
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: September 30, 2003

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

PETROLEUM HELICOPTERS, INC.

(Exact name of registrant as specified in its charter)

Louisiana
(State or other jurisdiction of incorporation or organization)

72-0395707
(I.R.S. Employer Identification No.)

2001 SE Evangeline Thruway
Lafayette, Louisiana
(Address of principal executive offices)

70508
(Zip Code)

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

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

Yes: No:

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes: No:

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

<u>Class</u>	<u>Outstanding at October 31, 2003</u>
Voting Common Stock	2,851,866 shares
Non-Voting Common Stock	2,531,392 shares

PETROLEUM HELICOPTERS, INC.

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

PETROLEUM HELICOPTERS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

(Thousands of dollars, except share data)

(Unaudited)

	September 30, 2003	December 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 19,145	\$ 17,674
Accounts receivable -- net of allowance:		
Trade	40,891	40,234
Other	781	579
Inventory, net	40,156	37,375
Other current assets	7,406	5,753
Refundable income taxes	870	2,236
Total current assets	109,249	103,851
Property and equipment, net	254,734	252,577
Other	10,815	10,279
Total Assets	\$ 374,798	\$ 366,707
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 13,753	\$ 14,772
Accrued liabilities	17,421	11,893
Accrued vacation payable	4,928	3,931
Notes payable	2,000	--
Income taxes payable	--	504
Total current liabilities	38,102	31,100
Long-term debt	200,000	200,000
Deferred income taxes	24,525	24,249
Other long-term liabilities	5,898	6,504
Commitments and contingencies (Note 3)		
Shareholders' Equity		
Voting common stock -- par value of \$0.10; authorized shares of 12,500,000	285	285
Non-voting common stock -- par value of \$0.10; authorized shares of 12,500,000	253	253
Additional paid-in capital	15,112	15,062
Retained earnings	90,623	89,254
Total shareholders' equity	106,273	104,854
Total Liabilities and Shareholders' Equity	\$ 374,798	\$ 366,707

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

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

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Operating revenues	\$ 69,640	\$ 69,663	\$ 200,586	\$ 208,978
Gain (loss) on disposition of property and equipment	273	(29)	1,711	819
Other	165	159	533	1,251
	<u>70,078</u>	<u>69,793</u>	<u>202,830</u>	<u>211,048</u>
Expenses:				
Direct expenses	59,952	55,244	170,758	173,165
Selling, general, and administrative expenses	5,048	4,035	14,786	14,067
Interest expense	4,984	4,995	14,972	12,286
	<u>69,984</u>	<u>64,274</u>	<u>200,516</u>	<u>199,518</u>
Earnings before income taxes	94	5,519	2,314	11,530
Income taxes	38	2,209	925	4,612
Net earnings	<u>\$ 56</u>	<u>\$ 3,310</u>	<u>\$ 1,389</u>	<u>\$ 6,918</u>
Weighted average common shares outstanding:				
Basic	5,383	5,362	5,383	5,320
Diluted	5,486	5,461	5,476	5,427
Net earnings per common share:				
Basic	\$ 0.01	\$ 0.62	\$ 0.26	\$ 1.30
Diluted	\$ 0.01	\$ 0.61	\$ 0.25	\$ 1.27

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

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

	Nine Months Ended September 30,	
	2003	2002
Cash flows from operating activities:		
Net earnings	\$ 1,389	\$ 6,918
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	19,815	15,699
Deferred income taxes	276	3,835
Gain on asset dispositions	(1,711)	(819)
Bad debt recovery related to notes receivable	--	(731)
Other	(15)	(21)
Changes in operating assets and liabilities	(911)	6,991
Net cash provided by operating activities	18,843	31,872
Cash flows from investing activities:		
Proceeds from notes receivable	--	1,629
Purchase of property and equipment	(23,420)	(26,277)
Purchase of aircraft previously leased	--	(118,076)
Proceeds from asset dispositions	3,998	3,226
Net cash used in investing activities	(19,422)	(139,498)
Cash flows from financing activities:		
Proceeds from long-term debt	--	200,000
Less fees and expenses	--	(5,835)
Proceeds from notes payable	2,000	--
Payments on long-term debt and capital lease obligations	--	(5,845)
Payment of long term debt from bond proceeds	--	(60,771)
Payment of interest rate swap settlement	--	(1,575)
Proceeds from exercise of stock options	50	1,200
Net cash provided by financing activities	2,050	127,174
Increase in cash and cash equivalents	1,471	19,548
Cash and cash equivalents, beginning of period	17,674	5,435
Cash and cash equivalents, end of period	\$ 19,145	\$ 24,983
Supplemental Disclosures Cash Flow Information:		
Interest paid (excluding interest rate swap settlement)	\$ 9,640	\$ 2,134
Taxes paid, net	\$ 1,124	\$ 2,754

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

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

1. General

The accompanying unaudited condensed consolidated financial statements include the accounts of Petroleum Helicopters, Inc. and subsidiaries ("PHI" or the "Company"). In the opinion of management, these financial statements reflect all adjustments, consisting of only normal, recurring adjustments, necessary to present fairly the financial results for the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and the accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company's financial results, particularly as they relate to the Company's Domestic Oil & 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, 2002. 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.

Reclassifications

Certain reclassifications have been made in the prior period financial statements in order to conform to the classifications adopted for reporting in 2003. Such reclassifications include an adjustment to increase operating revenues and direct expenses by \$1.5 million for the three months ended September 30, 2002 and \$4.3 million for the nine months ended September 30, 2002. This reclassification did not affect earnings before income taxes, net earnings or earnings per share.

2. Segment Information

The Company has identified four principal segments: Domestic Oil and Gas, International, Air Medical, and Technical Services. The Domestic Oil and Gas segment primarily provides helicopter services to oil and gas customers operating in the Gulf of Mexico. The International segment provides helicopter services in various foreign countries to oil and gas customers, which primarily consists of operations in the west coast of Africa. The Air Medical segment provides helicopter services to hospitals and medical programs in several U.S. states. The Company's Air Evac subsidiary is included in the Air Medical segment. The Technical Services segment provides helicopter repair and overhaul services for a variety of helicopter owners and operators.

Effective July 1, 2002, the Company no longer allocates interest expense to its segments when evaluating operating performance. All results prior to July 1, 2002 have been restated to remove interest expense from the segment operating results.

Segment operating income is operating revenues less direct expenses and selling, general, and administrative costs allocated to the operating segment. Unallocated overhead consists primarily of corporate selling, general, and administrative costs that the Company does not allocate to the operating segments.

