

Erickson Air-Crane Inc
Form 10-K
March 08, 2013

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2012

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 001-35482**

ERICKSON AIR-CRANE 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)

97239
(Zip Code)

(503) 505-5800
(Registrant's telephone number, including area code)

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N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

(Do not check if a
smaller reporting company)

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

The aggregate market value of common equity held by non-affiliates of the Registrant as of June 30, 2012 was approximately \$26,839,664.

On March 1, 2013, 9,726,785 shares of common stock, par value \$0.0001, were outstanding.

Portions of the Registrant's Proxy Statement to be filed in connection with the 2013 Annual Meeting of Shareholders are incorporated by reference in Part III.

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PART I.

ITEM 1. BUSINESS

This annual report on Form 10-K (including, but not limited to, the following section regarding our Business) contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this annual report on Form 10-K. Additionally, statements concerning future matters such as the development of new products, enhancements or technologies, sales levels, expense levels and other statements regarding matters that are not historical are forward-looking statements.

Although forward-looking statements in this annual report on Form 10-K reflect our good faith judgment, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under the heading "Risk Factors" below, as well as those discussed elsewhere in this annual report on Form 10-K. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this annual report on Form 10-K. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this annual report on Form 10-K. Readers are urged to carefully review and consider the various disclosures made in this annual report on Form 10-K, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Overview

We specialize in the operation and remanufacture of the Erickson S-64 Airplane ("Airplane"), a versatile and powerful heavy-lift helicopter. The Airplane has a lift capacity of up to 25,000 pounds and is the only commercial aircraft built specifically as a flying crane without a fuselage for internal loads. The Airplane is also the only commercial heavy-lift helicopter with a rear load-facing cockpit, combining an unobstructed view and complete aircraft control for precision lift and load placement capabilities.

We own and operate a fleet of 18 Airplanes, which we use to support a wide variety of government and commercial customers worldwide across a broad range of aerial services, including firefighting, timber harvesting, infrastructure construction, and crewing. We refer to this segment of our business as Aerial Services. We also provide aftermarket support and maintenance, repair, and overhaul services for the Airplane and other aircraft and remanufacture Airplanes and related components for sale to government and commercial customers. We refer to this segment of our business as Aircraft Manufacturing and Maintenance, Repair, and Overhaul ("Manufacturing / MRO"). As part of our Manufacturing / MRO segment, we also offer cost per hour ("CPH") contracts pursuant to which we provide components and expendable supplies for a customer's aircraft at a fixed cost per flight hour. We believe CPH contracts help our customers better predict and manage their maintenance costs. In 2012, our Aerial Services and Manufacturing / MRO segments generated revenues of \$161.4 million and \$19.4 million, respectively; in 2011, our Aerial Services and Manufacturing / MRO segments generated revenues of \$138.6 million and \$14.1 million, respectively; in 2010, our Aerial Services and Manufacturing / MRO segments generated revenues of \$105.7 million and \$12.5 million, respectively. In 2012, 2011, and 2010, we had operating income of \$33.4 million, \$16.6 million, and \$1.7 million, respectively. In 2012, we had net income attributable to Erickson Air-Crane of \$15.2 million; in 2011,

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we had net income attributable to Erickson Air-Crane of \$15.9 million; in 2010, we had net loss attributable to Erickson Air-Crane of \$8.1 million.

We own the Type and Production Certificates for the Aircrane, granting us exclusive design, manufacturing and related rights for the aircraft and original equipment manufacturer ("OEM") components. We invest in new technologies and proprietary solutions with a goal of increasing our market share and entering new markets. We have remanufactured 35 Aircranes for our own fleet and for our customers in several countries worldwide. To date, we have sold and delivered nine Aircranes. We are headquartered at 5550 SW Macadam Avenue, Suite 200, Portland, Oregon 97239 and our phone number is (503) 505-5800. We have production, maintenance, and logistics facilities in Central Point, Oregon. Our website address is www.ericksonaircrane.com. The information on, or accessible through, our website is not a part of this annual report on Form 10-K or any other report we file or furnish with the SEC.

Recent Developments

On March 6, 2013, we entered into a binding term sheet (the "HRT Agreement") with Air Amazonia Serviços Aéreos Ltda. ("Air Amazonia") and HRT Participações em Petróleo S.A. ("HRT"). Pursuant to the HRT Agreement, we have agreed to work in good faith towards establishing and executing definitive agreements and related documentation that would cause us to acquire (1) certain aircraft and other assets currently owned by entities controlled by HRT and (2) all of Air Amazonia's capital stock, for aggregate consideration up to \$75.0 million.

On March 6, 2013, we received a binding commitment letter from a bank syndicate led by Wells Fargo Capital Finance, LLC regarding funding of an agreement which consists of up to \$165.0 million in senior secured credit facilities. The commitment expires on April 15, 2013. For more information, see Note 7 to the accompanying audited financial statements.

Operating Segments

Aerial Services

We provide heavy-lift aerial helicopter solutions to domestic and international customers. Our Aircrane was designed as a versatile, airborne heavy-lift platform with capabilities that support a wide variety of missions and end-markets. The Aircrane is capable of providing heavy-lift solutions to a wide variety of industries, including firefighting, timber harvesting, infrastructure construction, oil and gas and energy related construction, disaster recovery, and emergency response. We own, operate, and maintain a fleet of 18 Aircranes, making us the world's largest Aircrane operator. We typically lease our aircraft to customers for specific missions, with customers generally paying for the aircraft, maintenance, and crewing services, and in some cases fuel expense. In addition, we currently provide crewing for four of the nine aircraft we have sold.

Our air crews consist of two or three pilots per aircraft who are capable of flying daily missions of up to 10 hours. Aircrane missions are highly specialized and require pilots, mechanics, technicians, and support crews with extensive experience in helicopter operations and in specific mission training. To support our commitment to safety and quality service, we recruit pilots with exceptional long-term in-flight helicopter experience and require that new hires spend significant time as co-pilots before graduating to full pilots, regardless of previous experience in other aircraft. We believe that our attractiveness to customers depends not only on the capabilities of our aircraft but also on the high level of training and abilities of our air crews and support personnel, as well as our safety policies and procedures.

Aerial services accounted for 89% of our consolidated revenues in 2012 (51% firefighting, 20% timber harvesting, 17% construction, and 12% crewing), 91% in 2011 (53% firefighting, 23% timber

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harvesting, 10% construction, and 14% crewing), and 89% in 2010 (52% firefighting, 28% timber harvesting, 5% construction, and 15% crewing). Our aerial services are seasonal, but our global operations help us mitigate the effects of seasonality; for example, the firefighting seasons in the U.S. and Europe typically run from May to October and in Australia the season typically runs from October to February.

Periodically, Aircranes are removed from service and undergo heavy maintenance activities, including inspections and repairs of the airframe and related parts as required. The actual time between heavy maintenance depends on many factors, including hours of operation, calendar time and kind of use. We perform the heavy maintenance procedures at our Central Point facilities. Heavy maintenance requires several months to complete during which time the Aircrane is not available to provide Aerial Services. We attempt to schedule heavy maintenance so that no more than one Aircrane is out of service undergoing heavy maintenance at any time.

Firefighting. Our Aircrane with an attached 2,650 gallon fire tank is a versatile, powerful, and cost-competitive aerial firefighter. The Aircrane has provided firefighting services globally, including services in the U.S., Canada, Italy, Greece, and Australia. Our firefighting customers include federal, state, local, and international government and commercial agencies. Under our typical firefighting contracts, aircraft are deployed to locations prone to seasonal fires and remain on standby throughout the fire season. For these contracts, which we refer to as exclusive-use contracts, we typically charge on a per-day basis for availability and on a per-hour basis for actual aircraft use. In some circumstances, we only charge for actual aircraft use; these contracts, which we refer to as call-when-needed contracts, have considerably higher daily and/or hourly rates than our exclusive-use contracts. Because fire seasons differ in the Northern and Southern Hemispheres, we are able to capitalize on the year-round demand for firefighting services by moving aircraft from one location to another.

Our 2,650 gallon fire tank features electronically controlled tank doors that allow for eight different coverage levels. The tank provides the Aircrane with a comparable delivery capacity of fixed-wing tanker planes and the increased maneuvering capabilities of a helicopter. Fixed-wing alternatives must land to reload or skim-load from large bodies of water. Our Aircrane reloads while in flight in 45 seconds or less from almost any available open water source deeper than 18 inches, including rivers, lakes, oceans, and cisterns. As a result, if there is an available water source nearby, the Aircrane can reload and return to its target significantly faster than fixed-wing alternatives, resulting in a substantially larger total drop capacity and a more cost-effective solution for fighting most fires.

Our proprietary accessories, including our water cannon, sea and pond snorkels, and hydromulch loading manifold, have helped us remain a leader in the firefighting market. As we look to increase our market share within the international firefighting market we will continue to pursue new product innovations.

Timber Harvesting. We have flown the Aircrane in high-performance, low-impact timber operations since 1971 in a number of regions, including the U.S., Canada, and the tropical forests in Malaysia. Our customers request our harvesting solutions primarily for high-value timber, such as tropical hardwoods and for remote area harvesting in locations that would otherwise require road construction or prohibit ground-based harvesting.

Aerial timber harvesting with the Aircrane is a cost-competitive, sustainable, and environmentally friendly method of harvesting high-value and difficult to access timber. Timber is vertically lifted and transported with our proprietary hydraulic grapple, minimizing the need for road development and large support crews on the ground. We believe one Aircrane can harvest and transport the same amount of timber in a day as approximately 50 ground tractors. The environmental benefits of this sustainable forest practice include far less damage to adjacent stands of trees, soil, and riparian areas.

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Infrastructure Construction. The Aircrane's rear load-facing pilot seat, combined with the skill and experience of our pilots, makes the aircraft particularly well-suited for infrastructure projects that require extreme precision in load delivery, such as electricity transmission and broadcasting towers, oil and gas pipelines, wind turbines, mining conveying systems, industrial equipment, emergency shelters, and ski-lift equipment. The Aircrane can be configured to transport heavy machinery and equipment such as heating, ventilating, and air conditioning HVAC units, automotive equipment, and other large cargo items.

We have developed a number of innovative mission-specific tools and accessories that further enhance our capabilities and increase our versatility, including our anti-rotation device and hoist, hydraulic grapple, and material transport bucket.

Crewing. For customers who purchase an Aircrane but lack qualified operating personnel, we offer pilots and field maintenance crews on an annual or multi-year contract basis. Because we are currently the largest employer of trained and qualified Aircrane pilots, crew chiefs, field mechanics, and other support personnel worldwide, we are often a critical solution for effective crewing of our sold aircraft. We provide crewing services for four of the nine aircraft we have sold since 2002. We provide crewing services on a multi-year basis to the Italian Forest Service in respect of four Aircranes we previously sold to the Italian Forest Service. We also provide maintenance and CPH for parts to this customer. Our contracts to provide services to the Italian Forest Service expire in June 2013. We are currently in discussions with the Italian Forest Service regarding contract extensions or renewal opportunities. However, we may not be successful in extending or renewing these agreements.

Aircraft Manufacturing and Maintenance, Repair, and Overhaul ("Manufacturing / MRO")

Through our Manufacturing / MRO segment, we manufacture new components on a contract basis, provide customers with Federal Aviation Administration ("FAA"), European Aviation Safety Agency ("EASA"), and Agência Nacional de Aviação Civil ("ANAC") certified MRO services in our AS9100-certified facility, and remanufacture Aircranes from existing airframes. The MRO process includes the disassembly, cleaning, inspection, repair, and reassembly of airframes, engines, components, and accessories, as well as the testing of complete engines and components. We perform major maintenance, repair, and overhaul on our own Aircranes, and we continue to provide parts and major maintenance and overhaul services to each aircraft we have sold. We also offer CPH contracts in which we provide all parts and service for a customer's aircraft at a fixed hourly rate, increasing our customers' ability to predict and manage their maintenance costs. Our Manufacturing / MRO segment accounted for 10.7%, 9.3% and 10.6% of our 2012, 2011, and 2010 consolidated revenue, respectively.

As the owner of the S-64 Type and Production Certificates, we have the exclusive authority and ability to remanufacture an Aircrane. We have remanufactured a total of 35 Aircranes for our own use and for sale to customers, and have sold one for domestic construction operations and eight for international firefighting operations. The sale of an Aircrane to an existing or potential Aerial Services customer may reduce future Aerial Services revenue opportunities with such customers or other third parties. In years when aircraft sales occur, they typically account for more than 10% of our consolidated revenues. We also build and remanufacture Aircranes for our own use as dictated by customer demand and currently own, operate, and maintain 18 Aircranes. All of our aircraft are remanufactured at our facility in Central Point, Oregon, enabling us to remanufacture an Aircrane to new specifications in approximately six to 14 months depending on specifications and lead times.

We have extensive capabilities in new parts production of airframes, aircraft systems, and avionics components for a wide variety of rotary aircraft. Our highly skilled mechanics and technicians regularly manufacture airframe subassemblies and other sheet metal parts and have machining capabilities that include computer numerical control milling, grinding, and lathing. Our manufacturing operations can fabricate hard-to-locate parts, or even reverse engineer and reproduce parts that may no longer be

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available from traditional sources. We manufacture aluminum main and tail rotor blades and have partnered with original equipment manufacturers to design and manufacture composite main rotor blades that we believe will significantly improve the performance of our Aircranes.

While we provide MRO services for our own Aircranes, we also continue to provide parts and major maintenance and overhaul services for every Aircrane we have sold. We perform similar operations on engines and other components for owners of other aircraft platforms. Our FAA-certificated repair station offers a full array of services from small repairs to extensive heavy airframe maintenance. Beyond the usual capabilities of a repair station, we have a team of engineers and resident Designated Engineering Representatives ("DER") to assist in repair salvages and modifications, as well as to address any engineering issues that arise during the maintenance process.

Competitive Strengths

We believe we have certain competitive advantages in the heavy-lift helicopter market, including:

Versatile Heavy-Lift Helicopter Solutions. The versatility and high payload capacity of the Aircrane, its proprietary mission-specific accessories, and the skill of our pilots and crews make the Aircrane an attractive solution for a wide variety of aerial services. We believe our fleet of 18 owned and operating Aircranes is the largest commercial fleet of helicopters in the world capable of carrying loads of up to 25,000 pounds and that our role as the remanufacturer of the Aircrane, combined with our scale, service readiness, and comprehensive global support network, provides us with a leadership position in the heavy-lift helicopter industry.

Vertically Integrated Business Model. We offer a full spectrum of heavy-lift helicopter solutions, including the design, engineering, development, manufacturing, and testing of the Aircrane, as well as Aerial Services and MRO services. We believe our integrated business model reduces our costs, diversifies our revenue stream, and results in better products and services through close collaboration between our product engineers and our operations personnel.

Established International Presence. During our history, we have operated in 25 countries across five continents. Global operations allow us to maximize the use of our fleet for seasonal aerial services and position us to capitalize on opportunities in a broad range of geographies. We currently maintain a year-round presence in Canada, Italy, Malaysia, and Peru, and a seasonal presence in Australia and Greece.

Proprietary Technologies and Continuous Innovation. We have made numerous design improvements to the Aircrane and have developed a variety of innovative accessories for our Aerial Services, including a 2,650 gallon firefighting tank and snorkel refill system, a "heli-harvester" for aerial timber harvesting, and an anti-rotation device and hoist that facilitates precision heavy load placement. We continuously explore ways to deliver innovative solutions to our customers and to potential customers in new markets.

Valuable Long-Term Customer Relationships and Contracts. We believe that our established relationships with customers, some of whom have been customers for more than 20 years, allow us to effectively compete for and win new projects and contract renewals. Our long-term relationships help provide us with visibility with respect to our revenue, aircraft utilization, and scheduled usage patterns.

Experienced and Growth-Oriented Management Team. Within the last five years, we have added the five members of our senior management team, including our Chief Executive Officer, our Chief Financial Officer, our Vice President and Chief Marketing Officer, Vice President of Aerial Services, and our Vice President, General Counsel, and Corporate Secretary. Our senior management team has an average of more than 20 years of experience in the aviation industry and rotorcraft sector. This

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professional aerospace team provides us with deep domain knowledge, extensive operational and manufacturing expertise, and strong customer and business relationships.

