

ERICKSON INC.  
Form 10-Q  
November 06, 2014

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014.

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 001-35482

ERICKSON INCORPORATED  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

93-1307561  
(I.R.S. Employer  
Identification No.)

5550 SW Macadam Avenue, Suite 200,  
Portland, Oregon  
(Address of principal executive offices)  
(503) 505-5800

97239  
(Zip Code)

(Registrant's telephone number, including area code)  
Securities registered pursuant to Section 12(b) of the Act:

Title of each class  
Common Stock, \$0.0001 par value

Name of each exchange on which registered  
The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:  
N/A  
(Title of each class)

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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 Regulation 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  (Do not check if a smaller reporting company) 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

On October 31, 2014, 13,812,964 shares of common stock, par value \$0.0001, were outstanding.

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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ERICKSON INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(Unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$2,559	\$1,881
Restricted cash	465	2,883
Accounts receivable, net of allowances for doubtful accounts of \$648 and \$991 in 2014 and 2013, respectively	65,961	65,987
Prepaid expenses and other current assets	10,198	3,360
Income tax receivable	162	135
Deferred tax assets	2,351	3,715
Total current assets	81,696	77,961
Aircraft support parts, net	137,848	126,696
Aircraft, net	123,475	127,179
Property, plant and equipment, net	125,901	109,382
Goodwill	215,634	234,978
Other intangible assets, net	20,654	22,484
Other non-current assets	24,861	28,625
Total assets	\$730,069	\$727,305
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$22,673	\$29,035
Accrued and other current liabilities	39,508	41,233
Income tax payable	975	621
Total current liabilities	63,156	70,889
Long-term debt	16,831	16,160
Long-term revolving credit facilities	86,240	68,086
Long-term notes payable	355,000	355,000
Other long-term liabilities	12,688	1,819
Uncertain tax positions	5,669	5,669
Deferred tax liabilities	5,722	16,775
Total liabilities	545,306	534,398
Stockholders' equity:		
Common stock; \$0.0001 par value; 110,000,000 shares authorized; 13,802,212 and 13,787,914 issued and outstanding at September 30, 2014 and December 31, 2013, respectively	1	1
Additional paid-in capital	180,818	179,954
Retained earnings	4,263	12,104
Accumulated other comprehensive loss, net of tax	(1,122	) (42
Total stockholders' equity attributable to Erickson Incorporated	183,960	192,017

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Noncontrolling interest	803	890
Total stockholders' equity	184,763	192,907
Total liabilities and stockholders' equity	\$730,069	\$727,305

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

Table of ContentsERICKSON INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands, except share and per share data)

(Unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net revenues:	\$ 118,338	\$ 120,226	\$ 273,407	\$ 225,756
Cost of revenues	70,360	74,041	203,420	152,808
Gross profit	47,978	46,185	69,987	72,948
Operating expenses:				
General and administrative	6,608	10,107	20,399	26,486
Research and development	783	1,154	2,839	3,116
Selling and marketing	2,060	1,642	7,203	5,507
Impairment of goodwill	—	—	21,272	—
Total operating expenses	9,451	12,903	51,713	35,109
Operating income	38,527	33,282	18,274	37,839
Other income (expense):				
Interest expense, net	(9,002	) (8,665	) (26,866	) (16,516
Interest expense related to tax contingencies	—	(560	) —	(871
Amortization of debt issuance costs	(613	) (599	) (1,827	) (1,386
Unrealized foreign exchange gain (loss)	(518	) 159	(274	) 299
Loss on early extinguishment of debt	—	—	—	(215
Realized foreign exchange gain (loss)	93	(68	) 51	(218
Gain on involuntary conversion	308	—	308	—
Gain on disposal of equipment	62	20	253	41
Other expense, net	(163	) 95	(704	) (267
Total other income (expense)	(9,833	) (9,618	) (29,059	) (19,133
Net income before income taxes and noncontrolling interest	28,694	23,664	(10,785	) 18,706
Income tax expense (benefit)	11,753	9,176	(3,039	) 7,009
Net income (loss)	16,941	14,488	(7,746	) 11,697
Less: Net (income) loss related to noncontrolling interest	(79	) 37	(95	) (341
Net income (loss) attributable to Erickson Incorporated and common stockholders	\$ 16,862	\$ 14,525	\$ (7,841	) \$ 11,356
Net income (loss)	\$ 16,941	\$ 14,488	\$ (7,746	) \$ 11,697
Other comprehensive income (loss):				
Foreign currency translation adjustment	(1,995	) 727	(1,189	) 542
Comprehensive income (loss)	14,946	15,215	(8,935	) 12,239
Comprehensive (income) loss attributable to noncontrolling interest	17	(14	) 14	(375
Comprehensive income (loss) attributable to Erickson Incorporated	\$ 14,963	\$ 15,201	\$ (8,921	) \$ 11,864
Net income (loss) per share attributable to common stockholders				
Basic	\$ 1.22	\$ 1.26	\$ (0.57	) \$ 1.10
Diluted	\$ 1.22	\$ 1.05	\$ (0.57	) \$ 1.02
Weighted average shares outstanding				