Summarized financial information concerning the Company's reportable operating segments for the quarter and nine months ended September 30, 2003 and 2002 is as follows (in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Segment operating revenues				
Domestic Oil and Gas	\$ 49,346	\$ 49,047	\$138,121	\$138,018
International	4,658	4,939	14,667	16,381
Air Medical	11,736	12,265	34,777	36,521
Technical Services	3,900	3,412	13,021	18,058
Total operating revenues	<u>\$ 69,640</u>	<u>\$ 69,663</u>	<u>\$200,586</u>	<u>\$208,978</u>
Segment operating profit (loss):				
Domestic Oil and Gas	\$ 5,205	\$ 8,104	\$ 13,900	\$ 20,319
International	(47)	492	(729)	1,822
Air Medical	2,464	4,244	8,703	8,267
Technical Services	976	849	3,301	2,909
Total segment operating profit	<u>8,598</u>	<u>13,689</u>	<u>25,175</u>	<u>33,317</u>
Other, net ⁽¹⁾	438	130	2,244	2,070
Interest	(4,984)	(4,995)	(14,972)	(12,286)
Unallocated overhead	<u>(3,958)</u>	<u>(3,305)</u>	<u>(10,133)</u>	<u>(11,571)</u>
Earnings before income taxes	<u>\$ 94</u>	<u>\$ 5,519</u>	<u>\$ 2,314</u>	<u>\$ 11,530</u>

⁽¹⁾ Includes gains on dispositions of property and equipment and other income.

3. Commitments and Contingencies

Environmental Matters - The Company has an aggregate estimated liability of \$0.8 million as of September 30, 2003 for environmental remediation costs that are probable and estimable. The Company has conducted environmental surveys of the Lafayette facility, which it vacated in 2001, and has determined that contamination exists at that facility. To date, borings have been installed to determine the type and extent of contamination. Preliminary results indicate limited soil and groundwater impacts. Once the extent and type of contamination are fully defined, a risk evaluation in accordance with the Louisiana Risk Evaluation/Corrective Action Plan ("RECAP") standard will be submitted and evaluated by Louisiana Department of Environmental Quality ("LDEQ"). At that point, LDEQ will establish what cleanup standards must be met at the site. When the process is complete, the Company will be in a position to develop the appropriate remediation plan and the resulting cost of remediation. However, the Company has not recorded any estimated liability for remediation of contamination and, based on preliminary surveys and ongoing monitoring, the Company believes the ultimate remediation costs for the Lafayette facility will not be material to the Company's consolidated financial statements.

During the quarter ended September 30, 2003, the Company obtained favorable sampling results at certain locations. As a result of these samples and responses received from regulatory agencies, the Company determined that the cost of remediation at these locations would be less than originally anticipated, resulting in a reduction of the estimated environmental liability of \$0.3 million. During the nine months ended September 30, 2003, the estimated environmental liability has also been reduced by payments of \$0.4 million.

Legal Matters - The Company is named as a defendant in various legal actions that have arisen in the ordinary course of its business and have not been finally adjudicated. The amount, if any, of ultimate liability with respect to such matters cannot be determined. In the opinion of management, the amount of

the ultimate liability with respect to these actions will not have a material adverse effect on the Company's consolidated financial statements.

Long-Term Debt - On April 23, 2002, the Company issued Notes of \$200 million that have an interest rate of 9 3/8% payable semi-annually on May 1 and November 1 of each year, beginning November 1, 2002, and mature in May 2009. The Notes contain certain covenants, including limitations on indebtedness, liens, dividends, repurchases of capital stock and other payments affecting restricted subsidiaries, issuance and sales of restricted subsidiary stock, dispositions of proceeds of asset sales, and mergers and consolidations or sales of assets. As of September 30, 2003, the Company was in compliance with covenants.

Also on April 23, 2002, the Company entered into a new credit agreement with a commercial bank for a \$50 million revolving credit and letter of credit facility. The credit agreement permits both prime rate based borrowings and London Interbank offer rate ("LIBOR") rate borrowings plus a spread. The spread for LIBOR borrowings ranges from 2.0% to 3.0%. Any amounts outstanding under the revolving credit facility are due July 31, 2004. The Company may also obtain letters of credit issued under the credit facility up to \$5.0 million with a 0.125% fee payable on the amount of letters of credit issued. As of September 30, 2003, the Company had \$1.0 million of borrowings outstanding (included in notes payable) and \$1.4 million in letters of credit outstanding under the revolving credit facility. The \$1.0 million was paid subsequent to quarter end. As of December 31, 2002, the Company had no borrowings and \$1.4 million in letters of credit outstanding under the revolving credit facility.

The Company is subject to certain financial covenants under the credit agreement. These covenants include maintaining certain levels of working capital and shareholders' equity and contain other provisions including a restriction on purchases of the Company's stock. The credit agreement also limits the creation, incurrence, or assumption of Funded Debt (as defined, which includes long-term debt) and the acquisition of investments in unconsolidated subsidiaries. As of September 30, 2003, the Company was in compliance with the covenants.

Also included in notes payable is \$1.0 million related to the interim financing of a progress payment for the acquisition of the two aircraft described below.

Operating Leases - The Company leases aircraft and certain facilities and equipment used in its operations. The related lease agreements, which include both non-cancelable and month-to-month terms, generally provide for fixed monthly rentals and, for certain real estate leases, renewal options. Total lease commitments were \$5.5 million at September 30, 2003. Approximately \$1.6 million is payable for aircraft and \$1.0 million payable for facility lease arrangements during the next twelve months.

During the quarter ended September 30, 2003, the Company entered into a purchase agreement for two aircraft at a combined cost of \$32.4 million to be delivered in 2004. The Company has made a \$1.0 million progress payment under an interim finance agreement with a commercial lender and intends to finance the remainder of the acquisition through an operating lease transaction with the same lender.

Purchase Commitments - Currently, the Company has entered into agreements to acquire or upgrade aircraft in addition to the two aircraft described above, valued at approximately \$10.3 million, for future delivery at various dates through 2004. The Company intends to fund these acquisitions with cash from operations.

4. Accumulated Other Comprehensive Income

Following is a summary of the Company's comprehensive income (loss) for the quarter and nine months ended September 30, 2003 and 2002 (in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net earnings	\$ 56	\$ 3,310	\$ 1,389	\$ 6,918
Other comprehensive income (loss):				
Unrecognized gain on interest rate swaps during the period	--	--	--	455
Add reclassification adjustments for losses included in net earnings	--	--	--	1,575
Comprehensive income	<u>\$ 56</u>	<u>\$ 3,310</u>	<u>\$ 1,389</u>	<u>\$ 8,948</u>

5. Valuation Accounts

The Company establishes 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 \$0.1 million and \$0.2 million at September 30, 2003 and December 31, 2002, respectively.

The Company also establishes valuation reserves related to obsolescent and excess inventory. The inventory valuation reserves were \$5.4 million and \$4.8 million at September 30, 2003 and December 31, 2002, respectively.

6. Property and Equipment

Effective January 1, 2003, the Company changed the estimated residual value of certain aircraft (77 aircraft of the total fleet) from 30% to 40%. The Company believes the revised amounts reflect their historical experience and more appropriately matches costs over the estimated useful lives and salvage values of these assets. The effect of this change for the quarter ended and nine months ended September 30, 2003, was a reduction in depreciation expense of \$0.2 million (\$0.1 million after tax or \$0.02 per diluted share) and \$0.6 million (\$0.04 million after tax or \$0.07 per diluted share).