The Commercial Heavy-lift Helicopter Industry

The heavy-lift helicopter is a highly specialized aircraft which typically has an external load capacity greater than 10,000 pounds. This large external load capacity, combined with the helicopter's maneuverability, provides a solution in situations where ground-based or fixed-wing lifting solutions are not optimal. Heavy-lift helicopters are essential in numerous commercial applications, including firefighting, timber harvesting, infrastructure construction, and emergency response.

The heavy-lift helicopter industry extends beyond the services and operations of the aircraft, and encompasses all manufacturing, after-market services, and crew training required to properly equip the aircraft to support the demands of government agencies and commercial customers.

Commercial Heavy-Lift Helicopter Alternatives

The following table presents the most widely used commercial heavy-lift helicopters.

	S-64E/S-64F	CH-54A/ CH-54B⁽⁹⁾	S-61A/ S-61V⁽⁶⁾	Columbia 234 UT, 234 Combi / 234 Chinook⁽¹⁾	Columbia 107⁽¹⁾	KA-32⁽²⁾	MIL 26⁽⁷⁾
Manufacturer	Erickson	Sikorsky	Sikorsky	Boeing	Boeing	Kamov	MIL
Original Production	1962	1962	1959	1962	1964	1982	1977
Country of Origin	U.S.	U.S.	U.S.	U.S.	U.S.	Russia	Russia
Payload Capacity (lbs)	20,000/25,000	20,000/25,000	10,000/11,000	26,000/20,000	10,000	11,000	44,000
Range (nautical miles)	250/240	250/240	350/440	240/540	180	605	265
Speed (knots)	115/104	115/104	120/130	120	120	166	159
Primary Civilian Activities	Firefighting Timber Harvesting Construction	Firefighting Timber Harvesting Construction	Firefighting Timber Harvesting Construction Passenger Transport	Firefighting Timber Harvesting Construction Passenger Transport	Firefighting Timber Harvesting Construction Passenger Transport	Firefighting Timber Harvesting Construction Passenger Transport	Firefighting Construction Passenger Transport
Operating Restrictions							
Geographic	None	Country Specific	None	None	None	U.S. and Country Specific	U.S. and Country Specific
Category ⁽³⁾	Standard	Restricted	Depends on Configuration	Standard	Standard	Restricted	Restricted
Approximate Number in Operation	29 ⁽⁸⁾	12 ⁽⁸⁾	Unknown	6 ⁽⁴⁾⁽⁵⁾	12 ⁽⁴⁾	Unknown	Unknown

Note: External party data are based on internal estimates. All performance data are based on operations at sea level.

Sources:

- (1) Columbia Helicopters, www.colheli.com.
- (2) Kamov Helicopters, www.kamov.net.
- (3) Category restrictions include not being authorized to fly over populated areas, carry passengers, or operate in multiple countries.
- (4) PRWeb, www.prweb.com
- (5)

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Huffington Post, www.huffingtonpost.com

- (6) Siller Helicopters, www.sillerhelicopters.com
- (7) MIL Moscow helicopter plant, www.mi-helicopter.ru
- (8) See "Current S-64 and CH 54 Operations" below.
- (9) CH-54 aircraft have a similar frame and similar capabilities to the S-64, but, because they are military aircraft, they are limited in the U.S. in their allowed applications due to certification restrictions. Data was obtained from comparable S-64 aircraft within our fleet.

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Current S-64 and CH-54 Operators

The following table presents the current S-64 and CH-54 operators and the number of aircraft in operation.

	Standard	Restrictions for Use in U.S. ⁽¹⁾	
	S-64E/S-64F	CH-54A/CH-54B	Total
Erickson Air-Crane	18		18
Corpo Forestale (Italy)	4		4
Korea Forest Service	4		4
Siller Brothers	2	1	3
Helicopter Transport Services	1	11	12
Approximate Number in Operation	29	12	41

Note: External party data are based on internal estimates

- (1) CH-54 aircraft have a similar frame and similar capabilities to the S-64, but, because they are military aircraft, they are limited in the U.S. in their allowed applications due to certification restrictions.

Commercial Heavy-Lift Helicopter Markets

While heavy-lift helicopters have been used in a number of commercial applications, we believe that the key markets include firefighting, timber harvesting, infrastructure construction, and emergency response.

Aerial Firefighting

Aerial firefighting can be one of the most efficient means of combating wildfires because of the speed, mobility, and large carrying capacity of certain aircraft. The types of aircraft used in aerial firefighting include heavy-lift rotary aircraft such as the Aircrane, as well as fixed-wing aircraft, including the Bombardier CL-215 and 415, the Lockheed Martin C-130, and the McDonnell Douglas DC-10.

Aerial firefighting has a long and established history. In recent years fires have become increasingly destructive around the world. For example, fires in 2007 in Greece, in 2009 in Australia, and in 2010 in Israel had unprecedented impacts on land and property. However, fires are inherently unpredictable and are impacted by a number of factors outside of our control, such as weather, population deconcentration, government policies and resources, and human factors. Population deconcentration reflects both regional shifts in population and the increasing attractiveness of owning property for both seasonal recreation and full-time residency in areas adjacent to public land. According to the U.S. Department of Agriculture, Forest Service, North Central Research Station's report on wildland urban interface (WUI), population deconcentration has increased the amount of WUI, which has greatly complicated the mission of fire management in protecting communities at risk from wildfires. WUI creates an environment in which fire can move rapidly and readily, and threaten numerous buildings, homes, and people.

We believe that fire seasons in some areas are growing more intense and lasting longer, a phenomenon which some climatologists ascribe to climate change. This is consistent with findings in the 2009 Quadrennial Fire Review ("QFR"), an integrated strategic assessment process conducted by the U.S. Fire Executive Council and other government agencies to evaluate the future environment of fire management, which reports climate change will continue to result in a greater probability of longer fire seasons in various regions in the U.S. Over the past five years, longer and drier summers in the U.S.

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have contributed to an increase in the number and severity of fires annually. The QFR suggests that fire mitigation efforts must address potentially 10-12 million annual wildfire acres in the U.S. alone in the coming decade, up from the previous 2005 estimate of 8-10 million annual wildfire acres.

We believe that if fire seasons in the U.S. and other parts of the world intensify and lengthen, government agencies may require more firefighting resources for longer periods of time, which we believe may benefit heavy-lift service providers. This increased demand for firefighting services may also ultimately drive some users to transition from leasing aircraft to owning them.

Timber Harvesting

Heavy-lift helicopters are used in timber harvesting to remove cut trees from forests, lifting them on cables attached to the aircraft. Due to helicopters' relatively high operational costs, companies use heavy-lift helicopters to harvest primarily high-value timber used in high-grade wood products such as furniture and flooring. Aerial timber harvesting is well suited for accessing high-grade timber where challenging terrain or environmental concerns limit the possibility of building access roads.

Tropical timber species in particular can carry premiums large enough to justify aerial timber harvesting when more common harvesting methods are not economically, environmentally, or politically acceptable. Tropical species are often found in dense forests which are difficult to access and where the cost of building roads can be prohibitive. In addition, local governments are increasingly facing environmental pressures and have begun limiting, and in some cases forbidding, the use of access roads in order to protect and preserve forest lands. We believe the tropical forests of Malaysia and Indonesia present significant near-term opportunities for aerial timber harvesting, and think there are additional opportunities in South America and Southeast Asia.

In addition to tropical forestlands, a number of countries have high-value timber in mountainous and difficult-to-reach locations, where aerial timber harvesting is a highly attractive alternative, including regions of North America, Europe, and South America. North America, in particular, remains an attractive market for aerial timber harvesting. The demand for sawlogs, or softwood that typically carries a significant premium over pulpwood logs, remains strong and is expected to grow. We believe demand for our timber harvesting services in North America is correlated to estimated home starts in the U.S.

Growing environmental awareness is a factor driving the use of aerial timber harvesting solutions. Consumer demand for more socially responsible businesses helped third-party forest certification emerge in the 1990s as a tool for communicating the environmental and social performance of forest operations. As of January 2013, more than 170 million hectares of forest in 80 countries have received Forest Stewardship Council ("FSC") certification. Approximately 43 percent of these certifications are located in Europe, 41 percent in North America, seven percent in South America and Caribbean, five percent in Asia and Oceania, and four percent in Africa. Timber logged from certified forests is often more expensive and must be harvested in a sustainable manner, yielding growth opportunities for aerial timber harvesting as environmentally friendly forest resource management continues to grow in importance.

Infrastructure Construction

Heavy-lift helicopters are used in a variety of infrastructure construction projects, including oil and gas pipeline construction, transmission and utility grid construction, wind turbine construction, and offshore oil-development work. Additionally, heavy-lift helicopters are used in construction projects such as building construction, HVAC unit placement, ski lift construction, and mine conveyor belt construction. Aerial services are often the most efficient means to accomplish heavy-lift project goals.

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We believe growth prospects exist on a global basis, as infrastructure development opportunities arise in both developing and developed countries for power, oil and gas pipeline, and telecommunications construction. Throughout the world's developing economies, population growth, globalization, international trade, and reliance on technology have encouraged governments to accelerate various infrastructure development projects. We expect government agencies and private businesses to increase the number of power, oil and gas pipeline, and telecommunications construction projects in order to develop each of these sectors.

Building Construction and Specialized Heavy-Lift Projects

Heavy-lift helicopters have a diverse range of construction and specialized heavy-lift applications, including the lifting of HVAC systems to building rooftops, the placement of mining conveyor systems over challenging terrain, and the assembly of ski lifts. Heavy-lift helicopters have also been used for projects such as the development of a NASA platform for astronaut training, the transportation of the 15,000-pound "Statue of Freedom" from the U.S. Capitol for restoration, and the movement of snow to Cypress Mountain in British Columbia for the 2010 Winter Olympics. We believe additional opportunities exist in the construction of high-rise buildings (*e.g.*, lifting building materials and installing/removing construction cranes) and the construction of isolated structures such as bridges, tunnels, and ports. Heavy-lift helicopters are frequently used in building construction and specialized heavy-lift projects because they offer highly efficient and safe solutions and provide access to challenging terrain.

Energy Transmission and Distribution

Heavy-lift helicopters are also used to support electric transmission line construction, allowing utilities and construction services firms to install infrastructure in remote or hard-to-access locations where traditional access methods may be too costly or impossible. Additionally, heavy-lift helicopters allow utilities to construct large lines faster and with minimal environmental impact, an increasing concern for asset owners.

Significant infrastructure construction and other heavy-lift opportunities exist in mature economies as well. According to the American Society of Civil Engineers, the U.S. electric power grid and associated infrastructure is aging, overloaded, and in need of maintenance, upgrade, and expansion. The American Recovery and Reinvestment Act of 2009 ("ARRA") dedicated more than \$90.0 billion in government investment and tax incentives to lay the foundation for a clean energy economy, including grid modernization, renewable generation, and energy efficiency.

Alternative Energy

The global wind power market grew in 2011, bolstered by the approval of the second Kyoto Protocol and promises of strong policy support such as the U.S. Government's Production Tax Credit ("PTC"). The U.S and China accounted for 60.0% of the world's new wind turbine installation capacity in 2011 according to the Global Wind Energy Council. We believe heavy-lift helicopters have the ability to play an important role in the construction of wind turbines, particularly in the delivery and installation of turbine blades.

Oil and Gas Pipeline Development

We expect heavy-lift helicopters to play a significant role in the continued development of global oil and gas pipelines. Continued global demand for natural gas, crude oil, and petroleum products, coupled with production of gas and oil moving to more remote areas, drives the need for constant pipeline expansion. According to Pipeline and Gas Journal, January 2013 Volume 240 No. 1, an additional 117,000 kilometers of pipeline are expected to be developed by 2015, driven by significant

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increases in global consumption of natural gas and crude oil. We believe significant regional opportunities exist around the world for pipeline development, as new projects come on-line in the next few years.

After-Market Support

After-market support is an important element of the heavy-lift helicopter industry and includes Cost-Per-Hour ("CPH") agreements; maintenance, repair and overhaul ("MRO") services; specialized educational and training services; and the development of customized aircraft components and tools. CPH involves an original equipment manufacturer ("OEM") providing a full suite of parts and services (*e.g.*, replacement parts, spare parts replenishment, scheduled and unscheduled engine maintenance) to the aircraft it manufactures for a fixed CPH of utilization over a specified time period. The option provides a level of reliability and cost certainty for customers. It also allows OEMs to deepen their relationships with users, monitor the performance of their aircraft, and generate additional contracted revenue.

MRO business performance is directly correlated to the number of aircraft in service and the number of hours those aircraft are flown. In order to provide MRO services including major and minor maintenance, modifications, refurbishment, and repairs of aircraft airframes, engines and parts a provider must be licensed by the FAA in the U.S., EASA in Europe, and ANAC in Brazil. Crew training and education are additional after-market services for the heavy-lift helicopter industry. Typical training requires a combination of ground school and flight training, and in some cases, the use of flight simulators. Training may also include maintenance and type training, as well as annual FAA certification courses. Heavy-lift helicopter pilots are required to log a minimum number of flight hours each year and must keep current on all industry certifications.

Products and Services

Our Aircrane is a versatile and powerful precision heavy-lift helicopter with lift capacity of up to 25,000 pounds. The Aircrane is the only commercial aircraft built specifically as a flying crane, in contrast to those with fuselages built for internal loads. The Aircrane's unique design allows us to perform a wide variety of critical services, including firefighting, timber harvesting, and infrastructure construction. The Aircrane is the only helicopter in the world with a rear load-facing pilot station that provides an unobstructed view and complete control of the load being placed. We believe the aircraft's inherent versatility, large payload capacity, and precision placement capabilities provide us with competitive advantages and support our position as a leading provider of heavy-lift helicopter solutions worldwide.

The table below highlights the specifications of our two Aircrane models:

Specification	S-64E	S-64F
Power Plant	2 Pratt & Whitney JFTD12A-4A	2 Pratt & Whitney JFTD12A-5A
Shaft HP	4,500 per engine, 9,000 total	4,800 per engine, 9,600 total
Gross Weight (Max.)	42,000 pounds	47,000 pounds
Empty Weight	20,200 pounds average	20,400 pounds average
Payload Capacity	20,000 pounds	25,000 pounds
Max Cruise Speed	115 knots = 132 miles per hour	104 knots = 119 miles per hour

The Aircrane was originally manufactured by Sikorsky Aircraft Corporation. We purchased the S-64 Type Certificate from Sikorsky in 1992 and have since developed and certified numerous modifications and improvements to the original design, which have significantly enhanced the Aircrane's versatility and precision heavy-lift capabilities. In addition, we are committed to continuous innovation and the allocation of resources to the design, engineering, and development of new and

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improved Aircrane tools and accessories. Components such as the anti-rotation device and hoist, hydraulic grapple, and high-volume fire tank and snorkel enhance the Aircrane's ability to perform effectively and cost-efficiently. As we continue to enter new markets we will continue to design and develop products as needed.

Research and Development

Our research and development efforts have been critical to our success, and we dedicate significant resources to improving our aircraft's performance and developing new applications and products. We spent approximately \$4.7 million, \$4.8 million, and \$6.4 million on research and development in 2012, 2011, and 2010, respectively. We have recently completed several new product applications and aircraft accessories and have others under development, including our composite main rotor blades, with respect to which the detailed design is complete and manufacturing tooling is fabricated, and prototype blades have been fabricated.

We believe innovative new products and capabilities enhance the reliability and versatility of our aircraft in existing and new markets, enabling us to expand our markets, increase our customer base, and capture additional market share.

Backlog

Backlog represents the amount of revenue that we expect to derive from signed contracts, including oral contracts that have been subsequently memorialized in writing, or customer extension options. Our backlog consists of contracts with a duration of six months or more. For contracts that include both a daily and an hourly rate component, only the daily component of revenue is included in backlog and an estimate of the expected hourly revenue is not included. For contracts that include a guaranteed number of hours, the value of the guaranteed hours is included in backlog. For CPH contracts, which depend on hours flown by our customers, we calculate the contribution to backlog based on contracted minimum hours. When a binding aircraft sale contract has been signed with a customer, the purchase price of the aircraft not included in current revenues is included in backlog. When we sign a contract giving a potential purchaser an option to purchase an aircraft which only becomes binding on a non-refundable payment of a material option fee, we do not include the purchase price of the aircraft in backlog until the non-refundable payment has been made and the contract is a binding purchase contract.