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Basic	13,802,212	11,562,465	13,797,093	10,356,507
Diluted	13,817,050	13,813,514	13,797,093	11,122,050

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

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## ERICKSON INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

(In thousands, except share and per share data)

(Unaudited)

	Preferred Stock		Common Stock			Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)		Noncontrolling Interest Amount	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Additional Paid-in Capital			Of Erickson Incorporated			
Balance at December 31, 2012	—	\$—9,726,785	\$1	\$101,833	\$2,447	\$71	\$104,352	\$1,016	\$105,368		
Issuance of Series A Preferred Stock	4,008,439	78,044	—	—	—	—	—	—	—	—	—
Noncontrolling interest dividend	—	—	—	—	—	—	—	(341)	(341)		
Issuance of Restricted Stock Units	—	—	87,634	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	792	—	—	792	—	792	—	792
Conversion of Series A Preferred Stock to Common Stock	(4,008,439)	(78,044)	4,008,439	78,044	—	—	78,044	—	78,044	—	78,044
Shares withheld for payment of taxes	—	—	(34,944)	(715)	—	—	(715)	—	(715)	—	(715)
Components of comprehensive income (loss):											
Net income (loss)	—	—	—	—	9,657	—	9,657	209	9,866	—	9,866
Foreign currency translation	—	—	—	—	—	(113)	(113)	6	(107)	—	(107)
Comprehensive income (loss)											9,759
Balance at December 31, 2013	—	\$—13,787,914	\$1	\$179,954	\$12,104	\$(42)	\$192,017	\$890	\$192,907		
Issuance of Restricted	—	—	23,022	—	—	—	—	—	—	—	—



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Stock Units										
Noncontrolling interest dividend	—	—	—	—	—	—	(73)	)	(73)	
Stock-based compensation	—	—	—	616	—	—	616	—	616	
Shares withheld for payment of taxes	—	—	(8,724)	)	—	(166)	)	—	(166)	
Proceeds from shareholder, net	—	—	—	414	—	—	414	—	414	
Components of comprehensive income (loss):										
Net income (loss)	—	—	—	—	(7,841)	)	—	(7,841)	)	
Foreign currency translation	—	—	—	—	—	(1,080)	)	(1,080)	)	
Comprehensive loss									(8,935)	
Balance at September 30, 2014	—	\$—	13,802,212	\$1	180,818	\$4,263	\$(1,122)	\$183,960	\$803	\$184,763

