

**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF ALASKA**

In re:

ERA AVIATION, INC.,

Debtor.

Case No. A05-02265-DMD

Chapter 11 [Lead Case]

JOINTLY ADMINISTERED

In re:

ERA AVIATION INVESTMENT
GROUP, LLC,

Debtor.

Case No. A05-02266-DMD

Chapter 11

Filed On
3/23/06

SECOND MEMORANDUM REGARDING CASH COLLATERAL

In a memorandum dated January 6, 2006,¹ I set forth my rationale for allowing the debtor to use \$1.15 million of CapitalSource's cash collateral. The debtor now seeks to use an additional \$517,950.00 worth of cash collateral for the period of March 24, 2006, through June 16, 2006. During the week of May 26, 2006, the debtor would use a combined total of \$850,881.00 of CapitalSource's cash. This sum would decrease in ensuing weeks as additional receivables are collected.

In my January 6, 2006, memorandum, I found CapitalSource to be adequately protected and I reach the same conclusion now. The fair market value I utilized in my January 6 memorandum for the debtor's aircraft, rotatable parts, inventory and spare engines remains the same today: \$14.817 million. The debtor continues to maintain the fleet in excellent condition and there is virtually no deferred maintenance on the aircraft. CapitalSource contends that the debtor's receivables are overvalued. In my prior

¹See Memorandum Regarding Cash Collateral, filed Jan. 6, 2006 [Docket No. 26].

memorandum I discounted the debtor's receivables to \$2 million. Mr. Steve Jackson, a certified public accountant recently retained by the debtor as lead reorganization consultant, indicates a range of \$2 to \$3 million for the receivables is reasonable. The only change to my prior analysis is in the amount of cash on hand. During the week of May 26, 2006, the debtor's ending cash balance will dip to \$180,000.00. But during that week, CapitalSource will have total collateral of \$18,000,000.00 securing its claim of approximately \$12.7 million. I find that CapitalSource is adequately protected. It retains a substantial equity cushion even during the worst cash flow week projected for the debtor. No interest payments or adequate protection payments are required under these circumstances. The rationale for my decision to permit the debtor's continued use of cash collateral remains unchanged.²

DATED: March 23, 2006.

BY THE COURT

/s/ Donald MacDonald IV
DONALD MacDONALD IV
United States Bankruptcy Judge

Serve: C. Christianson, Esq.
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03/23/06

²*Pistole v. Mellor, (In re Mellor)*, 734 F.2d 1396, 1400-01 (9th Cir. 1984); 3 COLLIER ON BANKRUPTCY ¶ 361.02[2][a] (15th ed. revised 2006).

ERA AVIATION, INC.