7. Severance Liability

During the quarter ended September 30, 2003, the Company recorded costs of approximately \$2.1 million related to a plan of termination and early retirement covering approximately 60 employees. At September 30, 2003, the Company had an outstanding severance liability of \$1.7 million for certain of these employees who have already terminated employment, or are scheduled to terminate employment and who have elected payment of the severance benefits at a later date. The Company expects to pay the remaining severance liability, for certain of these employees, over the next six months.

8. New Accounting Pronouncements

SFAS No. 143, Accounting for Asset Retirement Obligations, requires the recording of liabilities for all legal obligations associated with the retirement of long-lived assets that result from the normal operation of those assets. These liabilities are required to be recorded at their fair values (which are likely to be the present values of the estimated future cash flows) in the period in which they are incurred. SFAS No. 143 requires the associated asset retirement costs to be capitalized as part of the carrying amount of the long-lived asset. The asset retirement obligation will be accreted each year through a charge to expense. The amounts added to the carrying amounts of the assets will be depreciated over the useful lives of the

assets. The Company implemented SFAS No. 143 on January 1, 2003, and determined that this statement did not have a material impact on its consolidated financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 eliminates SFAS No. 4 and as a result, gains and losses from extinguishments of debt should be classified as extraordinary items only if they meet the criteria in APB Opinion No. 30. SFAS No. 145 amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also updates and amends existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company implemented SFAS No. 145 on January 1, 2003, and determined that this statement did not have a material impact on its consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which is effective for fiscal periods after December 31, 2002. SFAS No. 146 requires companies to recognize costs associated with restructurings, discontinued operations, plant closings, or other exit or disposal activities, when incurred rather than at the date a plan is committed to. The Company will implement the provisions of this statement on a prospective basis for exit or disposal activities that are initiated after December 31, 2002.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. As required, the Company adopted the disclosure requirements of FIN 45 as of December 31, 2002. The Company has adopted the initial recognition and measurement provisions for guarantees issued or modified after December 31, 2002. On January 1, 2003, the Company adopted the initial recognition and measurement provisions on a prospective basis for guarantees issued or modified after December 31, 2002 and it did not have a material impact on the Company's consolidated financial position or results of operations.

In January 2003, FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46"). FIN 46 requires that companies that control another entity through interest other than voting interests should consolidate the controlled entity. FIN 46 became effective immediately for variable interest entities created after January 31, 2003, for entities created before January 31, 2003, the provisions of FIN 46 have been delayed until December 31, 2003. Presently, the Company does not believe that the Company has interests that would be considered variable interest entities under FIN 46. A final determination regarding the provisions of FIN 46 will be reflected in the Company's financial statements as of December 31, 2003.

9. Condensed Consolidated Financial Information

On April 23, 2002, the Company issued Notes of \$200 million that are fully and unconditionally guaranteed on a senior basis, jointly and severally, by all of the Company's existing operating subsidiaries ("Guarantor Subsidiaries").

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

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

September 30, 2003

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 19,128	\$ 17	\$ --	\$ 19,145
Accounts receivable - net of allowance	35,478	6,194	--	41,672
Inventory, net	40,156	--	--	40,156
Other current assets	7,229	177	--	7,406
Refundable income taxes	790	80	--	870
Total current assets	<u>102,781</u>	<u>6,468</u>	<u>--</u>	<u>109,249</u>
Investment in subsidiaries and other	18,573	20,754	(28,512)	10,815
Property and equipment, net	251,222	3,512	--	254,734
Total Assets	<u>\$ 372,576</u>	<u>\$ 30,734</u>	<u>\$ (28,512)</u>	<u>\$ 374,798</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 31,174	\$ 4,205	\$ (4,205)	\$ 31,174
Accrued vacation payable	4,672	256	--	4,928
Notes Payable	2,000	--	--	2,000
Total current liabilities	<u>37,846</u>	<u>4,461</u>	<u>(4,205)</u>	<u>38,102</u>
Long-term debt net of current maturities	200,000	--	--	200,000
Deferred income taxes and other long-term liabilities	28,457	5,870	(3,904)	30,423
Shareholders' Equity:				
Paid-in capital	15,650	4,402	(4,402)	15,650
Retained earnings	90,623	16,001	(16,001)	90,623
Total shareholders' equity	<u>106,273</u>	<u>20,403</u>	<u>(20,403)</u>	<u>106,273</u>
Total Liabilities and Shareholders' Equity	<u>\$ 372,576</u>	<u>\$ 30,734</u>	<u>\$ (28,512)</u>	<u>\$ 374,798</u>

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

December 31, 2002

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 17,652	\$ 22	\$ --	\$ 17,674
Accounts receivable - net of allowance	36,488	4,325	--	40,813
Inventory, net	37,232	143	--	37,375
Other current assets	5,743	10	--	5,753
Refundable income taxes	2,236	--	--	2,236
Total current assets	<u>99,351</u>	<u>4,500</u>	<u>--</u>	<u>103,851</u>
Investment in subsidiaries and other	20,958	14,036	(24,715)	10,279
Property and equipment, net	248,982	3,595	--	252,577
Total Assets	<u>\$ 369,291</u>	<u>\$ 22,131</u>	<u>\$ (24,715)</u>	<u>\$ 366,707</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 33,114	\$ 3,314	\$ (9,763)	\$ 26,665
Accrued vacation payable	3,675	256	--	3,931
Income taxes payable	--	504	--	504
Total current liabilities	<u>36,789</u>	<u>4,074</u>	<u>(9,763)</u>	<u>31,100</u>
Long-term debt	200,000	--	--	200,000
Deferred income taxes and other long-term liabilities	27,648	2,817	288	30,753
Shareholders' Equity:				
Paid-in capital	15,600	4,402	(4,402)	15,600
Retained earnings	89,254	10,838	(10,838)	89,254
Total shareholders' equity	<u>104,854</u>	<u>15,240</u>	<u>(15,240)</u>	<u>104,854</u>
Total Liabilities and Shareholders' Equity	<u>\$ 369,291</u>	<u>\$ 22,131</u>	<u>\$ (24,715)</u>	<u>\$ 366,707</u>

PETROLEUM HELICOPTERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(Thousands of dollars)