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	
Cash flows from operating activities:					
Net income (loss)	\$ 16,941	\$ 14,488	\$(7,746	) \$ 11,697	
Adjustments to reconcile loss to net cash used in operating activities:					
Depreciation and amortization	10,164	11,566	27,098	25,439	
Impairment of goodwill	—	—	21,272	—	
Deferred income taxes	8,467	8,460	(8,273	) 4,665	
Non-cash interest expense on debt	147	579	670	1,776	
Non-cash interest on tax contingencies	—	560	—	871	
Non-cash interest income on loans	—	(58	) —	(99	)
Write-off of debt issuance costs related to the early extinguishment of debt	—	—	—	215	
Stock-based compensation	220	255	616	665	
Amortization of debt issuance costs	613	599	1,827	1,386	
Gain on sale of equipment	(62	) (20	) (253	) (41	)
Gain on involuntary conversion	(308	) —	(308	) —	
Changes in operating assets and liabilities:					
Accounts receivable	(3,095	) (12,799	) (1,525	) (26,482	)
Prepaid expenses and other current assets	(6,001	) (380	) (6,907	) (2,018	)
Income tax receivable	3	(246	) 949	(561	)
Aircraft support parts, net	(923	) (9,999	) (13,638	) (23,193	)
Other non-current assets	1,106	(1,622	) 4,232	(4,303	)
Accounts payable	(6,892	) 4,736	(6,161	) (20,740	)
Accrued and other current liabilities	12,291	(3,272	) (4,050	) 2,740	
Income tax payable	493	25	1,210	1,256	
Other long-term liabilities	(366	) (656	) 192	896	
Net cash provided by (used in) operating activities	32,798	12,216	9,205	(25,831	)
Cash flows from investing activities:					
Acquisition of businesses, net of cash acquired (see Note 6)	—	(22,998	) —	(231,868	)
Purchases of aircraft and property, plant and equipment, net	(15,569	) (7,733	) (52,707	) (32,366	)
Proceeds from sale-leaseback of aircraft	—	—	24,660	—	
Restricted cash	574	45,953	2,341	942	
Purchase of intangible assets	—	(2,200	) —	(2,200	)
Decrease in other assets	—	—	—	(35	)
Dividends paid to non-controlling interest	—	—	(73	) (341	)
Net cash provided by (used in) investing activities	(14,995	) 13,022	(25,779	) (265,868	)
Cash flows from financing activities:					
Proceeds from shareholders, net	—	—	414	—	
Repayments of subordinated notes	—	—	—	(27,572	)

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Repayments of credit facilities	(69,716	) (30,382	) (148,839	) (214,799	)
Borrowings from credit facilities	53,862	49,535	166,993	197,387	
Borrowing of notes	—	—	—	400,000	
Repayment of notes	—	(45,000	) —	(45,000	)
Debt issuance costs	(72	) (691	) (339	) (14,667	)
Shares withheld for payment of taxes	—	(84	) (166	) (697	)
Net cash provided by (used in) financing activities	(15,926	) (26,622	) 18,063	294,652	
Effect of foreign currency exchange rates on cash and cash equivalents	(1,762	) 865	(811	) 881	
Net increase (decrease) in cash and cash equivalents	115	(519	) 678	3,834	
Cash and cash equivalents at beginning of period	2,444	5,821	1,881	1,468	
Cash and cash equivalents at end of period	\$2,559	\$5,302	\$2,559	\$5,302	
Supplemental disclosure of cash flow information:					
Cash paid for interest	\$2,017	\$1,972	\$19,553	\$11,820	
Cash paid for income taxes, net	\$1,588	\$526	\$2,449	\$971	

The accompanying notes are an integral part of these financial statements

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ERICKSON INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1. Description of the Business

The consolidated financial statements include the accounts of Erickson Incorporated (“EAC”) and its subsidiaries and affiliated companies: EAC Acquisition Corporation (“EAC Acq.”), Erickson Helicopters, Inc. and its subsidiaries (“EHI”, formerly known as Evergreen Helicopters, Inc.), CAC Development Ltd. (“Canada”), Canadian Air-Crane Ltd. (“CAC”), Erickson Air-Crane Malaysia Sdn. Bhd. (“EACM”), European Air-Crane S.p.A. (“EuAC”), Air Amazonia Serviços Aeronáuticos Ltda. (“Air Amazonia”), Dutch Air-Crane B.V. (“DAC”), and Erickson Aviation Peru S.A.C. (“Peru”) (collectively referred to as “the Company”). EuAC owns a 60% equity interest in Societa Italiana de Manutenzioni Aeroautiche S.p.A. (“SIMA”), which is an aircraft maintenance organization located in Lucca, Italy; and EACM owns a 49% equity interest in Layang-Layang Services Sdn. Bhd., which provides aircraft rental services in Malaysia.

As of September 30, 2014, the Company owned a fleet of 19 heavy lift helicopters, comprised of 13 S-64E and six S-64F model Aircranes, and 37 medium and light lift aircraft of varying model types, comprised of 30 rotor wing aircraft and seven fixed-wing aircraft. As of September 30, 2014, the Company leased a fleet of one heavy lift, 31 medium and light lift aircraft of varying types, comprised of 26 rotary wing aircraft and five fixed-wing aircraft. The Company’s fleet operations span the globe with a presence on six continents. As of September 30, 2014, 20 of the owned aircraft and 21 of the leased aircraft were deployed outside of North America.