Cash Flow Projections - Updated Mar. 21, 2006

	1	2	3	4	5	6	7	8	9
	24-Mar-06	31-Mar-06	7-Apr-06	14-Apr-06	21-Apr-06	28-Apr-06	5-May-06	12-May-06	19-May-06
	Week Ending Friday								
Receipts									
ACH settlement	\$ 621,540	\$ 611,523	\$ 637,000	\$ 645,880	\$ 652,440	\$ 648,912	\$ 665,931	\$ 688,031	\$ 662,049
Other collections		\$ 627,958				\$ 658,999			
Medical claims reimbursement									
Holdback from credit card receipts									
Total cash receipts	\$ 621,540	\$ 1,239,481	\$ 637,000	\$ 646,880	\$ 652,440	\$ 1,307,911	\$ 665,931	\$ 688,031	\$ 662,049
Disbursements									
Payroll and payroll taxes	\$ 155,000	\$ 271,000	\$ 160,000	\$ 222,000	\$ 542,000	\$	\$ 553,000	\$	\$ 320,000
Referral bonuses and taxes		60,000							
Insurance	44,063	83,453	44,063	305,589	44,063	83,453	44,063	305,589	44,063
Medical claims (reimbursed within 30 days)									
401(k) deferral (Mass Mutual)	112,887	112,887	111,288	111,288	111,288	111,288	119,700	91,000	123,065
Fuel	98,727					98,727			
Rent			41,250				41,250		
Leased aircraft rent				50,850					
Leased aircraft maintenance reserves	49,500	5,810	22,500			5,810	22,500		
Landing and airport fees	144,428	144,428	91,430	91,430	91,430	91,430	170,016	201,450	10,100
Repairs and maintenance									
Utilities									
Telecommunications and data	530	10,367		11,713	530	10,367			11,713
Freight	2,185	2,185	2,185	3,765	2,185	2,185	2,185	2,185	3,765
Outside services	1,850	13,200	1,850	1,850	1,850	13,200	1,850	1,850	1,850
Airline supplies	1,540	1,540	1,540	1,540	1,540	1,540	1,540	1,540	1,540
Agent commissions				25,700				25,700	
Ground handling and de-icing	21,000								
Credit card fees					38,760				
Flight crew training	16,320					120,000			12,500
Federal excise taxes	120,000								
Professional fees:									
Financial Consulting Group	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Accounting & Auditing	15,000	10,000	15,000	15,000	15,000	10,000	6,000		
Legal	15,000	15,000	15,000	15,000	15,000	15,000	10,000	10,000	10,000
Arctic IT (Great Plains)	6,200	6,200	6,200	6,200	6,200	6,200	6,200		
Unsecured Creditors Committee fees	9,000	3,000	3,000	3,000	3,000	3,000	2,000	2,000	2,000
U.S. Trustee fees									
Seacor settlement				19,327		9,795			
Capital Source	7,140				7,140				
Other							895	7,495	19,327
Events not anticipated									
Total cash outflows	\$ 861,370	\$ 788,865	\$ 562,801	\$ 1,145,351	\$ 919,986	\$ 632,985	\$ 1,021,199	\$ 982,724	\$ 801,372
Weekly net cash inflows/outflows	\$ (239,830)	\$ 450,616	\$ 74,199	\$ (499,471)	\$ (267,546)	\$ 674,916	\$ (355,267)	\$ (314,693)	\$ (139,322)
Beginning cash	\$ 1,038,928	\$ 799,098	\$ 1,249,714	\$ 1,323,912	\$ 824,441	\$ 566,895	\$ 1,231,811	\$ 876,844	\$ 561,861
Ending cash balance	\$ 799,098	\$ 1,249,714	\$ 1,323,912	\$ 824,441	\$ 566,895	\$ 1,231,811	\$ 876,844	\$ 561,861	\$ 422,529

Exhibit A
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ERA AVIATION, INC.

Cash Flow Projections - Updated Mar. 21, 2006

	Week Ending Friday				13	13 Week Total
	10	11	12	13		
	26-May-06	2-Jun-06	9-Jun-06	16-Jun-06		
Receipts						
ACH settlement	\$	\$ 843,887	\$		\$	2,104,322
Other collections	656,068	849,985	636,064	602,050		8,383,995
Medical claims reimbursement						
Holdback from credit card receipts						
Total cash receipts	\$ 656,068	\$ 1,493,871	\$ 636,064	\$ 602,050	\$	\$ 10,488,316
Disbursements						
Payroll and payroll taxes	\$ 233,000	\$ 320,000	\$ 233,000	\$ 320,000		3,329,000
Retention bonuses and taxes						60,000
Insurance	44,063	83,453	44,063	44,063		1,214,041
Medical claims (reimbursed within 30 days)						
401(k) deferral (Mass Mutual)						273,000
Fuel	123,065	126,649	91,000	142,609		1,573,866
Rent	99,727					299,182
Leased aircraft rent		41,250				123,750
Leased aircraft maintenance reserves				50,850		202,050
Landing and airport fees		6,380	22,500			85,500
Repairs and maintenance	201,450	163,716	69,381			1,731,419
Utilities						30,300
Telecommunications and data		530		11,713		67,829
Freight		2,185	2,185	3,765		33,145
Outside services	1,850	13,200	1,850	1,850		58,100
Airline supplies	1,540	1,540	1,540	1,540		20,020
Agent commissions			25,700			77,100
Ground handling and de-icing						21,000
Credit card fees						
Flight crew training						87,580
Federal excise taxes			120,000		20,000	720,000
Professional fees:						
Financial Consulting Group						520,000
Accounting & Auditing	40,000	40,000	40,000	40,000		96,000
Legal	10,000	10,000	10,000	10,000		160,000
Arctic IT (Great Plains)						43,400
Unsecured Creditors Committee fees	2,000	2,000	2,000	2,000		36,000
U.S. Trustee fees						10,000
Seacor settlement						
Capital Source						
Other	7,140	9,795	7,496	19,327		132,165
Events not anticipated						
Total cash outflows	\$ 856,550	\$ 832,535	\$ 813,323	\$ 747,197	\$	\$ 11,006,266
Weekly net cash inflows/outflows	\$ (240,482)	\$ 661,337	\$ (177,259)	\$ (145,147)	\$	\$ (617,950)
Beginning cash	\$ 422,529	\$ 182,047	\$ 843,384	\$ 666,125		
Ending cash balance	\$ 182,047	\$ 843,384	\$ 666,125	\$ 520,978		