Our backlog as of December 31, 2012 was \$178.8 million, of which \$69.6 million was attributable to signed contracts and \$109.2 million was attributable to anticipated exercises of customer extension options. We had total backlog of \$213.8 million as of December 31, 2011, of which \$106.0 million was from signed contracts and \$107.8 million was from anticipated exercises of customer extension options.

Sales and Marketing

Sales and marketing assignments are allocated based on geography to regional managers who are responsible for generating qualified sales leads. Once a potential customer is qualified, the managers are supported by segment managers who provide subject matter expertise on our various products and services. We have retained consultants to assist us with new government contracting opportunities in the U.S. We also retain independent representatives in specific countries on a commission basis. Our independent representatives operate under contracts in which they pledge to act in full compliance with the Foreign Corrupt Practices Act and other applicable legislation.

As a part of our sales effort, we may enter into agreements providing potential customers with an option to purchase an aircraft from future production. Such agreements can be structured as a purchase agreement which is not binding until a non-refundable deposit is paid. On payment of the negotiated option payment or non-refundable deposit, and on occasion negotiation of a more specific

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purchase agreement, the agreement becomes binding. Such agreements allow us to engage potential customers without committing the customer. We recognize revenue upon entering into a binding purchase commitment, upon receipt of a non-refundable deposit from the customer, and when all other revenue recognition criteria are met.

Our marketing functions are principally directed at identifying and understanding geographic markets and developing new applications for our products and services. We are currently focused on potential energy applications for oil and gas exploration, transmission towers, and pipeline development in South America, Europe, North America, and Asia. In firefighting applications, we are focused on Southern Europe, South America, and Asia. We are pursuing timber harvesting applications in North America, Asia, and South America and construction applications in North America, Europe, the Middle East, South America, and Asia. In addition to our traditional operating markets, we are exploring various new product applications to enable us to enter new markets such as emergency response.

Significant Customers

Each of the U.S. Forest Service and the Italian Ministry of Civil Protection accounted for 10% or more of our total net revenues in 2012, and we have existing contracts with each of these customers. We believe that we have good relationships with the U.S. Forest Service and the Italian Ministry of Civil Protection. Our contract to provide services to the Italian Ministry of Civil Protection expires in June 2013.

The table below sets forth all customers that accounted for at least 10% of our total net revenues in 2012, 2011, or 2010:

	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
U.S. Forest Service	28.6%	27.2%	24.4%
Italian Ministry of Civil Protection	12.9%	15.9%	13.8%
Samling Global	3.2%	7.0%	12.3%
Hellenic Fire Brigade	%	8.4%	11.0%
	44.7%	58.5%	61.5%

In December 2011 and in June 2012, the U.S. Department of Agriculture awarded us National Exclusive Use Large Fire Support Helicopter Services contracts with the U.S. Forest Service. These contracts have a one-year term with a customer option for three one-year extensions. The contracts comprise eight awards for a total contract award of approximately \$26.7 million annually. The agreement with the U.S. Forest Service represents a material portion of our backlog.

In May 2012, we entered into a three year agreement with the NATO Maintenance and Supply Agency ("NAMSA"), pursuant to which we agreed to supply aerial firefighting services in Greece for the 2012 to 2014 firefighting seasons. Prior to the agreement with NAMSA we contracted directly with the Hellenic Fire Brigade to provide firefighting services for Greece. The contract has a three-year term with a customer option for two one-year extensions. The total contract award is approximately \$8.9 million annually. NAMSA accounted for 6.8% of our total net revenues in 2012.

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Intellectual Property

Because we own the S-64 Type and Production Certificates, we are the only company authorized to remanufacture the Aircrane and manufacture OEM components for the Aircrane. In addition, our core technologies are protected through a combination of intellectual property rights, including trade secrets, patents, copyrights, and trademarks, as well as through contractual restrictions. We enter into confidentiality and inventions assignment agreements with our designers, engineers, consultants, and business partners, and we control access to and distribution of our proprietary information.

We have patents related to our sea snorkel in the U.S., Canada, Korea, China, certain countries in Europe, and elsewhere. Our sea snorkel patents expire in the U.S. in 2021. We may file for additional patent protection as we deem appropriate to protect new products.

We have registered the AIR CRANE word mark in the United States and we have registered the Erickson logo, featuring a design of an Aircrane. We have also registered the A.I.R.S. word mark in the United States. We have a pending trademark filing in the United States for the AIRCRANE INCIDENT RESPONSE SYSTEMS word mark.

Insurance and Risk Management

We mitigate risk by maintaining hull and liability insurance on our aircraft covering us for loss of or damage to the aircraft and for the cost of defending against and paying any claims brought by others. We also insure the aircraft against war risk and related perils. In addition, we maintain insurance for other risks inherent in doing business, such as automobile liability, pollution liability, and workers' compensation coverage. In some instances, we are covered by indemnity agreements from our customers in lieu of, or in addition to, our insurance.

Competition

We compete with several other heavy-lift helicopter operators in one or more of our markets. We believe our fleet of 18 owned and operating Aircranes is the largest commercial fleet of helicopters in the world capable of carrying loads of up to 25,000 pounds.

The following table presents our primary competitors in the commercial heavy-lift market.

Competitor	Competitor's Services	Total Heavy-lift Helicopters Operated ⁽¹⁾
Helicopter Transport Services		15 ⁽²⁾
Columbia Helicopters	Aerial services and support to the petroleum, forestry, and mining industries; aerial fire suppression, aerial construction, air ambulance, electronic news gathering, executive transport, motion pictures	18 ⁽³⁾
Siller Brothers	Heavy-lift aerial services, including construction, oil rig moves, oil rig support, timber removal, firefighting, disaster recovery	
	Maintenance, overhaul, and repair services	6 ⁽⁴⁾
	Aerial firefighting, construction, timber harvesting, hydroseeding	
	Maintenance, facility, and overhaul	

Note: External party data are based on internal estimates.

- (1) For purposes of this chart, heavy-lift helicopters are defined as having an external load capacity of 10,000 pounds or more.

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- (2) Consists of 11 CH-54A/B, one S-64E, and three S-61/N aircraft.
- (3) Consists of six Columbia 234 and 12 Columbia 107 aircraft.
- (4) Consists of two S-64E, one CH-54A, and three S-61/N aircraft.

In a more general sense, we compete with other airborne solutions, including fixed-wing firefighting operators, and with a variety of ground-based alternatives. Competition is generally on the basis of appropriateness of the solution, cost, reliability, and environmental impact. For some missions, such as the transportation of the "Statue of Freedom" from the U.S. Capitol or other precision placement of heavy loads, the Aircrane's precision and heavy-lift capabilities often make it the preferred choice. For other missions, such as firefighting, the Aircrane competes against other aircraft and ground-based solutions and is often one in an array of resources used by a customer.

On a platform basis, we believe our closest competitor is the Columbia 234 "Chinook" helicopter, the Type Certificate for which is owned by Columbia Helicopters. A number of military helicopters could, if made available for civilian use, be deployed in operations similar to those that we undertake and have significantly greater lift capacity and range.

Seasonality

Our Aerial Services operations are seasonal and tend to peak in June through October and tend to be at a low point in January through April. As a result of this seasonality, we have historically generated higher revenue in our third quarter as compared to other quarters, and received the majority of our cash flows in the second half of the calendar year.

Employees and Training

We employ approximately 700 employees, of whom approximately 500 are located in Oregon, primarily at our Central Point facilities and Portland headquarters. We employ approximately 100 pilots. We deploy crews, including pilots and maintenance personnel, on-site globally where we deploy our aircraft. Our employee base is generally stable and turnover is low. None of our employees is represented by a labor union. Approximately 10 pilots in Italy are covered by statutory employment protections.

Our hiring policies dictate that pilots have a minimum of 1,500 hours of Pilot in Command helicopter time to be employed by us as a Second in Command pilot. The training process for these pilots to advance to Captain status is extensive and can take up to five years. Our Aircrane Captains have an average of over 10,000 hours of helicopter time, with extensive experience in fire and vertical reference missions.

Our field mechanics are qualified to a number of levels of Return to Service ("RTS") on the Aircrane based on work experience and task qualification. All field mechanics must meet the requirements of the FAA-approved Repair Station Part 145 Training Program and minimum task qualifications as specified in Erickson's Standard Operating Procedure # 2005 before becoming qualified to sign off the aircraft. The task qualification process typically takes three to five years for an FAA-certificated mechanic to reach Full RTS. This process ensures that the individuals maintaining our fleet of Aircranes meet the high standards that have become associated with Erickson Air-Crane. In addition to the Limited and Full RTS qualifications, a number of our field mechanics hold other task qualifications in Non Destructive Testing, Pilot-Static Testing, and ATC Transponder Testing.

Regulation

All aspects of our business are heavily regulated under federal, state, local, and foreign laws and regulations. These laws and regulations may require us to maintain and comply with a wide variety of

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certificates, permits, licenses, noise abatement standards, and other requirements. These regulatory agencies have the authority to modify, amend, suspend, or revoke the certificates, permits, and licenses granted to us for failure to comply with provisions of law or applicable regulations, and may impose civil or criminal penalties for violations of applicable rules and regulations.

Federal Aviation Administration ("FAA") and Comparable Agencies. Our aerial operations, aircraft manufacturing, and MRO are subject to complex aviation and transportation laws and regulations under which the United States Department of Transportation ("DOT"), principally through the FAA, exercises regulatory authority over certificate holders and persons that operate, manufacture, or repair aircraft. We are also subject to comparable regulation in several foreign countries with respect to our operations in those countries.

The FAA and comparable foreign agencies, including the European Aviation Safety Agency and Agência Nacional de Aviação Civil, have jurisdiction over many aspects of our business, including:

The issuance of type certificates for the Aircrane;

Approval of major modifications to the Aircrane or its systems;

Approval of Aircrane accessories used in our operations, such as our sea snorkel and our anti-rotation device and hoist;

Promulgation and enforcement of rules governing the operation of aircraft generally and in connection with specific missions;

Promulgation and enforcement of rules governing the manufacture and repair of aircraft, aircraft systems, and aircraft components; and

Promulgation and enforcement of rules governing the qualification, training, and currency of pilots, flight crew, and repair and maintenance personnel.

The FAA and comparable foreign authorities actively monitor compliance with these rules and conduct regular inspections and audits of our operations and facilities. A serious violation of any of these rules could result in the imposition of fines or penalties, the revocation of our type certificate or the suspension or revocation of our operating licenses. The aviation regulation agencies in various jurisdictions sometimes work in concert to avoid duplication of regulatory effort, but each agency has authority to impose and enforce its own regulations and conduct its own inspections with respect to operations within its jurisdiction.

U.S. federal laws require that at least 75% of the voting securities of a domestic air carrier be owned or controlled by citizens of the U.S., and that its president and at least two-thirds of its directors and managing officers be U.S. citizens. We believe that these requirements do not apply to our operations. Nonetheless, out of caution and to allow for possible changes in our future operations, we have adopted governance practices to ensure our compliance with these provisions even if inapplicable. Our CEO and at least two-thirds of our directors and managing officers are U.S. citizens, and our certificate of incorporation and bylaws restrict voting of shares of our capital stock by non-U.S. citizens. Our bylaws provide that no shares of our capital stock may be voted by or at the direction of non-U.S. citizens unless such shares are registered on a separate stock record, which we refer to as the foreign stock record. Our bylaws further provide that the voting rights of the shares registered on the foreign stock record in the name of each foreign stockholder will be proportionally reduced so that the voting rights of the amount so registered are reduced if the amount registered would exceed the foreign ownership restrictions imposed by federal law.

The FAA and comparable foreign agencies may adopt new regulations, directives, or orders that could require us to take additional compliance steps or result in the grounding of some of our aircraft

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or the suspension of certificates or licenses, which could increase our costs or result in a loss of revenues. New regulations could also restrict our operations or increase our operating costs.

Environmental Regulations. We are subject to increasingly stringent federal, state, local, and foreign environmental laws and regulations concerning, among other things, water discharges, air emissions, hazardous material and waste management, and environmental cleanup. Future regulatory developments may require us to take additional action to maintain compliance with applicable laws. For example, future laws and regulations limiting the emission of greenhouse gasses could, among other things, require us to change our manufacturing processes, which may require us to make significant additional expenditures.

Certain of our operations are also subject to the oversight of the Occupational Safety and Health Administration ("OSHA") concerning employee safety and health matters.

Other Regulations. Our operations in non-U.S. jurisdictions are subject to local governmental regulations that may limit foreign ownership of aviation companies. Because of these local regulations, we conduct some of our operations through entities in which local citizens own a majority interest and we hold a minority interest, or through local agents.

Safety

We have company-wide safety, compliance and quality processes administered by a Safety & Compliance Department reporting directly to our Chief Executive Officer. In 2012, we received our fourth consecutive year of SHARP Certification from the Oregon OSHA. The SHARP Certification identifies companies that achieve a level of safety that far exceeds base compliance standards. We have had no environmental issues this year. As a result, we are exempt from several tests and permit requirements. We operate under a fully implemented Safety Management System ("SMS") which meets or exceeds FAA requirements. SMS is the global aviation gold standard for managing risk. We have a three segment online mandatory training program for our SMS. We added an accredited International Standard for Business Aircraft Operations ("IS-BAO") auditor to our staff in 2012. We anticipate that we will become IS-BAO certified in 2013. We received AS9100 Certification in May 2009. We successfully completed our annual AS9100 audit with no major findings in March 2012. In February 2012, we successfully completed an in-depth FAA/Flight Standards District Offices audit of our repair station resulting in zero findings. We have maintained zero findings on all FAA certificates (Manufacturing, Operations and Repair Station) through December 31, 2012. We completed external customer Aviation Safety audits in each of August 2012 and October 2012, with positive results from both audits.

Organizational Structure

Some of our foreign operations are conducted through local subsidiaries and are structured to comply with local ownership laws and other requirements. Typically, we provide comprehensive lease services to our minority-owned subsidiaries under agreements which are cancelable by us; those subsidiaries in turn contract with foreign entities.

ITEM 1A. RISK FACTORS

Our business is subject to numerous risks. You should carefully consider the following risks factors described below and all other information contained in this annual report on Form 10-K. Any of these risks could harm our business, results of operations, and financial condition and our prospects. In addition, risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating result.

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Risks Related to Our Business

Our indebtedness and significant debt service obligations could adversely affect our financial condition and impair our ability to grow and operate our business.

We are a highly leveraged company and, as a result, have significant debt service obligations. As of December 31, 2012, our total indebtedness, excluding letters of credit, was \$97.9 million and we had maximum availability for borrowings under our revolving credit facility of approximately \$43.0 million, of which \$21.75 million was utilized to purchase an Aircraft on October 1, 2012. Our senior credit facilities mature on June 24, 2013 and are secured by liens on substantially all of our assets. Our substantial indebtedness could require us to dedicate a substantial portion of our cash flow from operations to debt payments, increase our vulnerability to general adverse economic and industry conditions, or limit our flexibility in planning for or reacting to changes in our business and future business opportunities. If we are unable to repay or refinance our senior credit facilities with new credit facilities on favorable terms or at all, we may need to seek financing through the issuance of additional debt or equity securities. We may be unable to repay our senior credit facilities when due, to refinance the credit facilities on favorable terms or at all or obtain financing on favorable terms or at all, which would adversely affect our business, financial condition and results of operations and impair our ability to grow and operate our business.

We may be unable to access public or private debt markets to fund our operations and contractual commitments at competitive rates, on commercially reasonable terms, or in sufficient amounts.

We depend, in part, upon borrowings under our credit facilities to fund our operations and contractual commitments. If we were called upon to fund all outstanding commitments, we may not have sufficient funds to do so. A number of factors could cause us to incur increased borrowing costs and to have greater difficulty accessing public and private markets for debt. These factors include general economic conditions, disruptions or declines in the global capital markets, and our financial performance, outlook, or credit ratings. An adverse change in any or all of these factors may materially adversely affect our ability to fund our operations and contractual or financing commitments.