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated
For the quarter ended September 30, 2003				
Operating revenues	\$ 56,036	\$ 13,604	\$ --	\$ 69,640
Management fees	1,167	--	(1,167)	--
Equity in net income of consolidated subsidiaries	1,283	--	(1,283)	--
Gain on dispositions of property and equipment	273	--	--	273
Other	165	--	--	165
	<u>58,924</u>	<u>13,604</u>	<u>(2,450)</u>	<u>70,078</u>
Expenses:				
Direct expenses	50,474	9,478	--	59,952
Management fees	--	1,167	(1,167)	--
Selling, general, and administrative	4,228	820	--	5,048
Interest expense	4,984	--	--	4,984
	<u>59,686</u>	<u>11,465</u>	<u>(1,167)</u>	<u>69,984</u>
Earnings before income taxes	(762)	2,139	(1,283)	94
Income taxes	(818)	856	--	38
Net earnings	<u>\$ 56</u>	<u>\$ 1,283</u>	<u>\$ (1,283)</u>	<u>\$ 56</u>
For the quarter ended September 30, 2002				
Operating revenues	\$ 58,512	\$ 11,151	\$ --	\$ 69,663
Management fees	1,524	--	(1,524)	--
Equity in net income of consolidated subsidiaries	2,558	--	(2,558)	--
Gain on dispositions of property and equipment	(29)	--	--	(29)
Other	(184)	343	--	159
	<u>62,381</u>	<u>11,494</u>	<u>(4,082)</u>	<u>69,793</u>
Expenses:				
Direct expenses	49,879	5,365	--	55,244
Management fees	--	1,524	(1,524)	--
Selling, general, and administrative	3,604	431	--	4,035
Interest expense	4,952	43	--	4,995
	<u>58,435</u>	<u>7,363</u>	<u>(1,524)</u>	<u>64,274</u>
Earnings before income taxes	3,946	4,131	(2,558)	5,519
Income taxes	636	1,573	--	2,209
Net earnings	<u>\$ 3,310</u>	<u>\$ 2,558</u>	<u>\$ (2,558)</u>	<u>\$ 3,310</u>

PETROLEUM HELICOPTERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(Thousands of dollars)

	<u>Parent Company Only</u>	<u>Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
For the nine months ended September 30, 2003				
Operating revenues	\$ 160,444	\$ 40,142	\$ --	\$ 200,586
Management fees	2,822	--	(2,822)	--
Equity in net income of consolidated subsidiaries	5,163	--	(5,163)	--
Gain on dispositions of property and equipment	1,711	--	--	1,711
Other	533	--	--	533
	<u>170,673</u>	<u>40,142</u>	<u>(7,985)</u>	<u>202,830</u>
Expenses:				
Direct expenses	144,563	26,195	--	170,758
Management fees	--	2,822	(2,822)	--
Selling, general, and administrative	12,266	2,520	--	14,786
Interest expense	14,972	--	--	14,972
	<u>171,801</u>	<u>31,537</u>	<u>(2,822)</u>	<u>200,516</u>
Earnings before income taxes	(1,128)	8,605	(5,163)	2,314
Income taxes	(2,517)	3,442	--	925
Net earnings	<u>\$ 1,389</u>	<u>\$ 5,163</u>	<u>\$ (5,163)</u>	<u>\$ 1,389</u>
For the nine months ended September 30, 2002				
Operating revenues	\$ 174,284	\$ 34,694	\$ --	\$ 208,978
Management fees	4,355	--	(4,355)	--
Equity in net income of consolidated subsidiaries	4,554	--	(4,554)	--
Gain on dispositions of property and equipment	819	--	--	819
Other	910	341	--	1,251
	<u>184,922</u>	<u>35,035</u>	<u>(8,909)</u>	<u>211,048</u>
Expenses:				
Direct expenses	151,401	21,764	--	173,165
Management fees	--	4,355	(4,355)	--
Selling, general, and administrative	12,667	1,400	--	14,067
Interest expense	12,228	58	--	12,286
	<u>176,296</u>	<u>27,577</u>	<u>(4,355)</u>	<u>199,518</u>
Earnings before income taxes	8,626	7,458	(4,554)	11,530
Income taxes	1,708	2,904	--	4,612
Net earnings	<u>\$ 6,918</u>	<u>\$ 4,554</u>	<u>\$ (4,554)</u>	<u>\$ 6,918</u>

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

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated
For the nine months ended September 30, 2003				
Net cash provided by (used in) operating activities	\$ 18,847	\$ (4)	\$ --	\$ 18,843
Cash flows from investing activities:				
Purchase of property and equipment	(23,420)	--	--	(23,420)
Proceeds from asset dispositions	3,998	--	--	3,998
Net cash used in investing activities	<u>(19,422)</u>	<u>--</u>	<u>--</u>	<u>(19,422)</u>
Cash flows from financing activities:				
Proceeds from notes payable	2,000	--	--	2,000
Proceeds from exercise of stock options	50	--	--	50
Net cash provided by financing activities	<u>2,050</u>	<u>--</u>	<u>--</u>	<u>2,050</u>
Increase (decrease) in cash and cash equivalents	1,475	(4)	--	1,471
Cash and cash equivalents, beginning of year	17,653	21	--	17,674
Cash and cash equivalents, end of year	<u>\$ 19,128</u>	<u>\$ 17</u>	<u>\$ --</u>	<u>\$ 19,145</u>
For the nine months ended September 30, 2002				
Net cash provided by operating activities	\$ 31,766	\$ 106	\$ --	\$ 31,872
Cash flows from investing activities:				
Proceeds from notes receivable	1,629	--	--	1,629
Purchase of property and equipment	(26,173)	(104)	--	(26,277)
Purchase of aircraft previously leased	(118,076)	--	--	(118,076)
Proceeds from asset dispositions	3,226	--	--	3,226
Net cash used in investing activities	<u>(139,394)</u>	<u>(104)</u>	<u>--</u>	<u>(139,498)</u>
Cash flows from financing activities:				
Proceeds from long-term debt, net	194,165	--	--	194,165
Payments on long-term debt	(5,845)	--	--	(5,845)
Payment of long-term debt with bond proceeds	(60,771)	--	--	(60,771)
Payment of interest rate swap settlement	(1,575)	--	--	(1,575)
Proceeds from exercise of stock options	1,200	--	--	1,200
Net cash provided by financing activities	<u>127,174</u>	<u>--</u>	<u>--</u>	<u>127,174</u>
Increase in cash and cash equivalents	19,546	2	--	19,548
Cash and cash equivalents, beginning of year	5,422	13	--	5,435
Cash and cash equivalents, end of year	<u>\$ 24,968</u>	<u>\$ 15</u>	<u>\$ --</u>	<u>\$ 24,983</u>

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the notes thereto as well as the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and MD&A contained therein.

