
	<u>357,148</u>	<u>38,771</u>	<u>2,821</u>	<u>398,740</u>
Earnings before income taxes	(400)	7,807	(4,684)	2,723
Income tax expense	(2,034)	3,123	—	1,089
Net earnings	<u>\$ 1,634</u>	<u>\$ 4,684</u>	<u>\$ (4,684)</u>	<u>\$ 1,634</u>

	<u>For the nine months ended September 30, 2010</u>			
	<u>Parent Company Only</u>	<u>Guarantor Subsidiaries(1)</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenues, net	\$347,873	\$ 49,002	\$ —	\$ 396,875
Management fees	1,960	—	(1,960)	—
Gain on dispositions of assets, net	221	—	—	221
Other, principally interest income	58	—	—	58

	<u>350,112</u>	<u>49,002</u>	<u>(1,960)</u>	<u>397,154</u>
Expenses:				
Direct expenses	296,468	39,652	—	336,120
Management fees	—	1,960	(1,960)	—
Selling, general and administrative expenses	21,008	1,083	—	22,091
Equity in net income of consolidated subsidiaries	(3,784)	—	3,784	—
Interest expense	12,387	—	—	12,387
Loss on debt restructuring	9,521	—	—	9,521
	<u>335,600</u>	<u>42,695</u>	<u>1,824</u>	<u>380,119</u>
Earnings before income taxes	14,512	6,307	(3,784)	17,035
Income tax expense	<u>5,870</u>	<u>2,523</u>	<u>—</u>	<u>8,393</u>
Net earnings	<u>\$8,642</u>	<u>\$ 3,784</u>	<u>\$ (3,784)</u>	<u>\$ 8,642</u>

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

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

	<u>For the nine months ended September 30, 2011</u>			
	<u>Parent Company Only</u>	<u>Guarantor Subsidiaries(1)</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net cash provided by (used in) operating activities	\$22,068	\$ (8)	\$ —	\$ 22,060
Investing activities:				
Purchase of property and equipment	(66,747)	—	—	(66,747)
Proceeds from asset dispositions	3,804	—	—	3,804
Purchase of short-term investments	(193,557)	—	—	(193,557)
Proceeds from sale of short-term investments	241,989	—	—	241,989
Payments for deposits on aircraft	(12,009)	—	—	(12,009)
Net cash used in investing activities	<u>(26,520)</u>	<u>—</u>	<u>—</u>	<u>(26,520)</u>
Financing activities:				
Payment on line of credit, net	4,294	—	—	4,294
Net cash provided by financing activities	<u>4,294</u>	<u>—</u>	<u>—</u>	<u>4,294</u>
Increase in cash	(158)	(8)	—	(166)
Cash, beginning of period	2,957	671	—	3,628
Cash, end of period	<u>\$2,799</u>	<u>\$ 663</u>	<u>\$ —</u>	<u>\$ 3,462</u>

For the nine months ended September 30, 2010

	Parent Company Only	Guarantor Subsidiaries(1)	Eliminations	Consolidated
Net cash provided by operating activities	\$49,451	\$ 2,052	\$ —	\$ 51,503
Investing activities:				
Purchase of property and equipment	(37,551)	(2,188)	—	(39,739)
Proceeds from asset dispositions	1,171	—	—	1,171
Purchase of short-term investments	(102,710)	—	—	(102,710)
Proceeds from sale of short-term investments	24,260	—	—	24,260
Payments for deposits on aircraft	(3,660)	—	—	(3,660)
Net cash used in investing activities	(118,490)	(2,188)	—	(120,678)
Financing activities:				
Proceeds from issuance of Senior Notes due 2018	300,000	—	—	300,000
Premium and costs to retire debt early	(7,293)	—	—	(7,293)
Repayment of Senior Notes due 2013	(189,490)	—	—	(189,490)
Debt issuance costs	(4,982)	—	—	(4,982)
Proceeds (payment) line of credit, net	(18)	—	—	(18)
Net cash provided by financing activities	98,217	—	—	98,217
Increase in cash	29,178	(136)	—	29,042
Cash, beginning of period	1,678	823	—	2,501
Cash, end of period	<u>\$30,856</u>	<u>\$ 687</u>	<u>\$ —</u>	<u>\$ 31,543</u>

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

**Condensed Consolidated
Balance Sheets (Unaudited)
(USD \$)
In Thousands**

Sep. 30, 2011 Dec. 31, 2010

Current Assets:

<u>Cash</u>	\$ 3,462	\$ 3,628
<u>Short-term investments</u>	99,896	150,072

Accounts receivable - net

<u>Trade</u>	107,326	84,768
<u>Other</u>	761	4,891
<u>Inventories of spare parts - net</u>	57,139	59,336
<u>Other current assets</u>	12,968	16,233
<u>Income taxes receivable</u>	926	558
<u>Total current assets</u>	282,478	319,486

<u>Other</u>	33,128	29,120
<u>Property and equipment - net</u>	665,219	596,533
<u>Total assets</u>	980,825	945,139

Current Liabilities:

<u>Accounts payable</u>	20,757	22,404
<u>Accrued liabilities</u>	37,206	28,319
<u>Other current liabilities</u>	22,900	0
<u>Total current liabilities</u>	80,863	50,723
<u>Long-term debt</u>	335,368	331,074
<u>Deferred income taxes</u>	83,110	81,988
<u>Other long-term liabilities</u>	7,383	8,938
<u>Total liabilities</u>	506,724	472,723

Commitments and contingencies (Note 3)

Shareholders' Equity:

<u>Common Stock</u>	285	285
<u>Additional paid-in capital</u>	291,403	291,403
<u>Accumulated other comprehensive loss</u>	(111)	(162)
<u>Retained earnings</u>	181,278	179,644
<u>Total shareholders' equity</u>	474,101	472,416
<u>Total liabilities and equity</u>	980,825	945,139

Non-Voting Common Stock

Shareholders' Equity:

<u>Common Stock</u>	\$ 1,246	\$ 1,246
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