If our business does not perform as expected, including if we generate less than anticipated revenue from our Aerial Services operations or encounter significant unexpected costs, we may fail to comply with the financial covenants under our existing credit facilities. If we do not comply with our financial covenants and we do not obtain a waiver or amendment, our lenders may accelerate payment of all amounts outstanding which would immediately become due and payable, together with accrued interest. Any default may require us to seek additional capital or modifications to our credit facilities, which may not be available or which may be costly. Additionally, our suppliers may require us to pay cash in advance or obtain letters of credit as a condition to selling us their products and services. Any of these risks and uncertainties could have a material adverse effect on our business, financial position, results of operations, and cash flows.

If we are unable to repay or refinance our outstanding unsecured subordinated promissory notes at or prior to maturity, our business, financial condition, and results of operations may be adversely affected.

As of December 31, 2012, the principal amount outstanding under our unsecured subordinated promissory notes, including accreted and unpaid interest, was \$26.7 million, of which \$12.9 million mature on June 30, 2015 and \$13.8 million mature on June 30, 2016. At or prior to the maturity of the notes in 2015 and 2016, we will need to refinance the notes with additional indebtedness or repay them with cash from operations, which may include the sale of Aircranes, or the proceeds of future equity financings, none of which can be assured. We may be unable to obtain financing on favorable terms or at all, which could adversely affect our business, financial condition, and results of operations.

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In addition, our senior credit facilities prohibit us from paying down principal on the unsecured subordinated promissory notes unless such payments are made with the proceeds of an equity offering in which we receive minimum net cash proceeds of \$60.0 million. We may be unable to obtain such financing on favorable terms or at all, or to negotiate more favorable terms to permit the repayment of our unsecured subordinated promissory notes, which could adversely affect our business, financial condition, and results of operations.

We may not realize the anticipated benefits of acquisitions, joint ventures, strategic alliances, or divestitures.

As part of our business strategy, we may acquire businesses or specific assets, form joint ventures or strategic alliances, and divest operations. Whether we realize the anticipated benefits from these transactions depend, in part, upon the integration between the businesses or assets involved; the performance of the underlying products, capabilities, or technologies; whether we incur unknown or contingent liabilities, and the management of the transacted operations. We have had limited experience with such integrations, and difficulties in integrating the operations and personnel of any acquired companies could disrupt our business operations, divert management's time and attention and impair relationships with and risk the possible loss of key employees and customers of the acquired business. Accordingly, our financial results could be adversely affected by unanticipated performance issues, transaction-related charges, amortization of expenses related to intangibles, charges for impairment of long-term assets, credit guarantees, partner performance, and indemnifications. In addition, our cash from operations and borrowings available under our existing credit facility may not be sufficient to fund any acquisitions or strategic transactions we choose to make. As a result, in the event we engage in any acquisitions or strategic transactions we may need to seek additional funds through the issuance of additional equity or debt securities or other sources of financing. Consolidations of joint ventures could also impact our results of operations or financial position. Divestitures may result in continued financial involvement in the divested businesses, such as through guarantees or other financial arrangements, following the transaction. Nonperformance by those divested businesses could affect our future financial results

Our helicopter operations involve significant risks, which may result in hazards that may not be covered by our insurance or may increase the cost of our insurance.

The operation of helicopters inherently involves a high degree of risk. Hazards such as aircraft accidents, mechanical failures, collisions, fire, and adverse weather may result in loss of life, serious injury to employees and other persons, damage to property, losses of equipment and revenues, and suspension or reduction of operations. The aerial services we provide and the missions we fly, which include firefighting and timber harvesting in confined spaces, can be hazardous. In addition, we ship our helicopters to various locations, which expose them to risks, including risks relating to piracy and inclement weather, when in transit. We maintain hull and liability insurance on our aircraft, which insures us against physical loss of, or damage to, our aircraft and against certain legal liabilities to others. In addition, we carry war risk, expropriation, confiscation, and nationalization insurance for our aircraft involved in international operations. In some instances, we are covered by indemnity agreements from our customers in lieu of, or in addition to, our insurance. In addition, we maintain product liability insurance for aircraft and aircraft components we manufacture. Our insurance will not cover any losses incurred pursuant to any performance provisions under agreements with our customers.

Our insurance and indemnification arrangements may not cover all potential losses and are subject to deductibles, retentions, coverage limits, and coverage exceptions and, as a result, severe casualty losses or the expropriation or confiscation of significant assets could materially and adversely affect our financial condition or results of operations. The insured value of one of our aircraft is typically lower than its replacement cost, and our aircraft are not insured for loss of use. The occurrence of an event

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that is not fully covered by insurance could have a material adverse effect on our business, financial condition, results of operations, and cash flows. The loss of an aircraft, which we believe would take us at least six months to replace, could negatively impact our operations.

Failure to maintain our safety record would seriously harm our ability to attract new customers and maintain our existing customers, and would increase our insurance costs.

A favorable safety record is one of the primary factors a customer reviews in selecting an aviation provider. If we fail to maintain our safety and reliability record, our ability to attract new customers and maintain our current customers will be materially and adversely affected. In addition, safety violations could lead to increased regulatory scrutiny; increase our insurance rates and expense, which is a significant operating cost; or increase the difficulty of maintaining our existing insurance coverage in the future, which would adversely affect our operations. Because of the inherent risks in our helicopter operations, no safety program can guarantee accidents will not occur.

Cancellations, reductions or delays in customer orders, delays in delivery of Aircranes, or customer breaches of purchase agreements may adversely affect our results of operations.

The sale of Aircranes has a material effect on our financial results, and Aircrane sales have been a dominant factor in fluctuations in our year-over-year results. As we have expanded internationally and sought to make Aircrane sales in the difficult economic environment in the last few years, several potential customers have defaulted or not completed anticipated Aircrane sales. Cancellations, reductions or delays in customer orders for Aircranes, or delays in the delivery of Aircranes, would cause our financial performance to be below our expectations, and could cause us to fail to comply with our financial and reporting covenants contained in our senior credit facilities, which could materially and adversely affect our business and financial condition.

Our failure to timely collect our receivables could adversely affect our cash flows and results of operations.

We provide services to our customers for which we are customarily not paid in advance. We rely on the creditworthiness of our customers to collect on our receivables in a timely manner after we have billed for services previously provided. While we generally provide services pursuant to a written contract which determines the terms and conditions of payment to us by our customers, occasionally customers may dispute a bill and delay, contest, or not pay our receivable. Our failure to timely collect our receivables could adversely affect our cash flows and results of operations and could cause us to fail to comply with the financial covenants in our senior credit facilities.

The helicopter services business is highly competitive.

Each of our segments faces significant competition. We compete for most of our work with other helicopter operators and, for some operations, with fixed-wing operators and ground-based alternatives. Many of our contracts are awarded after competitive bidding, and competition for those contracts is generally intense. The principal aspects of competition are safety, price, reliability, availability, and service.

We have several major competitors and numerous small competitors operating in our aerial services markets. In the firefighting market, we compete heavily with both helicopter and fixed-wing operators. Our competitors may at times undercut our prices, especially if they are at risk of having too many idle aircraft. In the timber harvesting market, we compete with other heavy-lift helicopter operators, medium-lift helicopter operators, and ground-based solutions.

In the manufacturing and MRO market, our competitors may have more extensive or more specialized engineering, manufacturing, and marketing capabilities than we do in some areas. In addition, some of our largest customers could develop the capability to manufacture products or

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provide services similar to products that we manufacture or services that we provide. Furthermore, we are facing increased international competition and cross-border consolidation of competition.

We may not be able to compete successfully against our current or future competitors and the competitive pressures we face may result in reduced revenues and market share. If we are unable to adjust our costs relative to our pricing, our profitability will suffer. In addition, some of our competitors may have greater financial and other resources than we do, and may therefore be able to react to market conditions and compete more effectively than we do.

Factors beyond our control, including weather and seasonal fluctuations, may reduce aircraft flight hours, which would affect our revenues and operations.

A significant portion of our operating revenue is dependent on actual flight hours, and a substantial portion of our direct costs is fixed. Flight hours could be negatively impacted by factors beyond our control and fluctuate depending on cyclical weather-related and seasonal limitations, which would affect our revenues and operations. In addition, our aircraft are not currently equipped to fly at night, reinforcing the seasonality of our business with more activity in the Northern Hemisphere during the summer months and less activity during the winter months. Poor visibility, high winds, and heavy precipitation can restrict the operation of helicopters and significantly reduce our flight hours. Reduced flight hours can have a material adverse effect on our business, financial condition, results of operations, and cash flows. We budget for our operations based on historical weather information, but worse than expected weather could materially affect our results of operations.

We depend on a small number of large customers for a significant portion of our revenues.

We derive a significant amount of our revenue from a small number of major customers. In particular, for the years ended December 31, 2012, 2011, and 2010, 28.6%, 27.2%, and 24.4% of our revenues, respectively, were attributable to our contract with the U.S. Forest Service, 12.9%, 15.9%, and 13.8% of our revenues, respectively, were attributable to our contract with the Italian Ministry of Civil Protection, and 3.2%, 7.0%, and 12.3% of our revenues, respectively, were attributable to our contract with Samling Global.

Several of our largest customers are governmental agencies or entities that may be subject to budget or other financial constraints. The economies of Greece and Italy in particular have been adversely affected by global financial pressures. In light of the ongoing European sovereign debt crisis, there are heightened risks associated with our future revenue attributable to, and our accounts receivable from, the Hellenic Fire Brigade, now contracted through NAMSA, and the Italian Ministry of Civil Protection. Should we lose one of our major customers for any reason, we may be unable to identify new opportunities sufficient to avoid a reduction in revenues and our business and financial condition could suffer.

In addition, contracts with the majority of our significant customers are multi-year contracts; however, these contracts are periodically up for renewal or rebid. Renewal, or a successful rebid, is not guaranteed. Should we lose one of our major customers for any reason, we may be unable to identify new opportunities sufficient to avoid a reduction in our revenues and operating earnings, which would have a material adverse effect on our business, financial condition, results of operations, and cash flows. If one or more of these customers is disproportionately impacted by factors that affect its ability to pay us or to enter into new contracts, including general economic factors, our operations could be materially and adversely affected.

Some of our backlog may be deferred or may not be realized.

Backlog represents the amount of revenue that we expect to derive from signed contracts, including oral contracts that have been subsequently memorialized in writing, or anticipated exercises of

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customer extension options. For contracts that include a guaranteed number of hours, the value of the guaranteed hours is included in backlog. For CPH contracts, which depend on hours flown by our customers, we calculate the contribution to backlog based on contracted minimum hours. When a binding aircraft sale contract has been signed with a customer, the purchase price of the aircraft not included in current revenues is included in backlog. When we sign a contract giving a potential purchaser an option to purchase an aircraft which only becomes binding on a non-refundable payment of a material option fee, we do not include the purchase price of the aircraft in backlog until the non-refundable payment has been made and the contract is a binding purchase contract. A customer may default on a purchase contract that has become binding, and we may not be able to convert sales contract backlog into revenue. We calculate the contribution to backlog for some timber harvesting contracts based on our estimate of the cubic meters of high grade timber we expect to deliver under the contract based on our experience. As a result, our estimates of backlog for some of our timber harvesting contracts could be affected by variables beyond our control and may not be entirely realized, if at all. In addition, given the nature of our customers and our industry, there is a risk that our backlog may not be fully realized in the future. Failure to realize sales from our existing or future backlog would negatively impact our financial results.

Some of our arrangements with customers are short-term, ad hoc, or "call when needed" and may not be renewed.

We generate a large portion of our revenues from arrangements with customers with terms of less than six months, *ad hoc* arrangements, and "call when needed" contracts. In 2012, 2011, and 2010 for example, approximately 16%, 17%, and 24% of our revenues, respectively, were derived from such arrangements. There is a risk that customers may not continue to seek the same level of services from us as they have in the past or that they will not renew these arrangements or terminate them at short notice. Under "call when needed" contracts, we pre-negotiate rates for providing services that customers may request that we perform (but which we are not typically obligated to perform) depending on their needs. The rates we charge for these contingent services are higher than the rates under stand-by arrangements, and we attempt to schedule our aircraft to maximize our revenue from these types of contracts. The ultimate value we derive from such contracts is subject to factors beyond our control, such as the severity and duration of fire seasons. In the past, several of our larger contracts have not been renewed for reasons unrelated to our performance, such as the financial condition of our customers or their decision to move the services we provided to them in-house. If we are unable to reach any of these arrangements, we may be unable to replace these customers and our business and financial condition could suffer.

If an accident made an Airplane unavailable to us, our business could suffer.

As of December 31, 2012, we had 18 Airplanes employed in providing Aerial Services. An accident could make an Airplane unavailable to us temporarily or permanently. A sale of an Airplane that is part of our fleet would also reduce the number of Airplanes available to provide Aerial Services. The purchase price of a used Airplane is generally lower than the purchase price of a remanufactured Airplane. Although we would expect to be able to maintain the level of our operations if we sell an Airplane from our fleet through more efficient scheduling of our fleet or by allocating Airplanes remanufactured in our plant and held in inventory to Aerial Services operations, we may not always have the ability to maintain our desired level of Aerial Services operations with a reduced fleet and our results of operations could be adversely affected.

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Foreign, domestic, federal, and local government spending and mission priorities may change in a manner that materially and adversely affects our future revenues and limits our growth prospects.

Our business depends upon continued government expenditures on programs that we support. These expenditures have not remained constant over time. Current foreign and domestic government spending levels on programs that we support may not be sustainable as a result of changes in government leadership, policies, or priorities. In addition, the economies of Greece and Italy in particular have been adversely affected by global financial pressures. In light of the ongoing European sovereign debt crisis, there are heightened risks associated with our accounts receivable from the Hellenic Fire Brigade and future revenue and accounts receivable from the Italian Ministry of Civil Protection. Additionally, our business, prospects, financial condition, or operating results could be materially harmed by the following:

budgetary constraints affecting government spending generally, or specific departments or agencies in particular, and changes in fiscal policies or available funding;

changes in government programs or requirements;

realignment of funds to changed government priorities;

government shutdowns (such as that which occurred during the U.S. Government's 1996 fiscal year) and other potential delays in government appropriations processes;

delays in the payment of our invoices by government authorities;

adoption of new laws or regulations; and

general economic conditions.

These or other factors could cause government agencies and departments to reduce their purchases under contracts, exercise their right to terminate contracts, or not exercise options to renew contracts, any of which could cause us to lose revenue. A significant decline in overall government spending or a shift in expenditures away from agencies or programs that we support could cause a material decline in our revenues and harm our financial results.

Product liability and product warranty risks could adversely affect our operating results.

We produce, repair, and overhaul complex aircraft and critical parts for aircraft. Failure of our aircraft or parts could give rise to substantial product liability and other damage claims. We maintain insurance to address this risk, but our insurance coverage may not be adequate for some claims and there is no guarantee that insurance will continue to be available on terms acceptable to us, if at all.

Additionally, aircraft and parts we manufacture for sale are subject to strict contractually established specifications using complex manufacturing processes. If we fail to meet the contractual requirements for a part, we may be subject to warranty costs to repair or replace the part itself and additional costs related to the investigation and inspection of non-complying parts. These costs are generally not insured. We establish warranty reserves that represent our estimate of the costs we expect to incur to fulfill our warranty requirements. We base our estimate for warranty reserves on our historical experience and other assumptions. If actual results materially differ from these estimates, our results of operations could be materially affected.

Because we own the S-64 Type Certificate, we are obligated to issue directives to operators of our aircraft and to identify defects or required replacements to our aircraft. We could be liable to operators of our aircraft if we fail to fulfill our obligation to issue directives, even if our aircraft or components of our aircraft are no longer under warranty.

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Our failure to attract and retain qualified personnel could adversely affect us.

Our pilots and maintenance and manufacturing personnel are highly trained and qualified. Our ability to attract and retain qualified pilots, mechanics, and other highly trained personnel will be an important factor in determining our future success. Our aircraft, and the aerial services we provide, require pilots with high levels of flight experience. The market for these experienced and highly trained personnel is extremely competitive. Accordingly, we cannot assure you that we will be successful in our efforts to attract and retain such persons. Some of our pilots and mechanics, and those of our competitors, are members of the U.S. military reserves and could be called to active duty. If significant numbers of such persons were called to active duty, it would reduce the supply of such workers, possibly curtailing our operations and likely increasing our labor costs. Because of our small size relative to many of our competitors, we may be unable to attract qualified personnel as easily as our competitors.