Forward-Looking Statements

All statements other than statements of historical fact contained in this Form 10-Q, other periodic reports filed by the Company 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", or "projects" and similar expressions are intended to identify forward-looking statements. It is important to note that forward-looking statements are based on a number of assumptions about future events and are subject to various risks, uncertainties, and other factors that may cause the Company's actual results to differ materially from the views, beliefs, and estimates expressed or implied in such forward-looking statements. Although the Company believes that the assumptions reflected in forward-looking statements are reasonable, no assurance can be given that such assumptions will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements include but are not limited to the following: flight variances from expectations, volatility of oil and gas prices, the substantial capital expenditures and commitments required to acquire aircraft, environmental risks, competition, government regulation, unionization, operating hazards, risks related to international operations, the ability to obtain insurance, and the ability of the Company to implement its business strategy. All forward-looking statements in this document are expressly qualified in their entirety by the cautionary statements in this paragraph. PHI undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

Certain reclassifications have been made in the prior period financial statements in order to conform to the classifications adopted for reporting in 2003. Such reclassifications include an adjustment to increase operating revenues and direct expenses by \$1.5 million for the three months ended September 30, 2002 and \$4.3 million for the nine months ended September 30, 2002. This reclassification did not affect earnings before income taxes, net earnings or earnings per share.

Operating revenues were \$69.6 million for the quarter ended September 30, 2003 compared to \$69.7 million for the quarter ended September 30, 2002. Operating revenues in the Domestic Oil and Gas segment increased (\$0.3 million) for the quarter due to increases in rates, substantially offset by a decrease in flight activity. There was a decrease in the International segment revenues (\$0.3 million) due to a decrease in activity. Operating revenues in the Air Medical segment decreased (\$0.5 million) due primarily to the termination of a hospital based contract during 2002. The Technical Services' operating revenues increased (\$0.5 million) for the quarter due to an increase in activity on an ongoing contract. Flight hours were 37,199 for the current year quarter compared to 43,976 for the same quarter in the prior year, a decrease of 15%. There was a decrease in flight hours in all flight segments during the quarter.

Notwithstanding the decrease in revenue in the Air Medical segment for the quarter and also for the nine months as discussed below, the Company is expanding in this segment and has added aircraft and personnel recently at certain locations where acceptable rates appear to be available.

Operating revenues for the nine months ended September 30, 2003 were \$200.6 million, compared to \$209.0 million for the nine months ended September 30, 2002, a decrease of \$8.4 million. Operating

revenues in the Domestic Oil and Gas segment were essentially unchanged for the nine months due to an increase in rates offset by a decrease in activity. There was a decrease in the International segment revenues (\$1.7 million) due to a decrease in activity. Operating revenues in the Air Medical segment decreased (\$1.7 million) due to the termination of a hospital based contract during 2002, and a decrease in activity related to another hospital based contract. The Technical Services' operating revenues decreased (\$5.0 million) for the nine months due to completion in the second quarter of 2002 of a project for the upgrade and refurbishment of a customer's aircraft. Flight hours were 107,229 for the nine months September 30, 2003, compared to 128,231 flight hours for the nine months September 30, 2002, a decrease of 16%.

Direct expenses and selling, general and administrative expenses increased in total \$5.7 million for the quarter ended September 30, 2003 as compared to the quarter ended September 30, 2002. There were severance costs recorded in the quarter (\$2.1 million) related to a voluntary early retirement program and a reduction in employee headcount related to a special termination plan implemented in the quarter. Employee compensation cost increased (\$1.5 million) due to compensation rate increases, offset by a reduction in incentive compensation (\$0.6 million). In addition, insurance expense increased (\$2.0 million), due to additional premiums under the terms of the Company's policy related to loss experience. Insurance expense will increase through the first quarter of 2004, by approximately \$0.5 million per quarter, which will then be subject to renewal. Depreciation expense increased for the quarter (\$0.7 million) due to aircraft previously upgraded and being placed in service, and Technical Services cost increased (\$0.4 million) due to increased activity in the quarter. Maintenance cost decreased for the quarter (\$0.9 million), and the Company reduced the provision for environmental remediation costs at certain sites (\$0.3 million) due to favorable analytical samples obtained during the quarter ended September 30, 2003. There was also an increase in travel cost (\$0.1 million) and miscellaneous other items, net (\$0.7 million).

Direct expenses and selling, general and administrative expenses decreased in total \$1.7 million for the nine months ended September 30, 2003. Technical Services costs decreased (\$5.1 million) due to completion of a project for the upgrade and refurbishment of a customer's aircraft in the second quarter of 2002. Helicopter rent decreased (\$5.1 million) due to the purchase of leased aircraft in 2002. These amounts were offset in part by a depreciation expense increase (\$4.1 million) for the nine months, due to the purchase of leased aircraft in the second quarter of 2002 and also due to assets recently purchased or aircraft upgrades being placed in service. In addition to the severance charges and relocation cost (\$0.3 million) incurred earlier in the year related to the Air Medical segment, a severance charge (\$2.1 million) was recorded related to an early retirement program and a termination plan implemented in the quarter ended September 30, 2003. There were severance charges in the prior year (\$1.7 million), therefore resulting in a net increase in severance cost (\$0.7 million). Employee compensation costs, excluding the severance amounts mentioned increased (\$1.2 million) as a result of compensation rate increases offset by a reduction in incentive compensation. Maintenance cost increased (\$0.8 million) for the nine months ending September 30, 2003 due primarily to contracted repairs of components and fuel cost increased (\$0.5 million). In addition, insurance expense increased, net of all changes, (\$1.2 million), primarily due to a provision for additional insurance expense as previously mentioned. Also, the Company reduced the provision for environmental remediation cost at certain sites (\$0.3 million) due to favorable analytical samples obtained during the quarter ended September 30, 2003.

The following tables present certain non-financial operational statistics for the quarter and nine months ended September 30, 2003 and 2002:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Flight hours:				
Domestic Oil and Gas	30,696	36,047	88,357	101,807
International	3,364	4,339	10,567	13,472
Air Medical	3,139	3,590	8,305	12,952
Total	37,199	43,976	107,229	128,231
Aircraft operated at period end:				
			September 30,	
			2003	2002
Domestic Oil and Gas			179	186
International			17	18
Air Medical			32	27
Total			228	231

Quarter Ended September 30, 2003 compared with Quarter Ended September 30, 2002

Combined Operations

Revenues - Operating revenues were \$69.6 million for the quarter ended September 30, 2003, as compared to \$69.7 million for the quarter ended September 30, 2002, a decrease of \$0.1 million. Operating revenues in the Domestic Oil and Gas segment increased (\$0.3 million) for the quarter due to increases in rates substantially offset by a decrease in flight activity. There was a decrease in the International segment revenues (\$0.3 million) due to a decrease in activity. Operating revenues in the Air Medical segment decreased (\$0.5 million) due primarily to the termination of certain contracts as a response to proposed rate increases. Technical Services operating revenues increased (\$0.5 million) for the quarter due to an increase in activity on an ongoing contract. Flight hours were 37,199 for the current year quarter compared to 43,976 for the same period in the prior year, a decrease of 15%.

Notwithstanding the decrease in revenue in the Air Medical segment for the quarter, the Company is expanding in this segment and has added aircraft and personnel recently at certain new locations where acceptable rates appear to be available.

Other Income and Losses - *Gain (Loss) on Disposition of Property and Equipment* - Gain on equipment dispositions was \$0.3 million for the quarter ended September 30, 2003 as compared to a loss of less than \$0.1 million for the quarter ended September 30, 2002.