The Company owns the Type Certificate and Production Certificate for the S-64 Airplane which gives it the authorization to convert and remanufacture the S-64 Airplane for its own use or to sell to third parties. The Company holds a Type Certificate issued by the European Aviation Safety Agency (“EASA”) certifying the S-64F model which allows the Airplane to be sold to third parties in the European Union. The Company holds a Repair Station Certificate which allows the Company to repair and overhaul airframes and components for Airplanes and certain other aircraft, and the Company owns the Type Certificate for engines used in the S-64 Airplane.

Fiscal 2014

On April 1, 2014, the Company completed a rebranding initiative which included the following changes in legal names of entities: Erickson Air-Crane, Incorporated became Erickson Incorporated, Evergreen Helicopters, Inc. became Erickson Helicopters, Inc., and Evergreen Helicopters of Alaska, Inc. became Erickson Transport, Inc.

Fiscal 2013

On May 2, 2013, the Company closed its \$400.0 million aggregate principal note offering of 8.25% second priority senior secured obligations due 2020 (the “2020 Senior Notes”). Net proceeds from the offering were approximately \$386.4 million after deducting the initial purchasers’ commissions and estimated transaction fees and expenses. The Company used the net proceeds of the offering to (i) finance a portion of the purchase price for the EHI acquisition (see “Note 6 — Acquisitions”), (ii) refinance its 2015 Subordinated Notes and 2016 Subordinated Notes, (iii) refinance its prior senior secured asset-based revolving credit facility, comprised of the Term Debt and Revolving Line of Credit, (iv) pay related fees and expenses and (v) record the remaining cash to the balance sheet. A total of \$46.0 million of the net proceeds were deposited in escrow on May 2, 2013, consisting of \$45.0 million of aggregate principal and \$1.0 million related to anticipated interest, to be used toward the acquisition of Air Amazonia, the aerial services business of Brazil-based HRT Participações em Petróleo, S.A. (“HRT”). These proceeds of the offering were not released from escrow to consummate the Air Amazonia acquisition before July 31, 2013, and as a result, pursuant to the terms of the 2020 Senior Notes, an aggregate principal amount of Notes equal to \$45.0 million were redeemed, on a pro rata basis, on August 5, 2013 pursuant to a special mandatory redemption, at a price equal to 100% of the principal amount of the

2020 Senior Notes being redeemed, plus accrued and unpaid interest to, but not including, August 5, 2013. The Company completed the acquisition of Air Amazonia on September 3, 2013, funding the purchase price with borrowings from its senior secured asset-based credit facility also entered into on May 2, 2013 (the “Revolving Credit Facility”). See “Note 6 — Acquisitions” for further information.

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On May 2, 2013, the Company completed its acquisition of EHI, based in McMinnville, Oregon, a wholly owned subsidiary of Evergreen International Aviation, Inc. (“EIA”) prior to the acquisition. EHI operated a fleet that consisted of 63 aircraft as of May 2, 2013, which included varying rotary-wing and fixed-wing types for a wide range of passenger transport and light, medium and heavy load-carrying missions. This diverse fleet serves both government and commercial customers, including programs with the U.S. military in support of overseas operations. EHI maintains a global presence with operations in North America, the Middle East, Africa, and Asia-Pacific (see “Note 6 — Acquisitions”).

On September 3, 2013, the Company completed its acquisition of Air Amazonia, which included a fleet of six rotor wing aircraft and ground facilities. This fleet serves oil and gas activities in the Solimoes region of Brazil (see “Note 6 — Acquisitions”).

Note 2. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts and transactions of all majority owned subsidiaries and variable interest entities in which the Company is the primary beneficiary. In presenting these unaudited consolidated financial statements, management makes estimates and assumptions that affect reported amounts of assets and liabilities and related disclosures, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting periods. Estimates, by their nature, are based on judgments and available information at a point in time. As such, actual results could differ from those estimates. In management’s opinion, the unaudited consolidated financial statements contain all normal recurring adjustments necessary for a fair presentation of interim results reported.

All intercompany accounts and transactions have been eliminated in consolidation.

The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and following the guidance of Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the U.S. Securities and Exchange Commission (the “SEC”). As permitted under such rules, certain notes and other financial information normally required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted; however, the unaudited consolidated financial statements do include such notes and financial information sufficient so as to make the interim information presented not misleading. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes as of December 31, 2013 included in the Company’s annual report on Form 10-K filed with the SEC on March 14, 2014.

The balance sheet at December 31, 2013 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by