



OUR RESPONSE TO RECENT ARTICLE IN ROTOR & WING



As Chief Executive Officer of Patriarch Partners and acting CEO of MD Helicopters, Inc., I believe I have built a reputation as a straight shooter. Honesty and accuracy is important to me and important to the helicopter industry. I also fully appreciate spirited and vigorous industry debate, but when public commentary crosses the line into fictional terrain, it demands a response. As you might have read in the Editor's Notebook column written in the April 2006 issue of Rotor & Wing, James T. McKenna asserted unfounded and inaccurate information about the state of the supply chain at MD Helicopters, Inc. I am writing to set the record straight since Mr. McKenna has used the protection of "editorial" to write an article that grossly distorts the truth and the comments I made at the 2006 Heli-Expo.

THE FACTS

Here is the bottom line: I am unequivocally certain that we have the capacity to produce and deliver LUH aircraft in accordance with all the Army's requirements and specifications. A new senior management team has seized the reigns of creative control at MDHI and set about to build the operating efficiencies and global supply chain that is requisite to ensure the Company's long-term viability and success. Let there be no doubt - the MDHI supply chain is up and running, operational and ready to deliver LUH aircraft to the Army on time and in full compliance with all specifications. But don't just take my word for it. Here's what a well-known aerospace analyst recently told the Fort Worth Star Telegram:

"Tilton has already done a lot of heavy lifting to rebuild the company by paying existing vendors and ensuring the company a reliable supply of parts and components said Richard Aboulafia, aerospace analyst with Teal Group in Fairfax Virginia. The key is she has the cash to bring to the table, Aboulafia said, so the company doesn't have to scrounge for money and credit and can focus on building up inventories of spare parts and beginning to deliver new aircraft."

Here's the fact: MDHI is ready, willing and able to take on the mission of the LUH contract and we believe we can fulfill it better than anyone in the industry.

Contrary to Mr. McKenna's article, here's what I actually said to the audience at Heli-Expo:

"So we **have committed to the U.S. Army that we can meet those needs as well as we will meet all our 2006 orders on time.** Failure is not an option. So we are not taking any additional orders for '06. If we can deliver sooner, we will.

We are already prepared to meet the delivery needs of '07 ... my commitment to the U.S. Army as well as my commitment to the commercial operators is the same. Where we've said we will deliver, we will."

By the way, my statements at the Heli-Expo were recorded and transcribed and if you'd like to see them for yourself they are now available at www.mdhelicopters.com.

The short and accurate story here is that I said precisely the opposite of the statements ascribed to me in the article. What Mr. McKenna did get right was the fact that, in his words, my kimono was – and is – completely open, but the actual truth is vastly different than his summarized version of events. The truth is so often mistaken for weakness rather than the courage to institute needed change. Perhaps the reason so many CEO's speak only from prepared texts is because there are those who use the power of the pen to twist that truth. Mr. McKenna, I will continue to seek and speak the truth in spite of what looks like an attempt to impair MDHI at a critical juncture of the LUH award process. As someone who has saved in excess of 100 companies and 100,000 jobs from liquidation, and committed to deliver the Army the best helicopter for their needs, I think I deserve better – and I think you owe an apology to the incredibly talented people of MDHI who have made the LUH bid possible.

THE PAST

Consider the history. When the Patriarch Funds acquired a controlling interest in MDHI in July of 2005, the Company had all but shut its doors. There had been no flow production, few deliveries and a diminishing supply base since 2001. At the time prior to acquisition, suppliers were no longer willing to risk further non-payment and had refused to ship product to MDHI absent cash in advance. The MDHI balance sheet then reflected in excess of \$40 million of payables, a significant portion of which had been outstanding for at least 36 months.