Other - Other income was essentially unchanged for the quarter, \$0.2 million.

Direct Expenses - Direct expenses for the quarter ended September 30, 2003 were \$60.0 million, compared to \$55.2 million for the same period ended September 30, 2002. There were severance charges recorded in the quarter (\$2.0 million) related to a voluntary early retirement program and a reduction in employee headcount related to a special termination plan implemented in the quarter. Employee compensation cost increased (\$1.5 million) due to compensation rate increases, offset by a reduction in

incentive compensation (\$0.6 million). Insurance expense increased (\$2.0 million), primarily due a provision for additional insurance expense as previously mentioned. Depreciation expense increased for the quarter (\$0.7 million) due to aircraft previously upgraded and being placed in service, and Technical Services cost increased (\$0.4 million) due to increased activity in the quarter. Maintenance cost decreased for the quarter (\$0.9 million), and the Company reduced the provision for environmental remediation costs at certain sites (\$0.3 million) due to favorable analytical samples obtained during the quarter ended September 30, 2003.

Selling, General, and Administrative Expenses - Selling, general, and administrative expenses for the quarter ended September 30, 2003 were \$5.0 million, as compared to \$4.0 million for the quarter ended September 30, 2002. The increase was due to an increase in employee compensation cost (\$0.3 million), a severance charge (\$0.1 million), increase in travel costs (\$0.1 million), and net of miscellaneous other items (\$0.5 million).

Interest Expense - Interest expense was \$5.0 million for both the quarters ended September 30, 2003 and 2002.

Income Taxes - Income tax expense for the quarter ended September 30, 2003 was less than \$0.1 million, compared to \$2.2 million for the quarter ended September 30, 2002. The effective tax-rate was 40% for both periods.

Earnings - The Company's net earnings for the quarter ended September 30, 2003 was less than \$0.1 million, compared to \$3.3 million for the same period in the prior year. Earnings before tax for the quarter were \$0.1 million compared to \$5.5 million in the same period of the prior year. Earnings per diluted share for the quarter were \$0.01 as compared to \$0.61 per diluted share for the same quarter prior year.

Segment Discussion

Effective July 1, 2002, the Company no longer allocates interest expense to its segments when evaluating operating performance. All results prior to July 1, 2002 have been restated to remove interest expense from the segment operating results.

Domestic Oil and Gas - Domestic Oil & Gas segment revenues were \$49.3 million for the quarter ended September 30, 2003, compared to \$49.0 million for the quarter ended September 30, 2002, an increase of \$0.3 million. There was an increase in rates substantially offset by a decrease in flight hour activity. Flight hours in the segment were 30,696 for the quarter ended September 30, 2003, compared to 36,047 flight hours for the quarter ended September 30, 2002. The number of aircraft in the segment was 179 at September 30, 2003 as compared to 186 at September 30, 2002. Three aircraft were reassigned to the Air Medical segment.

Direct expenses increased (\$2.9 million) for the quarter ended September 30, 2003, due to a severance charge recorded in the quarter (\$1.7 million) related to a reduction in the employee headcount in the quarter, a provision for additional insurance expense as previously mentioned (\$2.0 million), an increase in employee compensation cost (\$0.5 million) resulting from increases in compensation costs offset by a reduction in incentive compensation, and an increase in depreciation expense (\$0.5 million) related to aircraft previously upgraded and being placed in service. These amounts were offset by a decrease in maintenance cost (\$1.1 million) in the quarter primarily related to aircraft parts usage and a decrease in miscellaneous other items, net (\$0.7 million).

The Domestic Oil & Gas segment operating income was \$5.2 million for the quarter ended September 30, 2003, compared to \$8.1 million for the quarter ended September 30, 2002. The decrease in earnings is due to the increases in direct expenses described above, although the decrease in flight hour activity from

36,047 flight hours in the same period 2002 to 30,696 flight hours in 2003 also contributed to decreased operating income.

International - International segment revenues were \$4.7 million for the quarter ended September 30, 2003, compared to \$4.9 million for the quarter ended September 30, 2002. The decrease was due to reduced flight activity, offset in part by rate increases. The number of aircraft in the segment was 17 at September 30, 2003, compared to 18 at September 30, 2002. Flight hours were 3,364 for the quarter ended September 30, 2003 as compared to 4,339 for the quarter ended September 30, 2002.

Direct expenses for the quarter ended September 30, 2003 increased \$0.2 million. This was primarily due to severance charges (\$0.3 million) recorded in the quarter, offset by decreases in other items (\$0.1 million).

The International segment had an operating loss of less than \$0.1 million for the quarter, compared to \$0.5 million operating income for the same period in 2002. The loss is due to the severance charges recorded in the quarter, and also due to decreased flight hour activity.

Air Medical - Air Medical segment revenues were \$11.7 million for the quarter ended September 30, 2003, compared to \$12.3 million for the quarter ended September 30, 2002, a decrease of \$0.5 million. The decrease was due primarily to termination of a hospital based contract that resulted from proposed rate increases by the Company. Flight hours for the quarter ended September 30, 2003 were 3,139 compared to 3,590 for the quarter ended September 30, 2002. The number of aircraft in the segment at September 30, 2003 was 32 compared to 27 at September 30, 2003. The increase in the number of aircraft in the quarter is related to upcoming operations.

As previously discussed, the Company is expanding in this segment and has added aircraft and personnel recently at certain locations.

Direct expenses in the Air Medical segment for the quarter ended September 30, 2003 increased \$0.6 million due to an increase in employee compensation cost (\$0.5 million), and a severance charge in the quarter (\$0.1 million).

The Air Medical segment operating income was \$2.5 million for the quarter, compared to an operating income of \$4.2 million for the same period in 2002. The decrease in operating income was due to the reduction in revenue and also due to the increase in direct expense discussed above.

Technical Services - Technical Services segment revenues for the quarter ended September 30, 2003 were \$3.9 million compared to \$3.4 million in the prior year. The increase in Technical Services revenues is related to an increase in activity on an ongoing contract.

There was an increase in direct expense of \$0.4 million in the Technical Services segment due to an increase in activity in the quarter.

The Technical Services segment had operating income of \$1.0 million for the quarter ended September 30, 2003, compared to \$0.8 million for the quarter ended September 30, 2002.

Nine Months Ended September 30, 2003 compared with Nine Months Ended September 30, 2002

Combined Operations

Revenues - Operating revenues for the nine months ended September 30, 2003 were \$200.6 million, compared to \$209.0 million for the nine months ended September 30, 2002, a decrease of \$8.4 million. The decrease in operating revenue was due to decreases in flight activity in the Air Medical and International segments (\$3.5 million), and also a decrease (\$5.0 million) in Technical Services operating revenues due to the completion of a contract for the upgrade and refurbishment of a customer's aircraft. Although operating revenues in the Domestic Oil and Gas segment were unchanged, there was a decrease in flight hour activity offset by an increase in rates. Combined flight hours for the nine months ended September 30, 2003 were 107,229 compared to 128,231 for the nine months September 30, 2002.