We are subject to FAA regulation and similar international regulation, and our failure to comply with these regulations, or the adoption of any new laws, policies, or regulations, may have a material adverse effect on our business, financial condition, results of operations, and cash flows.

The aerial services business is heavily regulated by governmental entities in the United States and in other countries in which we operate. We operate in the United States under laws and regulations administered by the Department of Transportation, principally through the FAA. The FAA promulgates rules relating to the general operation of our aircraft, the process by which our aircraft are maintained, the components and systems that are installed in our aircraft, the qualification of our flight crews and maintenance personnel, and the specialized operations that we undertake, including the carrying of loads and the use of various chemicals. We are regularly inspected by FAA personnel to ensure compliance. Additionally, we are sometimes subject to government inquiries and investigations of our business due to, among other things, our business relationships with the U.S. Government and the heavily regulated nature of our industry. Compliance with these rules is complex and costly, and the failure to comply could result in the imposition of fines, the grounding of our aircraft, or other consequences detrimental to our operations and operating results. Our operations in other countries are similarly regulated under equivalent local laws and regulations.

Our aircraft manufacturing and MRO operations are also subject to regulation by the FAA and other governmental authorities. The FAA promulgates regulations applicable to the design and manufacture of aircraft and aircraft systems and components. It also sets and enforces standards for the repair of aircraft, systems, and components and for the qualification of personnel performing such functions. It regularly conducts inspections to ensure compliance and has the power to impose fines or other penalties for non-compliance or to shut down non-compliant operations. Our manufacturing and MRO operations are also subject to complex environmental, safety, and other regulations. Failure to comply with applicable regulations could result in the imposition of fines or other penalties or in the shutting down of our operations, which could impair our ability to fulfill our contracts or otherwise negatively impact our reputation for safety and dependability.

The FAA approves major changes in aircraft design such as fuel control systems or new rotor blades. Such approvals take time, require investment, and are not assured. Similar regulatory bodies in other countries may accept FAA certification or may impose their own individual requirements. The failure to obtain FAA or other required approval for such changes, or the imposition of unanticipated restrictions as a condition of approval, could increase our production costs or reduce the effectiveness of the system in question and could render our development effort less valuable or, in an extreme case, worthless.

The laws and regulations affecting our business are subject to change at any time and, because we operate under numerous jurisdictions, we are particularly exposed to the possibility of such changes.

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Any change in laws or regulations applicable to our business could restrict our operations, increase our costs, or have other effects detrimental to our results of operations or competitive position.

Our business is affected by federal rules, regulations, and orders applicable to government contractors, and the award of government contracts may be challenged.

Some of our services are sold under U.S. or foreign government contracts or subcontracts. In addition, governmental contracts typically require a competitive bid process, and the award of a contract may be subject to challenge by bid participants. From time to time, we are also subject to government inquiries and investigations of our business practices due to our participation in government programs. These inquiries and investigations are costly and consume internal resources. Violation of applicable government rules and regulations could result in civil liability, the cancellation or suspension of existing contracts, or the ineligibility for future contracts or subcontracts funded in whole or in part with federal funds, any of which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Claims against us by governmental agencies or other parties related to environmental matters could adversely affect us.

In the late 1990s, environmental damage that resulted from hazardous substances at our Central Point, Oregon facility was identified. It was determined that the contamination migrated beyond the property boundary at our facility and impacted off-site water supply wells. A remediation was completed in the late 1990s. Based on the testing of the site in recent years, the contamination levels have been decreasing, though the remediation cannot be guaranteed. We are continuing to participate in monitoring and testing the remediation of the site and we incur ongoing costs for this monitoring and testing. Our obligations in respect of such contamination are subject to an indemnification agreement with our former owner. Under this agreement, our potential total liability in respect of remediation costs is capped at \$0.5 million, of which we have already paid \$0.4 million, with a total remaining liability of \$0.1 million. Although the agreement caps our total potential liability, the creditworthiness of the indemnitor is uncertain. If the indemnitor fails to honor the terms of the indemnification agreement, it is possible that we would have to bear the entire cost of the remediation, monitoring and testing. In addition, it is possible that government agencies or other parties could bring a claim against us resulting from the contamination and that defending and resolving such claims could adversely affect our financial condition and results of operations.

Environmental and other regulation and liability may increase our costs and adversely affect us.

We are subject to a variety of laws and regulations, including environmental and health and safety regulations. Because our operations are inherently hazardous, compliance with these regulations is challenging and requires constant attention and focus. We are subject to federal, state, and foreign environmental laws and regulations concerning, among other things, water discharges, air emissions, hazardous material and waste management, and environmental cleanup. Environmental laws and regulations continue to evolve, and we may become subject to increasingly stringent environmental standards in the future, particularly under air quality and water quality laws and standards related to climate change issues, such as reporting greenhouse gas emissions. We are required to comply with environmental laws and with the terms and conditions of multiple environmental permits. Our failure to comply with these regulations could subject us to fines and other penalties administered by the agencies responsible for environmental and safety compliance or by the FAA or other aviation-related agencies.

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The occurrence of events for which the risk is allocated to us under our contracts could negatively impact our results of operations.

Many of our contracts are fixed price contracts which could subject us to losses if we have cost overruns. Under these contracts, we typically are responsible for normal maintenance, repair, and fuel costs. In addition, some of our Aerial Services contracts have performance penalty provisions, subjecting us to the risk of unexpected down time caused by mechanical failures or otherwise, which could cause our net income to suffer. Risks associated with estimating our costs and revenues are exacerbated for long-term contracts, which include most of our material contracts.

Our contracts to remanufacture aircraft and major overhauls or components typically contain penalty provisions that require us to make payments to customers, or provide interim aerial services to them at no cost, if we are unable to timely deliver aircraft or components. Such contracts may also include a repurchase obligation by us if certain performance or other criteria are not met.

We may be required to provide components or services to owners or operators of the S-64 or the CH-54, which could limit our operational flexibility and divert resources from more productive uses.

Because we own the S-64 Type Certificate, we may be required to supply components or provide MRO services to customers who own or operate the S-64 or the CH-54, the military version of the S-64. This could limit our operational flexibility, divert resources from more productive uses, and adversely affect our ability to execute on our growth plans.

Our dependence on a small number of manufacturers for some of our aircraft components and the costs associated with the purchase or manufacture of new components pose significant risks to our business.

We rely on approximately 120 supplier business units or locations for significant or critical components. A small number of manufacturers make some of the key components for our aircraft, and in some instances there is only a single manufacturer, although other manufacturers could be used if necessary for all of our components. If these manufacturers experience production delays, or if the cost of components increases, our operations could suffer. If a manufacturer ceases production of a required component, we could incur significant costs in purchasing the right to manufacture those components or in developing and certifying a suitable replacement, and in manufacturing those components.

Many key components and parts on the Aircrane have not been manufactured since originally introduced. A significant portion of our inventory was acquired in bulk on the surplus market. For some aviation components, our operating cost includes the overhaul and repair of these components but does not include the purchase of a new component. It may be difficult to locate a supplier willing to manufacture replacement components at a reasonable cost or at all. As we exhaust our inventory, the purchase of any new components, or the manufacture by us of new components, could materially increase our operating cost or delay our operations; we routinely monitor levels of out-of-production parts and design and certify replacement parts to mitigate this risk.

Failure to develop new technologies, and to adequately protect our intellectual property rights, could adversely affect our operations.

Our success has resulted in part from our development of new applications for our aircraft, such as our fire tank and snorkel for firefighting services, and we believe our growth will continue to depend on the development of new products or applications. Competitors may develop similar applications for their aircraft, which would increase our competition in providing aerial services. In addition, our growth strategy depends, in part, on our ability to develop new products and applications. A number of factors, including FAA certifications, could result in our being unable to capitalize on the development costs for such products or applications. Not all of our products and applications have been, or may be, patented

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or otherwise legally protected. We rely upon intellectual property law, trade secret protection, and confidentiality and license agreements with our employees, clients, consultants, partners, and others to protect our new and existing intellectual property rights. Any of these parties may breach these agreements and we may not have adequate remedies for any specific breach. If we are not able to adequately protect the inventions and intellectual property we have developed, in the U.S. and in foreign countries, or if any of our trade secrets, know-how, or other technologies were to be disclosed to or independently developed by a competitor, our business, financial condition, and results of operations could be materially adversely affected.

We may have to engage in litigation to defend our trademarks, trade secrets, and other intellectual property rights. Even if we are successful, such litigation could result in substantial costs and be a distraction to management. If we are not successful in such litigation, we may lose valuable intellectual property rights.

Any of our patents may be challenged, invalidated, circumvented, or rendered unenforceable. Our patents may be subject to reexamination proceedings affecting their scope. We cannot assure you that we will be successful should one or more of our patents be challenged for any reason. If our patent claims are rendered invalid or unenforceable, or narrowed in scope, the patent coverage afforded our products could be impaired, which could significantly impede our ability to market our products, negatively affect our competitive position, and harm our business and operating results.

Further, we are a party to licenses that grant us rights to intellectual property, including trade secrets, that is necessary or useful to our business. One or more of our licensors may allege that we have breached our license agreement with them, and accordingly seek to terminate our license. If successful, this could result in our loss of the right to use the licensed intellectual property, which could adversely affect our ability to commercialize our technologies, products, or services, as well as harm our competitive business position and our business prospects.

Our business is subject to risks associated with international operations, including operations in emerging markets.

We purchase products from and supply products to businesses located outside of the United States. We also have significant operations outside the United States. For the years ended December 31, 2012, 2011, and 2010, approximately 53.3%, 55.8%, and 62.5% respectively, of our total revenues were attributable to operations in non-U.S. countries. A number of risks inherent in international operations could have a material adverse effect on our international operations and, consequently, on our results of operations, including:

the uncertain ability of select non-U.S. customers to finance purchases and our inability as a result of lesser transparency in certain jurisdictions to evaluate the credit of potential customers accurately;

currency fluctuations, which can reduce our revenues for transactions denominated in non-U.S. currency or make our services relatively more expensive if denominated in U.S. currency;

difficulties in staffing and managing multi-national operations;

political and financial instability in several of the countries in which we operate, including Greece and Italy;

significant receivables from international customers;

risks associated with transporting our aircraft, including risks associated with piracy and adverse weather;

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fluctuations in the costs associated with transporting our aircraft, pilots, and crews, which are significant operating costs for us;

limitations on our ability to enforce legal rights and remedies;

uncertainties regarding required approvals or legal structures necessary to operate aircraft or provide our products and services in a given jurisdiction;

restrictions on the repatriation of funds from our foreign operations;

changes in regulatory structures or trade policies;

tariff and tax regulations including permanent establishment determinations by foreign governments;

ensuring compliance with the Foreign Corrupt Practices Act;

difficulties in obtaining export and import licenses; and

the risk of government-financed competition.

Part of our growth strategy is to enter new markets, including emerging market countries such as China and in South America. Emerging market countries have less developed economies that are more vulnerable to economic and political problems and may experience significant fluctuations in gross domestic product, interest rates, and currency exchange rates, as well as civil disturbances, government instability, nationalization and expropriation of private assets, and the imposition of taxes or other charges by government authorities. The occurrence of any of these events and the resulting economic instability that may arise could adversely affect our operations in those countries, or the ability of our customers in those countries to meet their obligations. As a result, customers that operate in emerging market countries may be more likely to default than customers that operate in developed countries. In addition, legal systems in emerging market countries may be less developed, which could make it more difficult for us to enforce our legal rights in those countries. In particular, we have focused on expanding our presences in developing markets such as China and Malaysia, and the laws and regulations governing aviation sales and services may require approvals that are uncertain and enforcement of joint venture or other contractual relationships may be uncertain. For these and other reasons, our growth plans may be materially and adversely affected by adverse economic and political developments in emerging market countries.

If our employees unionize, our expenses could increase and our results of operations would suffer.

Except for statutory protections for a small number of Italian pilots, none of our employees work under collective bargaining, union or similar agreements. Unionization efforts have been made from time to time within our industry, with varying degrees of success. If our employees unionize, our expenses could increase and our results of operations may suffer.

Fuel shortages or fluctuations in the price of fuel could adversely affect our operations.

Our aerial operations depend on the use of jet fuel. Fuel costs have historically been subject to wide price fluctuations, and fuel availability is subject to shortage and is affected by demand for heating oil, gasoline, and other petroleum products. Fuel shortages and increases in the price of fuel, or decreases in the price of fuel when we have entered into hedging agreements, could adversely affect our operations.

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Our business is subject to laws limiting ownership or control of aircraft companies, which may increase our costs and adversely affect us.

Most of the countries in which we operate have laws requiring local ownership or control, or both, of certain kinds of companies that operate aircraft. We use various strategies to comply with these laws, including the formation of local subsidiaries that we do not wholly own and partnerships with local companies. FAA regulations may require that at least 75% of our voting securities be owned or controlled by United States citizens. The existence of these laws may restrict our operations; reduce our profit from, or control of, some foreign operations; or restrict the market for our securities.

Our production may be interrupted due to equipment failures or other events affecting our factories.

Our manufacturing and testing processes depend on sophisticated and high-value equipment. Unexpected failures of this equipment could result in production delays, revenue loss, and significant repair costs. In addition, our factories rely on the availability of electrical power and natural gas, transportation for raw materials and finished product, and employee access to our workplace that are subject to interruption in the event of severe weather conditions or other natural or manmade events. While we maintain backup resources to the extent practicable, a severe or prolonged equipment outage or other interruptive event affecting areas where we have significant manufacturing operations may result in loss of manufacturing days or in shipping delays which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

General economic conditions and recent market events may expose us to new risks.

Recent events in the financial markets and the economic downturn have contributed to severe volatility in the securities markets, a severe liquidity crisis in the global financial markets, and unprecedented government intervention. These conditions have affected our results of operations and may continue to affect them. In such an environment, significant additional risks may exist for us. The recent instability in the financial markets has led the U.S. Government to take a number of unprecedented actions designed to support certain financial and other institutions and segments of the financial market that have experienced extreme volatility, and in some cases, a lack of liquidity. There can be no assurance that this intervention will improve market conditions, that such conditions will not continue to deteriorate, or that further government intervention will or will not occur. For example, recently, general market volatility has been exacerbated by uncertainty about sovereign debt and the fear that countries such as Greece and Italy may default on their governments' financial obligations. If economic conditions continue or worsen, we face risks that may include:

declines in revenues and profitability from reduced or delayed orders by our customers, in particular with respect to infrastructure construction projects which may be delayed or cancelled;

supply problems associated with any financial constraints faced by our suppliers;

reductions in credit availability to us or in general;

increases in corporate tax rates to finance government spending programs; and

reductions in spending by governmental entities for services such as infrastructure construction and firefighting.

The economic downturn and continued credit crisis and related turmoil in the global financial system may have an adverse impact on our business and our financial condition. We cannot predict our ability to obtain financing due to the current credit crisis, and this could limit our ability to fund our future growth and operations. In addition, the creditworthiness of some of our customers may be affected, which may affect our ability to collect on our accounts receivable from such customers.

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None.

ITEM 2. PROPERTIES

We operate from two principal facilities that we own in Central Point, Oregon. Our operations and general offices are located in an 88,548 square foot factory on an eight-acre site. We also operate a 50,000 square foot warehouse on a 40-acre site approximately four miles from our operations facility. In their current configuration, our facilities can support all of our current operations and the remanufacture of up to four aircraft per year.

We lease approximately 7,300 square feet of headquarters office space in Portland, Oregon under a lease that expires in 2014. We lease office and hangar space for our foreign operations.