THE NEW MDHI

After much work by the new management team at MDHI, the resemblance between the MD of old and that of today, however, is limited to its existing corporate facilities in Arizona and its portfolio of spectacular helicopters. When the Patriarch Funds acquired its interest in MDHI, it assumed certain of the liabilities rather than a purchase of the assets only, because Patriarch knew the importance of establishing trust with the vendor base. MDHI, with a robust infusion of capital, commenced the time consuming and arduous process of repaying outstanding accounts payable balances and rebuilding vendor relationships. MDHI moved with great speed and precision to re-ignite its supply base and to extend its sense of urgency on timely delivery. MDHI's senior management ranks devoted enormous time and resources to repair relationships with the vendor base so that spare parts could be delivered and flow production commenced. In direct contrast to the assumptions in Mr. McKenna's article, the facts unambiguously point to all things contrary.

First, the balance sheet of MDHI reflects no past due payables. MDHI carries approximately \$3.7 million of current payables with the contra-account of prepaid inventory of approximately \$8.1 million, with a net prepaid inventory balance of \$2.9 million. This contrasts with approximately \$40 million of outstanding payables prior to the investment by the Patriarch Funds. The reconciliation of past due payables, all at once, was painful, but integral to the re-ignition of the supply chain.

Second, net terms have been established with major suppliers except for those that bear capital constraints and require the use of MDHI capital for timely production. Suppliers have accepted orders for parts needed for LUH assembly and delivery dates have been confirmed.

THE SUPPLY CHAIN

The fact that MDHI has embarked upon a dual-strategy supply chain approach to ensure its long-term path of pursuit has been well publicized. The first line of attack, which has been executed, has been to repair and rebuild a supply chain that fully outsourced the manufacture of MDHI parts, components and sub-assemblies. The second stratagem is rooted in a more global approach that will bring in-house among global MDHI and Patriarch resources much of the primary and secondary supply chain manufacture. MDHI believes long-term accountability and viability as an OEM will demand the in-house manufacture of many of its components, some on a primary source basis and others on a secondary platform. Globalization has forever altered access to raw materials, lead times and priorities of vendors. Aerospace combines variables of low volume with large capital needs that has rendered smaller US suppliers unable to compete. It is largely the same in the US automotive industry, which is larger and therefore the troubles more public. For example, GM produces approximately 25 cars per minute, but Sikorsky assembles only 300 helicopters each year. It would be disappointing to learn that the candor and innovative approach at MDHI regarding a longer term strategy, to serve well the MDHI customer base for the duration, would confuse and cast doubt that MDHI has not sufficiently re-ignited a supply chain that can deliver our current orders on time. That would be a false assumption and unfair to MDHI.

THE COMMITMENT

The leadership and the employees of MDHI have walked through walls of fire to be properly positioned to deliver on our collective promise to both the US Army and our commercial customers. As noted, overdue payables have been paid, major supplier contracts renegotiated, smaller vendors supported with material procurement, engineering, and MDHI labor. MDHI has further enhanced its capability to solve specific smaller component issues with the Patriarch Funds recent acquisition of Heritage Aviation. Heritage is both a certified repair station and holds MDHI approval to manufacture wire harnesses, panels, composite parts and sheet metal components. Heritage's in-house capability to manufacture high quality, low volume runs with great

alacrity provides MDHI with enormous flexibility to respond to unexpected delivery failures or issues by primary vendors. The nature of the parts supplied to MDHI by Heritage requires no re-tooling effort. The Heritage acquisition was intended to enhance MDHI flexibility and self-sufficiency in the future.

In short, MDHI has made great strides in all respects in the short time since the Patriarch Funds have acquired a controlling interest. There is, nor can there be, any question as to MDHI's ability, capacity or commitment to win the LUH contract and to provide its legendary helicopters on time and in compliance with the Army's specifications. The undersigned and the senior leadership of MDHI stand ready to provide further explanation or to meet face to face with those interested in receiving further information. If you have any questions, you should not hesitate to contact me personally.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Lynn Tilton', with a stylized flourish at the end.

Lynn Tilton
Acting Chief Executive Officer
MD Helicopters, Inc.