Notwithstanding the decrease in revenue in the Air Medical segment for the nine months, the Company is expanding in this segment and has added aircraft and personnel recently at certain new locations where acceptable rates appear to be available.

The number of aircraft at September 30, 2003 was 228 as compared to 231 at September 30, 2002.

Other Income and Losses - *Gain (Loss) on Disposition of Property and Equipment* - Gain on equipment dispositions was \$1.7 million for the nine months ended September 30, 2003, compared to \$0.8 million for the nine months ended September 30, 2002.

Other - Other, which represents interest income and other gains and losses, was \$0.5 million for the nine months ended September 30, 2003 as compared to \$1.3 million for the nine months ended September 30, 2002. The Company recorded \$0.7 million for a favorable settlement of a note receivable from Clintondale in the second quarter of 2002.

Direct Expenses - Direct expenses for the nine months ended September 30, 2003 were \$170.8 million, compared to \$173.2 million for the comparable period in 2002, a decrease of \$2.4 million. The decrease in direct expenses was the result of decreases in Technical Services segment costs (\$5.1 million) due to completion in the second quarter of 2002 of a project for the upgrade and refurbishment of a customer's aircraft, and a decrease in helicopter rent (\$5.1 million) due to the purchase of leased aircraft in 2002. The Company also reduced the provision for environmental remediation costs at certain sites (\$0.3 million) due to favorable analytical samples obtained during the current quarter. These amounts were offset in part by an increase in depreciation expense (\$3.7 million) due to the purchase of leased aircraft in the second quarter of 2002 and also due to assets recently purchased or aircraft upgrades being placed in service. In addition, a severance charge (\$2.0 million) was recorded in the current period related to implementing an early retirement program and termination plan. There were severance charges in the prior year (\$1.7 million), resulting in a net increase in severance cost (\$0.3 million). Employee compensation costs, excluding the severance amounts mentioned increased (\$1.2 million) as a result of compensation rate increases offset by a reduction in incentive compensation. Maintenance cost increased for the nine months ending September 30, 2003 (\$0.8 million) due primarily to contracted repairs of components. In addition, insurance expense increased (\$2.0 million), primarily due to a provision for additional insurance expense as previously mentioned.

Selling, General, and Administrative Expenses - Selling, general, and administrative expenses for the nine months ended September 30, 2003 were \$14.8 million, compared to \$14.1 million for the nine months ended September 30, 2002, an increase of \$0.7 million. Included in selling, general, and administrative expenses are severance charges and relocation costs (\$0.3 million) incurred earlier in the year related to the Air Medical segment, a severance charge (\$0.1 million) related to the reduction in force discussed above, and increased travel costs (\$0.2 million).

Interest Expense - Interest expense for the nine months ended September 30, 2003 was \$15.0 million, as compared to \$12.3 million for the nine months ended September 30, 2002. The increase in interest expense is related to the Notes issued on April 23, 2002.

Income Taxes - Income tax expense for the nine months ended September 30, 2003 was \$0.9 million, compared to \$4.6 million for the nine months ended September 30, 2002. The effective tax rate for both periods was 40%.

Earnings - The Company's net earnings for the nine months ended September 30, 2003 was \$1.4 million, compared to net earnings of \$6.9 million for the nine months ended September 30, 2002. Earnings before tax for the nine months ended September 30, 2003 was \$2.3 million, compared to earnings before tax of \$11.5 million for the same period in the prior year. Earnings per diluted share for the nine months ended September 30, 2003 was \$0.25 as compared to earnings per diluted share of \$1.27 for the nine months ended September 30, 2002. Earnings for the nine months were impacted by the decline in revenues resulting from a 21,002 decrease in flight hours.

Segment Discussion

Effective July 1, 2002, the Company no longer allocates interest expense to its segments when evaluating operating performance. All results prior to July 1, 2002 have been restated to remove interest expense from the segment operation results.

Domestic Oil and Gas - Domestic Oil & Gas segment revenues were \$138.1 million for the nine months ended September 30, 2003, compared to \$138.0 million for the nine months ended September 30, 2002. Although operating revenues were essentially unchanged, there was a decrease in flight activity offset by increases in rates. Flight hours for the nine months ended September 30, 2003 were 88,357 as compared to 101,807 for the nine months ended September 30, 2002. The number of aircraft in the segment was 179 at September 30, 2003 as compared to 186 at September 30, 2002.

There was an increase in direct expenses (\$5.7 million) for the nine months ended September 30, 2003. There was an increase in employee compensation cost (\$1.6 million) due to compensation rate increases but also due to certain of the Air Medical segment's pilots and mechanics being reassigned to the Domestic Oil and Gas segment. There was also a severance charge in the current year (\$1.7 million), compared to a charge in the prior year (\$1.0 million), resulting in a net increase for the nine months (\$0.7 million). There were also increases in maintenance cost due primarily to aircraft parts usage and component repairs (\$1.9 million), depreciation expense (\$3.7 million) due to the purchase of leased aircraft in 2002, and the increase in insurance expense described previously (\$2.0 million). These amounts were offset in part by a decrease in aircraft rent (\$4.4 million) due also to the purchase of leased aircraft in 2002.

Domestic Oil & Gas segment operating income was \$13.9 million for the nine months ended September 30, 2003, compared to \$20.3 million for the nine months ended September 30, 2002. The decrease in operating income is due to the increase in direct expenses, but also due to the decrease in flight activity.

International - International segment revenues were \$14.7 million for the nine months ended September 30, 2003, compared to \$16.4 million for the nine months ended September 30, 2002. There was a decrease in flight activity partially offset by an increase in rates. Flight hours for the nine months ended September 30, 2003 were 10,567 compared to 13,472 for September 30, 2002. The number of aircraft in the International segment was 17 at September 30, 2003 compared to 18 at September 30, 2002.

Direct expenses increased for the nine months ended September 30, 2003 (\$0.8 million) due to severance charges (\$0.3 million) and an increase in maintenance costs related to component repairs (\$0.5 million).

International segment had an operating loss of \$0.7 million for the nine months ended September 30, 2003, compared to operating income of \$1.8 million for the nine months ended September 30, 2002. The recovery of a receivable in the prior year, the decrease in flight activity, and costs incurred for the nine months related to maintenance and severance account for the change in operating income.

Air Medical - Air Medical segment revenues were \$34.8 million for the nine months ended September 30, 2003, compared to \$36.5 million for the same period in the prior year. Flight hours in this segment were 8,305 for the nine months ended September 30, 2003 as compared to 12,952 for the nine months ended September 30, 2002. The decrease in activity as indicated by the decrease in flight hours is due to the termination of certain Air Medical contracts as a reaction to proposed rate increases. The number of aircraft in the segment at September 30, 2003 was 32 compared to 27 at September 30, 2002.