Following is a summary of our principal properties as of December 31, 2012:

Location	Primary Function(s)	No. of Facilities	Owned or Leased
Central Point, Oregon	Warehouse and general operations facility	2	Owned
Portland, Oregon	Corporate headquarters	1	Leased
British Columbia, Canada	Aircrane services	1	Leased
Florence, Italy	Aircrane services	1	Leased
Sarawak, Malaysia	Aircrane services	1	Leased

We believe our principal properties include facilities suitable and adequate for their intended purposes and we believe our existing properties will meet our operational needs for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

We are a party to various legal proceedings arising in the ordinary course of our business, but we are not currently a party to any legal proceedings that management believes would have a material adverse effect on our business, financial position, results of operations, and cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

Table of Contents**PART II.****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.MARKET INFORMATION AND HOLDERS**

Our common stock began trading on the NASDAQ Global Market under the symbol "EAC" following our initial public offering in April 2012. Before then, there was no public market for our common stock. As of February 28, 2013, there were 3 holders of record of our common stock. A substantially greater number of holders of our stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions. The following table sets forth, for the periods indicated, the high and low sales prices of our common stock as reported on the NASDAQ Global Market:

2012	High	Low
Quarter ended December 31	\$ 8.44	\$ 6.90
Quarter ended September 30	\$ 7.71	\$ 5.35
Quarter ended June 30 ⁽¹⁾	\$ 8.50	\$ 6.32

(1)

These prices represent the period from April 10, 2012, the date on which our common stock began trading on the NASDAQ Global Market, through June 30, 2012.

Table of Contents**STOCK PERFORMANCE GRAPH**

The following graph compares the cumulative total stockholder return on our common stock from April 10, 2012 (the date of our initial public offering) to December 31, 2012, with the cumulative total returns of the NASDAQ Composite Index and the S&P 500 Index Aerospace and Defense Index over the same period. The comparison assumes \$100 was invested on April 10, 2012, in shares of our common stock. The historical stock price performance shown on this graph is not necessarily indicative of future performance.

COMPARISON OF 8 MONTH CUMULATIVE TOTAL RETURN⁽¹⁾

Among Erickson Air-Crane Inc., the NASDAQ Composite Index, the S&P 500 Index,
and the S&P Aerospace & Defense Index

(1) \$100 invested on 4/10/12 in stock or 3/31/12 in index, including reinvestment of dividends. Fiscal year ending December 31.

	Measurement Period (by month)									
	4/10/12	4/12	5/12	6/12	7/12	8/12	9/12	10/12	11/12	12/12
Erickson Air-Crane, Incorporated	100.00	98.00	86.00	86.00	80.00	70.00	91.38	94.00	95.25	105.38
NASDAQ Composite	100.00	99.09	92.89	97.22	97.68	101.09	102.30	98.15	98.40	98.35
S&P 500	100.00	99.37	93.40	97.25	98.60	100.82	103.43	101.52	102.10	103.03
S&P Aerospace and Defense	100.00	100.00	92.64	96.00	95.96	98.38	98.46	99.96	102.31	104.63

DIVIDEND POLICY

We have never declared or paid, and do not anticipate declaring or paying, any cash dividends on our common stock. Instead, we currently anticipate that we will retain all of our future earnings, if any, to fund the operation and expansion of our business and to use as working capital and for other general corporate purposes. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects, and other factors our board of directors may deem relevant. Our existing credit facility limits our ability to declare and pay dividends.

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ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth our summary consolidated financial and other data. We derived our summary consolidated financial and other data as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011, and 2010 from our audited consolidated financial statements and notes thereto, which are included elsewhere in this Form 10-K. We derived our summary consolidated financial and other data as of December 31, 2010, 2009, and 2008 and for the years ended December 31, 2009, and 2008 from our audited consolidated financial statements which are not included in this Form 10-K.

Our summary consolidated financial and other data are not necessarily indicative of our future performance. The data provided in this table are only a summary and do not include all of the data contained in our financial statements. Accordingly, this table should be read in conjunction with, and is qualified in its entirety by, our consolidated financial statements and related notes contained elsewhere

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in this Form 10-K and the sections of this Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations".

(Dollars in thousands, except share and per share amounts)	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Consolidated Statements of Comprehensive Income Data:					
Net revenues:					
Aerial services	\$ 161,405	\$ 138,637	\$ 105,747	\$ 113,603	\$ 136,548
Manufacturing / MRO ⁽¹⁾	19,419	14,132	12,493	36,019	5,376
Total net revenues	\$ 180,824	\$ 152,769	\$ 118,240	\$ 149,622	\$ 141,924
Cost of revenues:					
Aerial services	109,623	93,566	81,353	76,855	96,750
Manufacturing / MRO	9,782	13,730	7,651	21,272	5,019
Total cost of revenues	119,405	107,296	89,004	98,127	101,769
Gross profit	61,419	45,473	29,236	51,495	40,155
Operating expenses:					
General and administrative	17,232	13,023	14,105	14,877	14,010
Research and development	4,683	4,827	6,400	6,889	7,024
Selling and marketing	6,071	9,940	6,987	5,115	1,984
Restructuring charges		1,084			
Total operating expenses	27,986	28,874	27,492	26,881	23,018
Operating income (loss)	33,433	16,599	1,744	24,614	17,137
Other income (expense):					
Interest income		7	14	157	305
Interest expense	(6,990)	(9,157)	(4,879)	(6,163)	(7,070)
Loss on early extinguishment of debt			(2,265)		
Other income (expense) ⁽²⁾	(594)	3,885	(6,193)	(987)	5,962
Total other income (expense)	(7,584)	(5,265)	(13,323)	(6,993)	(803)
Net income (loss) before income taxes and noncontrolling interest	25,849	11,334	(11,579)	17,621	16,334
Income tax expense (benefit)⁽³⁾	10,213	(4,926)	(3,544)	5,330	6,000
Net income (loss)	15,636	16,260	(8,035)	12,291	10,334
Less: Net (income) loss related to noncontrolling interest	(406)	(390)	(216)	(239)	(230)
Net income (loss) attributable to Erickson Air-Crane Incorporated	15,230	15,870	(8,251)	12,052	10,104
Dividends on Series A Redeemable Preferred Stock⁽⁴⁾	2,795	9,151	7,925	6,806	5,877
Net income (loss) attributable to common stockholders	\$ 12,435	\$ 6,719	\$ (16,176)	\$ 5,246	\$ 4,227
Net income (loss)	\$ 15,636	\$ 16,260	\$ (8,035)	\$ 12,291	\$ 10,334
Other comprehensive income (loss):					
Foreign currency translation adjustment	136	(402)	45	571	(540)
Comprehensive income (loss)	\$ 15,772	\$ 15,858	\$ (7,990)	\$ 12,862	\$ 9,794

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Earnings (loss) per share attributable to common stockholders										
Basic	\$	1.78	\$	6,718.57	\$	(16,176.47)	\$	5,246.00	\$	4,227.00
Diluted	\$	1.78	\$	6,718.57	\$	(16,176.47)	\$	5,246.00	\$	4,227.00
Weighted average shares outstanding										
Basic		6,981,027		1,000		1,000		1,000		1,000
Diluted		6,981,027		1,000		1,000		1,000		1,000

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(Dollars in thousands)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010	As of December 31, 2009	As of December 31, 2008
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 1,468	\$ 268	\$ 1,928	\$ 3,536	\$ 2,303
Aircrafts, property, plant and equipment, net	81,108	56,629	70,708	44,829	46,998
Working capital ⁽⁵⁾	(65,508)	5,560	(12,655)	31	(297)
Total assets	256,823	233,911	203,703	178,967	168,369
Total debt ⁽⁶⁾	97,876	130,570	93,894	80,546	86,208
Series A Redeemable Preferred Stock ⁽⁷⁾		66,161	57,010	49,085	42,279
Stockholders' equity:					
Common stock	1	1	1	1	1
Total stockholders' equity	105,368	(9,145)	(15,598)	485	(4,454)

(Dollars in thousands)	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Consolidated Statement of Cash Flow Data:					
Net cash provided by (used in):					
Operating activities	\$ 28,158	\$ (20,723)	\$ (8,430)	\$ 9,900	\$ (8,717)
Investing activities	(21,492)	(13,083)	(5,017)	(2,667)	546
Financing activities	(5,446)	32,759	11,057	(5,662)	2,111

(Dollars in thousands, except percentages)	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Other Financial Data:					
Gross margin %	34.0%	29.8%	24.7%	34.4%	28.3%
Operating margin %	18.5%	10.9%	1.5%	16.5%	12.1%
EBITDA (unaudited) ⁽⁸⁾	\$ 44,701	\$ 28,269	\$ (1,482)	\$ 28,742	\$ 27,537
Bank EBITDA (unaudited) ⁽⁹⁾	\$ 44,228	\$ 25,069	\$ 11,859	\$ 31,496	\$ 23,048

- (1) Net revenues from Manufacturing / MRO reflect the sale of zero Aircrafts in 2008, one Aircraft in 2009, and zero Aircrafts in 2010, 2011, and 2012. The Aircraft sold in 2009 was repurchased by us in 2012.
- (2) Other income (expense) for the year ended December 31, 2008 includes a \$4.3 million gain related to an insurance settlement with respect to an Aircraft accident; for the year ended December 31, 2010 includes \$10.0 million in litigation settlement expenses and a net gain related to an aircraft accident in Malaysia of \$6.3 million, after accounting for insurance proceeds; for the year ended December 31, 2011 includes \$2.7 million of recognized income associated with the reversal of interest expense from a tax settlement; and for the year ended December 31, 2012 includes \$0.8 million related to the removal of the Canadian Revenue Authority ("CRA") reserve that was included as an expense in 2010.
- (3) Income tax expense (benefit) for the year ended December 31, 2011 includes a tax benefit of \$9.5 million in connection with a tax settlement.
- (4) Dividends on Series A Redeemable Preferred Stock are non-cash accruals. No dividends have been paid or will be paid to holders of Series A Redeemable Preferred Stock. The Series A Redeemable Preferred Stock and the Class A Common Stock were reclassified into 4,802,970 shares of a single class of common stock in conjunction with our initial public offering.
- (5)

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Working capital is calculated as our current assets less our current liabilities. Working capital for the year ended December 31, 2012 included \$71.2 million of debt outstanding under our credit agreement classified as current debt due to the maturity date of our credit agreement of June 24, 2013.

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- (6) Debt is comprised of amounts drawn under our revolving credit facility, our term loan, and our unsecured subordinated promissory notes. In June 2010, we replaced our former revolving credit facility and our former term loan with a new credit facility. As a result of the refinancing, we expensed \$2.3 million, including the unamortized portion of the previously deferred financing costs and early termination fees.
- (7) Represents Series A Redeemable Preferred Stock which was converted to common stock in conjunction with our initial public offering.
- (8) We define EBITDA as net income (loss) before interest expense, net, provision for (benefit from) income taxes, depreciation and amortization, and non-cash charges from awards to employees of equity interests.
- (9) We use an adjusted EBITDA ("Bank EBITDA") to monitor compliance with various financial covenants under our credit agreement. In addition to adjusting net income (loss) to exclude interest expense, net, provision for (benefit from) income taxes, and depreciation and amortization, Bank EBITDA also adjusts net income by excluding non-cash unrealized mark-to-market foreign exchange gains (losses), specified litigation expenses up to a maximum of \$2.0 million for any 12-month period, certain management fees, gains from sale of equipment, non-cash charges arising from awards to employees relating to equity interests, non-cash charges relating to financings, initial public offering costs related to non-capitalized expenses up to a maximum of \$2.0 million, certain fourth quarter 2010 charges up to \$11.6 million and other unusual, extraordinary, non-recurring non-cash costs. For each calculation of Bank EBITDA made as of the end of the quarters ended June 30, September 30, and December 31, 2011, and March 31, 2012, Bank EBITDA also includes an amount equal to the \$10.0 million in new unsecured subordinated promissory notes dated June 30, 2011, and any additional subordinated debt issued in connection with an equity cure under the credit agreement. Such amounts have been excluded from the table below for presentation purposes. Bank EBITDA also assists us in monitoring our ability to undertake key investing and financing functions such as making investments and incurring additional indebtedness, which may be prohibited by the covenants under our credit agreement unless we comply with certain financial ratios and tests.

Bank EBITDA is a supplemental measure of our performance that is not required by or presented in accordance with U.S. GAAP. Bank EBITDA is not a measurement of our financial performance under U.S. GAAP and should not be considered as an alternative to revenue, net income (loss), cash flow, or any other performance measure derived in accordance with U.S. GAAP. Our presentation of Bank EBITDA may not be comparable to similarly titled measures of other companies. A reconciliation of net income to EBITDA and to Bank EBITDA is provided below.

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The following table presents a reconciliation of net income (loss) to EBITDA and to Bank EBITDA for the periods indicated:

(Dollars in thousands)	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
EBITDA and Bank EBITDA Reconciliation:					
Net income (loss) attributable to Erickson Air-Crane Inc.	\$ 15,230	\$ 15,870	\$ (8,251)	\$ 12,052	\$ 10,104
Income expense, net	6,990	9,150	4,865	6,006	6,765
Tax expense (benefit)	10,213	(4,926)	(3,544)	5,330	6,000
Depreciation	8,976	7,300	4,745	4,378	3,863
Amortization of debt issuance costs	1,174	875	703	976	805
Non-cash charges from awards to employees of equity interests	2,118				
EBITDA	\$ 44,701	\$ 28,269	\$ (1,482)	\$ 28,742	\$ 27,537
Non-cash unrealized mark-to-market foreign exchange gains (losses)	322	(1,819)	905	992	(1,071)
Interest related to tax contingencies		(2,745)	495	500	680
Management fees ⁽¹⁾			165	500	500
Loss on early extinguishment of debt			2,265		
Litigation expense		1,390	2,000	1,430	
Legal settlements			11,600		
Other noncash (gains) losses	(795) ⁽⁵⁾	(26)	(4,089) ⁽²⁾	(668)	(4,598) ⁽⁴⁾
Bank EBITDA	\$ 44,228	\$ 25,069⁽³⁾	\$ 11,859	\$ 31,496	\$ 23,048

- (1) Fees paid to a previous stockholder pursuant to a management agreement that terminated in 2010.
- (2) Includes a \$4.2 million net adjustment related to an Aircrane accident in 2010.
- (3) As part of the amendments to our credit agreement on June 30, 2011, the \$10.0 million in new unsecured subordinated promissory notes are included, with limitation, as an addition to Bank EBITDA. Such amounts have been excluded from this table for presentation purposes.
- (4) Includes a \$4.3 million gain from an insurance settlement with respect to an Aircrane accident in 2008.
- (5) Includes \$0.8 million related to the removal of the CRA reserve that was included as an add back for the fourth quarter 2010.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand the Company. The following discussion and analysis should be read together with the selected consolidated financial data and our consolidated financial statements and notes thereto set forth in this Form 10-K. Certain statements contained in this

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discussion may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those reflected in any forward-looking statements, as discussed more fully in Part I, "Item 1A. Risk Factors." This overview summarizes the MD&A, which includes the following sections:

Year in Review highlights from 2012 outlining some of the major events that happened during the year and how they affected our financial performance

Overview of the Business a review of our business and our business operating segments

Trends and Uncertainties some of the known trends, demands, events, and uncertainties that had material effects on our results of operations for the three years presented in our consolidated financial statements or are reasonably likely to have material effects in the future

Results of Operations an in-depth analysis of the results of our operations for the three years presented in our consolidated financial statements. We believe this analysis will help the reader better understand our consolidated statements of comprehensive income. This section also includes financial and statistical data and forward-looking statements regarding our view of 2013

Liquidity and Capital Resources an analysis of cash flows and sources and uses of cash

Contractual Obligations and Off-balance Sheet Arrangements an overview of contractual obligations and off-balance-sheet arrangements outstanding as of December 31, 2012, including our expected contractual obligations payment schedule

Critical Accounting Policies and Estimates critical accounting policies and estimates that we believe are most important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts

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YEAR IN REVIEW

Accomplishments in 2012

We experienced no aircraft accidents, maintained our Safety and Health Achievement Recognition Program (SHARP) certification, and maintained zero findings on all FAA certificates

We reported the highest Aerial Services revenue and operating profit in our history

We executed on our strategic growth strategy in South America with a full year of Aircrane operations in Peru

We signed a non-binding letter of intent to acquire a Brazilian oil and gas aerial services business from HRT Participações em Petróleo S.A ("HRT")

We expanded our fleet from 17 to 18 Aircranes

We completed our initial public offering in April 2012

Financial Highlights 2012 Compared to 2011

Our revenue for 2012 was \$180.8 million, or \$28.1 million higher than 2011. This 18.4% increase was partially driven by several key contract additions, including additional firefighting contracts with the U.S. Forest Service and San Diego Gas & Electric, and a South American oil-and-gas construction contract with Repsol Exploración Peru S.A., Sucursal del Perti in Peru. We also benefitted from extremely active fire seasons in North America and Europe; we flew 635 more firefighting hours in 2012, an increase of 20.6% compared to 2011. In 2012, an Aircraft Purchase Agreement also terminated a preexisting CPH contract between us and San Diego Gas & Electric ("SDG&E"), which released us from our performance obligations under the contract. The early termination of the contract resulted in an acceleration of deferred revenue of \$5.7 million and a decrease in cost of revenues for the reversal of the CPH reserve of \$0.6 million, for a net approximate impact to gross profit of \$6.3 million and an increase to net income of \$3.8 million. Operating income was \$33.4 million, an increase of \$16.8 million as compared to \$16.6 million in 2011, primarily driven by higher revenues. Net income attributable to Erickson Air-Crane for 2012 was \$15.2 million, as compared to \$15.9 million in 2011, a decrease of \$0.6 million; the net income attributable to Erickson Air-Crane for 2011 benefitted from a \$9.5 million settlement with the IRS.

Our S-64 fleet utilization (calculated as the number of days on contract as a percentage of total available days) improved 100 bps from 64.7% in 2011 to 65.7% in 2012; also our average annual fleet size increased from 17.0 aircraft in 2011 to 17.3 aircraft in 2012 due to the purchase of an S-64 in the fourth quarter of 2012. Our focus on signing both long-term contracts and short-term construction jobs contributed significantly to improving fleet utilization while growing absolute fleet size.

During 2012, we completed our initial public offering, which generated \$31.5 million of net proceeds which were used to pay down indebtedness; additionally, we generated \$5.4 million of free cash flows. We reduced our total debt by \$32.7 million and ended 2012 with \$43.0 million maximum borrowing availability under our credit facility.

Aircrane Fleet

As of December 31, 2012, we owned and operated a fleet of 18 Aircranes. Aircrane fleet size is a major driver of our revenues. Throughout the course of any year we may remove Aircranes from service for maintenance or for sale, or add Aircranes to the fleet through our own production or through a purchase.

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The following table presents the changes in Aircranes employed in our fleet as of December 31, 2010, 2011, and 2012:

	Aircranes	Total Aircranes Employed
Aircranes employed in our fleet at December 31, 2010		17
Aircranes employed in our fleet at December 31, 2011		17
Aircranes transferred from inventory	1	
Aircranes purchased	1	
Aircranes removed from fleet for maintenance	(1)	
Aircranes employed in our fleet at December 31, 2012		18

At the end of 2011 we had 17 Aircranes in our fleet and we had two F-model Aircranes in the process of being remanufactured in our plant that were held in inventory. During the first quarter of 2012, we removed one E-model Airplane from service for heavy maintenance, an activity which usually takes between three and six months to complete. During the second quarter of 2012, we completed the remanufacture of an F-model and transferred it to our fleet from inventory to meet demand for our services; at the same time, we decided to postpone the heavy maintenance on the E-model that began in the first quarter of 2012, and removed this Airplane from our fleet by transferring its hull and components to inventory to provide parts and components support to the other Aircranes in our fleet. During the third quarter of 2012 our fleet size remained unchanged at 17 Aircranes. During the fourth quarter of 2012, we purchased an F-model Airplane for use in our fleet, bringing the total in active service to 18. We had one Airplane in the process of being remanufactured as of December 31, 2012 which was held in inventory and may be added to our fleet upon completion if we have a significant increase in aerial service demand.

Aircrane Purchases. On October 1, 2012, we entered into an Aircraft Purchase Agreement to purchase an S-64F Airplane and Airplane support parts from SDG&E for a total purchase price of \$21.75 million. The total consideration was comprised of the following: \$18.1 million for the Airplane, \$1.9 million for support parts and supplies, and Airplane accessories, and \$1.8 million for the relief of the liability associated with the CPH contract. As a result of this transaction, SDG&E's put option right under the original sales agreement was extinguished. Additionally, the agreement terminated a preexisting CPH contract between us and SDG&E, which released us from our performance obligations under the contract and resulted in an acceleration of deferred revenue of \$5.7 million and a decrease in cost of revenues for the reversal of the CPH reserve of \$0.6 million, for a net approximate impact to gross profit of \$6.3 million, an increase to net income of \$3.8 million, and an increase to basic and diluted earnings per share of \$0.55 per share for 2012. The Airplane was added to our fleet on October 1, 2012.

Aircrane Sales. We have not sold an Airplane since 2009, when we sold an Airplane to SDG&E which we repurchased from them in 2012. During 2012 we had two potential Airplane sales that were not completed. An attempted sale to HRT was not accomplished, and we do not anticipate making an Airplane sale to HRT in the foreseeable future. In February 2012, we entered into a non-binding letter of intent with Turk Hava Karumu ("THK"), a Turkish governmental aviation organization, pursuant to which THK expressed its intent to purchase one Airplane prior to June 30, 2012. Discussions are ongoing with THK regarding alternatives to buying an Airplane, including possible leases. However, THK may not decide to purchase or lease an Airplane from us.

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OVERVIEW OF THE BUSINESS

We specialize in the operation and remanufacture of the Aircrane, a versatile and powerful heavy-lift helicopter. The Aircrane has a lift capacity of up to 25,000 pounds and is the only commercial aircraft built specifically as a flying crane without a fuselage for internal load. The Aircrane is also the only commercial heavy-lift helicopter with a rear load-facing cockpit, combining an unobstructed view and complete aircraft control for precision lift and load placement capabilities. We conduct business primarily through two reportable segments: Aerial Services and Manufacturing/MRO.

To support our Aerial Services segment, our engineering staff has developed enhanced mission-specific capabilities and modifications for the Aircrane that allow us to compete effectively and contribute to our market share. We typically lease our Aircranes to customers and provide associated crewing and maintenance services. Our pilots and mechanics are technical specialists with years of training. One of our offerings is to provide crewing for aircraft we have sold to various customers.

We also provide aftermarket support and maintenance, repair and overhaul services for the Aircrane and other aircraft and remanufacture Aircranes and related components for sale to government and commercial customers. We refer to this segment of our business as Manufacturing / MRO. In 2012, our Aerial Services and Manufacturing / MRO segments generated revenues of \$161.4 million and \$19.4 million, respectively, and in 2011, our Aerial Services and Manufacturing / MRO segments generated revenues of \$138.6 million and \$14.1 million, respectively. In 2012, we had net income attributable to Erickson Air-Crane of \$15.2 million, and in 2011, we had net income attributable to Erickson Air-Crane of \$15.9 million.

Through our Manufacturing / MRO segment we remanufacture Aircranes from existing airframes, manufacture new components on a contract basis, and provide customers with FAA, EASA, and ANAC certified MRO services in our AS9100 certified facility. AS9100 is a widely adopted and standardized quality management system for the aerospace industry. We also offer CPH contracts pursuant to which we provide components and expendable supplies for a customer's aircraft at a fixed cost per flight hour. We believe CPH contracts help our customers better predict and manage their maintenance costs.

We manage our business using key operating indicators to measure our performance, balancing short-term results and strategic priorities.

Sales and Marketing

To maintain and strengthen our position in the Aerial Services market, we monitor revenue flight hours, aggregate revenues, and backlog revenues for firefighting, timber harvesting, construction and crewing contracts, and compare these against budgeted and forecasted targets to measure performance. We monitor our sales pipeline for each of these services, and maintain a master fleet schedule and attempt to maximize Aircrane utilization and revenues by minimizing our "white space," or Aircrane idle time.

To continue to build and develop our Manufacturing / MRO business, we focus on the number of bids and win-rate associated with bids for MRO and component manufacturing opportunities and on our aircraft sales pipeline, including the quality of our prospects. We compare revenues against budgeted and forecasted targets to measure performance.

Operations and Safety

A key operating measure used by management in evaluating each of our business segments is gross profit, which is calculated as revenues less cost of revenues. Our most significant cost of revenues are material (including raw materials and plant labor and overhead including related employee benefits, fuel, and labor). We closely monitor material costs and fuel costs measured on a per-flight-hour basis. We also measure the costs of crewing (our pilots and field mechanics)

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and related expenses such as travel and local contract-related expenses, and compare these metrics against budgeted and forecasted targets to measure performance. We target all contracts to have positive gross profit; however, due to the seasonality of our business, we often have unabsorbed costs in the first quarter and the fourth quarter which could lead to negative reported gross profit in these quarters.

We evaluate key corporate projects and research and development projects based on projected returns on investment. We monitor implementation and development schedules and costs and compare performance to budgeted amounts.

Safety is critical to the operation of our business, and we measure a variety of safety metrics including detail by ground and aerial operations and by mechanical and human factor related causes. We measure all metrics for both the current period and long-term trending, both in absolute terms and on a per-flight-hour basis.

Financial and Overall Performance Measures

We measure overall business performance according to five critical metrics: EBITDA, Bank EBITDA (see " Bank EBITDA"), revenue growth, net income, and free cash flow.

Our key liquidity measures include revolver availability, receivables aging, capital investments, free cash flow and bank covenant compliance.

We annually update a five-year strategic plan encompassing expected results of operations and key growth opportunities. Our strategic planning process results in a complete set of forecasted financial statements, a critical action plan to achieve our strategic goals, and specific performance goals and measurements.

Our Operating Revenue

Aerial Services. Our Aerial Services revenue is derived primarily from contracts with government and commercial customers who use our services for firefighting, timber harvesting, infrastructure construction projects, and crewing services. Many of our contracts for Aerial Services are multi-year, and these contracts provide the majority of our current revenue backlog.

Firefighting Contracts. We generally charge a daily standby fee for the contract period with an additional rate for hours flown; some contracts include a minimum number of hours to be flown before the hourly rate is charged. We have both domestic and international contracts, which may be exclusive-use or call-when-needed in nature. Exclusive-use contracts denote that we are obligated to provide, and our customer is obligated to take and pay for, the use of our services. Call-when-needed contracts are contracts with pre-negotiated terms under which we may elect to provide services if requested.

Timber Harvesting Contracts. We generally operate on either an hourly rate structure or a per cubic meter of high grade timber delivered basis. We serve a variety of private customers in North America and Asia.

Infrastructure Construction Contracts. Our infrastructure construction operations vary from short-term construction jobs (generally one to five days in duration) to longer-term jobs (several months or years in duration) within the construction, energy transmission, and energy generation industries.

Crewing Services. For customers who purchase an Aircrane but lack qualified operating personnel, we offer pilots and field maintenance crews on annual or multi-year contracts. We have contracts in place for crewing four of the nine aircraft we have sold since 2002.

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Manufacturing / MRO. Our Manufacturing / MRO revenue is derived from the sale of aircraft components, from providing MRO and CPH services to various customers, and from the sale of Aircranes.

Component Part Sales. We have an ongoing revenue stream from customers who own or operate either Aircranes or the military version CH-54s and require parts support for their helicopters. We are also pursuing aftermarket opportunities to develop component parts for other aircraft.

MRO Services. Similar to component part sales, we have an ongoing revenue stream from customers who own or operate Aircranes, CH-54s, or other aircraft and need their aircraft components repaired or overhauled by a certified facility.

CPH Services. For customers who desire better predictability and stability in their aircraft operating costs, we offer contracts in which we provide components and expendable supplies at a fixed cost per flight hour.

Aircrane Sales. In our Central Point, Oregon facility we have the capability to remanufacture Aircranes on existing S-64 and CH-54 airframes, and this remains a core business competency. Customers who identify a year-round or otherwise critical application for an Aircrane may find it advantageous to own an Aircrane rather than leasing our fleet's services. We have sold nine Aircranes since 2002. While we continue to pursue Aircrane sales and will make sales strategically when opportunities arise, we do not rely on Aircrane sales as an essential part of our business planning.

Our Operating Expenses

Cost of Revenues. Our cost of revenues consists of purchased materials; consumed inventory; plant labor and overhead; aviation fuel; aircraft insurance; contract specific expenses associated with operating in various geographies; shipping costs for transporting our Aircranes; depreciation and amortization of our Aircranes, plant, property, and equipment; and pilot and field mechanic wages, benefits, and other related costs.

Selling and Marketing. Our selling and marketing expenses consist primarily of compensation, benefits, and travel related costs for sales and marketing employees and fees paid to contractors and consultants. Also included are expenses for trade shows, customer demonstrations, and public relations and other promotional and marketing activities, as well as cost of bad debts.

Research and Development. Our research and development expenses consist primarily of wages, benefits, and travel costs for our engineering employees and fees paid to contractors and consultants. Also included are expenses for materials needed to support research and development efforts and expenses associated with testing and certification.

General and Administrative. Our general and administrative expenses consist primarily of wages, benefits, and travel costs for general and administrative employees and fees paid to contractors and consultants in executive, finance, accounting, information technology, human resources, and legal roles, including employees in our foreign subsidiaries involved in these activities. Also included are expenses for legal, accounting, and other professional services and bank fees.

Other Income (Expense), Net. Our other income (expense) consists primarily of the interest paid on outstanding indebtedness, realized/unrealized foreign exchange gains and losses, amortization of debt issuance costs, and interest and penalties related to tax contingencies, as well as certain other charges and income, such as legal settlements, gain and loss on the disposal of equipment, amortization and write-off of deferred financing fees, and insurance settlements. With regard to foreign exchange gains and losses, our operations in foreign countries are partially self-hedged, with the majority of our European, Canadian, Australian and Asian contracts having both revenues and local expenses paid in

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the local currency; in addition, some of our contracts provide for rate adjustments based on changes in currency exchange rates. For currency exposure that is not self-hedged, we sometimes enter into forward contracts to reduce our currency risk.

TRENDS AND UNCERTAINTIES AFFECTING OUR BUSINESS

Effect of 2007 Acquisition. We were acquired on September 27, 2007, in which the buyers acquired 100% of our outstanding common stock for \$93.1 million, which amount included direct acquisition costs of \$3.4 million. The acquisition was accounted for as a purchase in accordance with the Financial Accounting Standard Board's ("FASB") ASC No. 805, Business Combinations. As a result, we allocated the purchase price to the assets acquired and the liabilities assumed at the date of the acquisition based on their estimated fair value as of the closing date. The difference between the aggregate purchase price and the estimated fair value of the assets acquired and liabilities assumed was approximately \$553.7 million. Our management determined that the fair value of the various assets acquired and liabilities assumed was \$646.8 million on the date of acquisition and that, based in part on a valuation provided by an independent third party as required by U.S. GAAP in connection with such determination, the fair value of the 18 Aircranes in our fleet on the date of acquisition was \$317.7 million. The negative goodwill was used to reduce the value of Aircranes and support parts and other property, plant and equipment. As a result of this adjustment, the cost of revenues in each of the successor periods included in this Form 10-K reflects the lower carrying value of our aircraft support parts that we have sold or used in our maintenance, repair, and overhaul operations. The aggregate effect of the purchase accounting adjustment with respect to our inventory was approximately \$30.4 million from the date of acquisition through December 31, 2012. Based on our past experience and historical inventory usage patterns, we expect to largely realize the benefit of the approximately \$13.0 million remaining fair value purchase accounting adjustment to aircraft support parts over the next three years as we sell and use our legacy inventory. Our legacy inventory consists of aircraft parts and components purchased over multiple years for which there is no liquid market; therefore, there is no guarantee that we will be able to purchase new inventory at the carrying values of our legacy inventory currently reflected on our balance sheet.

Aircrane Sales. A sale of an Aircrane has a material effect on our financial results, and Aircrane sales have been a dominant factor in fluctuations in our year-over-year results. Although we have focused our sales and marketing efforts on increasing Aircrane sales, sales are not guaranteed in a particular financial period or at all. In the five years comprising 2008 to 2012, we sold one Aircrane in 2009 to SDG&E, which we subsequently re-purchased from SDG&E in 2012. Since 2002, we have sold and delivered nine Aircranes.

SDG&E held the right to exercise a put option that would have, if exercised, required us to repurchase on July 31, 2013 the S-64F Aircrane we sold to SDG&E in 2009. Additionally, we had the right to purchase at our option the Aircrane prior to the execution of the put option. On October 1, 2012, we entered into an Aircraft Purchase Agreement to purchase the S-64F Aircrane and Aircrane support parts from SDG&E for a total purchase price of \$21.75 million. At the time of purchase, SDG&E's put option right under the original sales agreement was extinguished. Additionally, the agreement terminated a preexisting CPH contract between us and SDG&E, and released us from our performance obligations under the contract. The Aircrane was added to our fleet on October 1, 2012.