As previously discussed, the Company is expanding in this segment and has added aircraft and personnel recently at certain locations.

Direct expenses in the Air Medical segment decreased (\$3.5 million) for the nine months ended September 30, 2003 as compared to the nine months ended September 30, 2002, due primarily to the termination of certain Air Medical contracts. Human resource cost decreased (\$1.5 million), maintenance costs decreased (\$1.5 million), and aircraft rent decreased (\$0.7 million) due to the purchase of leased aircraft in 2002. The above amounts were offset in part by a severance charge in the current period (\$0.2 million).

Air Medical segment operating income was \$8.7 million for the nine months ended September 30, 2003, compared to \$8.3 million for the nine months ended September 30, 2002.

Technical Services - The Technical Services segment operating revenues for the nine months ended September 30, 2003 were \$13.0 million, compared to \$18.1 million in the comparable period in the prior year. The decrease in Technical Services revenues was related to revenue from a contract for the refurbishment and upgrade of two aircraft completed in the first half of 2002.

There was a decrease in direct expense (\$5.1 million) in the Technical Services segment due to the above mentioned contract completed in 2002.

The Technical Services segment had operating income of \$3.3 million for the nine months ended September 30, 2003, compared to \$2.9 million for the nine months ended September 30, 2002.

Liquidity and Capital Resources

The Company's cash position on September 30, 2003 was \$19.1 million, compared to \$17.7 million at December 31, 2002. Working capital was \$71.1 million at September 30, 2003, as compared to \$72.8 million at December 31, 2002. Net cash provided by operating activities (\$18.8 million) and proceeds from aircraft sales (\$4.0 million) and notes payable (\$2.0 million) during 2003 funded debt service requirements and capital expenditures.

Of the \$2.0 million of notes payable, \$1.0 million is related to the interim financing of a progress payment for the acquisition of two aircraft to be delivered in 2004 as discussed in Note 3 - Commitments and Contingencies. In addition, at September 30, 2003, the Company had \$1.0 million of borrowings outstanding under its revolving credit facility which was repaid subsequent to September 30, 2003.

On April 23, 2002, the Company issued Notes of \$200 million that carry an interest rate of 9 3/8% payable semi-annually on May 1 and November 1 of each year, beginning November 1, 2002, and mature in May 2009. The Notes contain certain covenants, including limitations on indebtedness, liens,

dividends, repurchases of capital stock and other payments affecting restricted subsidiaries, issuance and sales of restricted subsidiary stock, dispositions of proceeds of asset sales, and mergers and consolidations or sales of assets.

Also, on April 23, 2002, the Company executed a new credit agreement with a commercial bank for a \$50 million revolving credit facility. At September 30, 2003, the Company had \$1.0 million in borrowings and a \$1.4 million letter of credit outstanding under the revolving credit facility.

Capital expenditures totaled \$23.4 million for the nine months ended September 30, 2003, which primarily represents the purchase or upgrade of certain aircraft and the capitalized refurbishment of other aircraft.

On November 1, 2003, the Company paid interest due on the Notes of \$9.4 million.

Environmental Matters

As of September 30, 2003, the Company has an aggregate estimated liability of \$0.8 million for environmental remediation costs that are probable and estimable. The Company has conducted environmental surveys of the Lafayette facility, which it vacated in 2001, and has determined that contamination exists at that facility. To date, borings have been installed to determine the type and extent of contamination. Preliminary results indicate limited soil and groundwater impacts. Once the extent and type of contamination are fully defined, a risk evaluation in accordance with the Louisiana Risk Evaluation/Corrective Action Plan ("RECAP") standard will be submitted and evaluated by Louisiana Department of Environmental Quality ("LDEQ"). At that point, LDEQ will establish what cleanup standards must be met at the site. When the process is complete, the Company will be in a position to develop the appropriate remediation plan and the resulting cost of remediation. However, the Company has not recorded any estimated liability for remediation of contamination and, based on preliminary surveys and ongoing monitoring, the Company believes the ultimate remediation costs for the Lafayette facility will not be material to the Company's consolidated financial statements.

During the quarter ended September 30, 2003, the Company obtained favorable sampling results at certain locations. As a result of these samples and responses received from regulatory agencies, the Company determined that the cost of remediation at these locations would be less than originally anticipated, resulting in a reduction of the estimated environmental liability of \$0.3 million. During the nine months ended September 30, 2003, the estimated environmental liability has also been reduced by payments of \$0.4 million.

New Accounting Pronouncements

For a discussion of new accounting pronouncements applicable to the Company, see Note 8 to the Financial Statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

On April 23, 2002, the Company issued Notes of \$200 million that have an interest rate of 9 3/8% payable semi-annually on May 1 and November 1 of each year, beginning November 1, 2002, and mature in May 2009. The market value of the Notes will vary as changes occur to general market interest rates, the remaining maturity of the Notes, and the Company's credit worthiness. At September 30, 2003, the market value of the Notes was \$218 million.

Item 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of a date within 90 days before the filing date of this quarterly report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings under the Exchange Act.

Since the Evaluation Date, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect such controls.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is involved in various legal proceedings primarily involving claims for personal injury. The Company believes that the outcome of all such proceedings, even if determined adversely, would not have a material adverse effect on its consolidated financial statements.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3.1 (i) Articles of Incorporation of the Company (incorporated by reference to Exhibit No. 3.1 (i) to PHI's Report on Form 10-Q for the quarterly period ended October 31, 1994).
- (ii) By-laws of the Company as amended (incorporated by reference to Exhibit No. 3.1 (ii) to PHI's Report on Form 10-Q for the quarterly period ended March 31, 2002).
- 10.1 Indenture dated April 23, 2002 among Petroleum Helicopters, Inc., the Subsidiary Guarantors named therein and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.1 to PHI's Registration Statement on Form S-4, filed on April 30, 2002, File Nos. 333-87288 through 333-87288-08).
- 10.2 Form of 9 3/8% Senior Note (incorporated by reference to Exhibit 4.1 to PHI's Registration Statement on Form S-4, filed on April 30, 2002, File Nos. 333-87288 through 333-87288-08).
- 10.3 Loan Agreement dated as of April 23, 2002 by and among Petroleum Helicopters, Inc., Air Evac Services, Inc., Evangeline Airmotive, Inc., and International Helicopter Transport, Inc. and Whitney National Bank (incorporated by reference to Exhibit 10.3 to PHI's Report on Form 10-Q for the quarterly period ended June 30, 2002).
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Lance F. Bospflug, 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 Lance F. Bospflug, Chief Executive Officer.

32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Michael J. McCann, Chief Financial Officer.

(b) Reports on Form 8-K

On August 15, 2003, the Company filed a Form 8-K, reporting in Item 5 the Company's earnings for second quarter.

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.

Petroleum Helicopters, Inc.

November 14, 2003

By: /s/ Lance F. Bospflug
Lance F. Bospflug
President and Chief Executive Officer

November 14, 2003

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