We currently have 18 Aircranes that we employ in providing Aerial Services. The sale of an Aircrane to an existing or potential Aerial Services customer may reduce future Aerial Services revenues we may have received for services provided to such customers or other third parties. We would expect to maintain our level of operations through more efficient scheduling of our remaining fleet or by allocating Aircranes remanufactured in our plant to Aerial Services operations. However, we may not always have the ability to maintain our desired level of Aerial Services operations with a reduced fleet, which could reduce our ability to generate Aerial Services revenues.

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We expect to recognize revenue for our long-term construction contracts in the future using the percentage of completion method, when all required criteria are met. Revenue on contracts using the percentage of completion method is based on estimates, including estimated labor hours. Because the percentage of completion method requires management estimates of aggregate contract costs, changes in estimates between periods could affect our anticipated earnings.

Credit Agreement Compliance and Refinancing Costs. We are subject to financial covenants under our credit agreement. We were in compliance with our financial covenants at December 31, 2012 and December 31, 2011. Our ability to comply with the financial covenants under our credit agreement in 2013 is subject to various risks and uncertainties, and among other factors may be adversely affected by any of the following:

if our business does not perform as expected, including if we generate less than anticipated revenue from our Aerial Services operations or encounter significant unexpected costs;

if we fail to timely collect our receivables, including our receivables from our major customers;

if we fail to consummate our pending refinancing of our credit facility.

If we fail to comply with the financial covenants under our credit agreement, we may incur additional costs that might adversely affect our financial condition, results of operations and cash flows. Such costs might include costs related to obtaining a waiver of any such non-compliance from our lenders. We cannot assure you that our lenders will agree to waive any such non-compliance.

The senior credit facilities under our credit agreement mature on June 24, 2013. We intend to refinance our senior credit facilities with new credit facilities prior to such maturity. Such refinancing may cause us to incur significant costs, including costs related to the acceleration of amortizing debt issuance costs.

On March 6, 2013, we received a binding commitment letter from a bank syndicate led by Wells Fargo Capital Finance, LLC regarding funding of an agreement which consists of up to \$165.0 million in senior secured credit facilities. The commitment expires on April 15, 2013.

Greece Receivable. As of December 31, 2012, included within our accounts receivable balance was \$5.8 million (€4.4 million) due from the Hellenic Fire Brigade for final payment of firefighting services performed in 2011. In 2012, the government of Greece communicated with us its belief that we had a permanent establishment in Greece for 2011 and 2010, which would require us to file Greek tax returns and pay related taxes. The Hellenic Fire Brigade is withholding payment to us until a resolution is made regarding our permanent establishment status. No formal tax assessments have been made, and we have asked the U.S. Competent Authority Office to assist us in settling the dispute. We anticipate that any Greek taxes we are compelled to pay will be allowed as a foreign tax credit on our U.S. tax return. For the year ended December 31, 2012, we recognized \$0.8 million for potential interest and penalties associated with our uncertain tax position with Greece.

Crewing Contract with Italian Forest Service. We provide crewing services on a multi-year basis to the Italian Forest Service in respect of four Aircranes we previously sold to the Italian Forest Service. We also provide maintenance and CPH for parts to this customer. Our contracts to provide services to the Italian Forest Service expire in June 2013. We are currently in discussions with the Italian Forest Service regarding extension or renewal of these agreements. However, we may not be successful in extending or renewing these agreements.

November 2011 Restructuring. On November 2, 2011, we completed a company restructuring which included a reduction-in-force of 119 employees that affected both our Aerial Services and our Manufacturing / MRO segments. The restructuring was designed to ensure that we remain competitive in the markets we serve. However, as a result of the reduction-in-force, we may experience longer

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aircraft delivery lead times for future customers who wish to purchase Aircranes, which may delay the timing of our aircraft sales revenues in the future. In the event that we experience significantly increased customer demand to purchase our Aircranes, we anticipate being able to meet such demand by rapidly expanding our manufacturing capacity and related resources. However, such expansion may require us to incur significant costs.

Seasonality. Our Aerial Services operations in any given location are heavily seasonal and depend on prevailing weather conditions. Our flight hours are substantially reduced in winter or monsoon seasons. The global deployment of our helicopters and crews helps to limit the effect of seasonality, but our Aerial Services operations tend to peak in June through October and to be at a low point in January through April. Due to the seasonality of our business, we often have unabsorbed costs in the first quarter and the fourth quarter which could lead to negative reported gross profit in these quarters. We believe our new contracts in South America will help reduce the impact of seasonality on our business.

Fluctuations in our Mix of Services. We derive most of our total revenues from our Aerial Services business, which are composed of revenues from firefighting, timber harvesting, infrastructure construction, and crewing. The margins we make on these activities differ substantially and may vary from year to year, and the amount of our flight hours dedicated to these activities can also vary from year to year. For example, in 2012 we generated revenues per flight hour for firefighting and timber harvesting of approximately \$22,000 and \$7,000, respectively, compared to revenues per flight hour for firefighting and timber harvesting of \$24,000 and \$7,000 in 2011. Changes in the composition of our flight hours for any reason could impact our total revenues.

Expenses Associated with Expansion. As part of our business strategy, we may acquire businesses or specific assets or engage in other strategic transactions. Such transactions may result in expenses that impact our financial results, including expenses associated with attracting and retaining qualified talent and to finance our expansion.

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RESULTS OF OPERATIONS

2012 Compared to 2011

The following table presents our consolidated operating results for the year ended December 31, 2012 compared to the year ended December 31, 2011:

(Dollars in thousands)	Year Ended December 31, 2012	% of Revenues	Year Ended December 31, 2011	% of Revenues	Change	%
Net revenues:						
Aerial Services	\$ 161,405	89.3	\$ 138,637	90.7	\$ 22,768	16.4
Manufacturing / MRO	19,419	10.7	14,132	9.3	5,287	37.4
Total revenues	180,824	100.0	152,769	100.0	28,055	18.4
Cost of revenues:						
Aerial Services	109,623	67.9 ⁽¹⁾	93,566	67.5 ⁽¹⁾	16,057	17.2
Manufacturing / MRO	9,782	50.4 ⁽¹⁾	13,730	97.2 ⁽¹⁾	(3,948)	(28.8)
Total cost of revenues	119,405	66.0	107,296	70.2	12,109	11.3
Gross profit						
Aerial Services	51,782	32.1 ⁽¹⁾	45,071	32.5 ⁽¹⁾	6,711	14.9
Manufacturing / MRO	9,637	49.6 ⁽¹⁾	402	2.8 ⁽¹⁾	9,235	NM ⁽²⁾
Total gross profit	61,419	34.0	45,473	29.8	15,946	35.1
Operating expenses:						
General and administrative	17,232	9.5	13,023	8.5	4,209	32.3
Research and development	4,683	2.6	4,827	3.2	(144)	(3.0)
Selling and marketing	6,071	3.4	9,940	6.5	(3,869)	(38.9)
Restructuring charges			1,084	0.7	(1,084)	(100.0)
Total operating expenses	27,986	15.5	28,874	18.9	(888)	(3.1)
Income (loss) from operations	33,433	18.5	16,599	10.9	16,834	101.4
Other income (expense), net:						
Interest expense, net	(6,990)	(3.9)	(9,150)	(6.0)	2,160	(23.6)
Other income (expense), net	(594)	(0.3)	3,885	2.5	(4,479)	(115.3)
Total other income (expense)	(7,584)	(4.2)	(5,265)	(3.4)	(2,319)	44.0
Net income (loss) before income taxes and noncontrolling interest						
	25,849	14.3	11,334	7.4	14,515	128.1
Income tax expense (benefit)	10,213	5.6	(4,926)	(3.2)	15,139	NM ⁽²⁾
Net income (loss)	15,636	8.6	16,260	10.6	(624)	(3.8)
Less: Net (income) loss related to noncontrolling interest						
	(406)	(0.2)	(390)	(0.3)	(16)	4.1
Net income (loss) attributable to Erickson Air-Crane Incorporated						
	15,230	8.4	15,870	10.4	(640)	(4.0)
Dividends on Series A Redeemable Preferred Stock	2,795	1.5	9,151	6.0	(6,356)	(69.5)
Net income (loss) attributable to common stockholders	\$ 12,435	6.9	\$ 6,719	4.4	\$ 5,716	85.1

(1) Percentage of net revenues of segment.

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(2)

We use the abbreviation "NM" throughout this Form 10-K to refer to changes that are not meaningful.

Revenues

Consolidated revenues increased by \$28.1 million, or 18.4%, to \$180.8 million in 2012 from \$152.8 million in 2011. The increase in revenues was attributable to a \$22.8 million increase in Aerial Services revenues and a \$5.3 million increase in Manufacturing / MRO revenues compared to 2011.

(Dollars in thousands)	Year Ended December 31, 2012	% of Revenues	Year Ended December 31, 2011	% of Revenues	Change	%
Net revenues:						
Aerial Services	\$ 161,405	89.3	\$ 138,637	90.7	\$ 22,768	16.4
Manufacturing / MRO	19,419	10.7	14,132	9.3	5,287	37.4
Total revenues	\$ 180,824	100.0	\$ 152,769	100.0	\$ 28,055	18.4

Aerial Services. Aerial Services revenues increased by \$22.8 million, or 16.4%, to \$161.4 million in 2012 from \$138.6 million in 2011. This increase was primarily due to an 18.9% increase in revenue flight hours for Aerial Services during 2012 to 12,075 hours from 10,152 hours in 2011, partially offset by a shift in the mix of services provided.

The following are our revenues and revenue flight hours by type of service for 2012 and 2011:

(Dollars in thousands)	Year Ended December 31, 2012	Year Ended December 31, 2011	Change	%
Aerial Services Revenues:				
Firefighting	\$ 82,211	\$ 72,939	\$ 9,272	12.7
Timber Harvesting	32,039	31,684	355	1.1
Infrastructure Construction	28,357	14,459	13,898	96.1
Crewing	18,798	19,555	(757)	(3.9)
Total Aerial Services revenues	\$ 161,405	\$ 138,637	\$ 22,768	16.4

(Dollars in thousands)	Year Ended December 31, 2012	Year Ended December 31, 2011	Change	%
Aerial Services Revenue Flight Hours:				
Firefighting	3,723	3,088	635	20.6
Timber Harvesting	4,465	4,585	(120)	(2.6)
Infrastructure Construction	2,337	961	1,376	143.2
Crewing	1,550	1,518	32	2.1
Total Aerial Services revenue flight hours	12,075	10,152	1,923	18.9

Firefighting revenues increased by \$9.3 million, or 12.7%, to \$82.2 million in 2012 from \$72.9 million in 2011. This increase was primarily due to an increase in firefighting revenues in North America of \$9.6 million, partially offset by a decrease in Greece of \$0.5 million compared to 2011. North America experienced one of the most severe seasons of U.S. wildfire activity in the last decade, according to the National Interagency Fire Center, increasing 5.7% in 2012 as compared to 2011 (measured in acres of wildfire burned).

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Timber Harvesting revenues increased by \$0.4 million, or 1.1%, to \$32.0 million in 2012 from \$31.7 million in 2011. This increase was primarily due to increased revenues of \$5.0 million in North America, partially offset by a \$4.7 million decrease in Malaysia as compared to 2011. We believe our North American flight activity is highly correlated to U.S. housing starts which, according to the National Association of Home Builders, experienced a 15.0% increase in 2012 as compared to 2011. The decline in Malaysian revenues was driven by contract and credit issues with one of our Malaysian customers. We began requiring prepayment from this customer for timber harvesting services in 2012.

Infrastructure Construction revenues increased by \$13.9 million, or 96.1%, to \$28.4 million in 2012 from \$14.5 million in 2011. This increase was primarily due to increased revenues in South America construction of \$9.9 million coupled with increased revenues in North America construction of \$4.7 million as compared to 2011. We flew for a full year on our Repsol contract in Peru in 2012 and only a partial year during 2011, and experienced strong demand in North America for powerline construction, flying for new customers as well as assisting SDG&E in the completion of its Sunrise Powerlink project.

Crewing revenues decreased by \$0.8 million, or 3.9%, to \$18.8 million in 2012 from \$19.6 million in 2011. This decrease was primarily due to our crewing contract with San Diego Gas & Electric, which ended during the third quarter of 2012, partially offset by increased flight activity with our Italian customer.

Manufacturing / MRO. Manufacturing / MRO revenue increased by \$5.3 million, or 37.4%, to \$19.4 million in 2012 from \$14.1 million in 2011. This increase was primarily due to the acceleration of deferred revenue of \$5.7 million associated with the repurchase of the SDG&E aircraft. Our CPH contract with SDG&E ended on October 1, 2012 when we repurchased the aircraft from our customer.

Gross Profit

Consolidated gross profit increased by \$15.9 million, or 35.1%, to \$61.4 million in 2012 from \$45.5 million in 2011. The increase was attributable to an increase in Aerial Services gross profit of \$6.7 million and an increase Manufacturing / MRO of \$9.2 million in 2012 compared to 2011.

(Dollars in thousands)	Year Ended December 31, 2012	% of Related Revenues	Year Ended December 31, 2011	% of Related Revenues	Change	%
Gross profit						
Aerial Services	\$ 51,782	32.1	\$ 45,071	32.5	\$ 6,711	14.9
Manufacturing / MRO	9,637	49.6	402	2.8	9,235	NM
Total gross profit	\$ 61,419	34.0	\$ 45,473	29.8	\$ 15,946	35.1

Aerial Services. Aerial Services gross profit increased by \$6.7 million, or 14.9%, to \$51.8 million in 2012 from \$45.1 million in 2011. Gross profit margin was 32.1% in 2012 compared to 32.5% in 2011. The revenue increase of \$22.8 million for 2012 compared to 2011 was the primary reason for the gross profit improvement. While many of the costs of Aerial Services revenues are fixed in nature and the increase in flight hour revenues directly benefitted our operating margins, these benefits were partially offset by costs associated with transporting our aircraft by sea from Greece to Australia, and increased pilot and field maintenance costs associated with the growth of our fleet from 17 to 18 Aircranes.

Manufacturing / MRO. Manufacturing / MRO gross profit increased by \$9.2 million to \$9.6 million in 2012 compared to \$0.4 million in 2011, primarily due to the acceleration of deferred revenue of \$5.7 million associated with the repurchase of the S-64F Airplane and Airplane support parts from SDG&E and lower unabsorbed plant costs in 2012 as compared to 2011, as a reduction in force lead to significant unabsorbed variances in the fourth quarter of 2011.

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Operating Expenses

(Dollars in thousands)	Year Ended December 31, 2012	% of Revenues	Year Ended December 31, 2011	% of Revenues	Change	%
Operating expenses:						
General and administrative	\$ 17,232	9.5	\$ 13,023	8.5	\$ 4,209	32.3
Research and development	4,683	2.6	4,827	3.2	(144)	(3.0)
Selling and marketing	6,071	3.4	9,940	6.5	(3,869)	(38.9)
Restructuring charges			1,084	0.7	(1,084)	(100.0)
Total operating expenses	27,986	15.5	28,874	18.9	(888)	(3.1)
Income (loss) from operations	\$ 33,433	18.5	\$ 16,599	10.9	\$ 16,834	101.4

Operating expenses decreased by \$0.9 million, or 3.1%, to \$28.0 million in 2012 from \$28.9 million in 2011. The change was primarily due to lower selling and marketing expenses in 2012 of \$3.9 million, mainly due to lower receivable reserves in 2012 compared to 2011, and lower spending on trade shows. The decrease in selling and marketing expenses was partially offset by an increase in general and administrative expenses of \$4.2 million due to increases in variable and share-based compensation, offset by a decrease in legal expenses. In November 2011, we had \$1.1 million in restructuring charges.

Other Income (Expense), Net

(Dollars in thousands)	Year Ended December 31, 2012	% of Revenues	Year Ended December 31, 2011	% of Revenues	Change	%
Other income (expense), net:						
Interest expense, net	\$ (6,990)	(3.9)	\$ (9,150)	(6.0)	\$ 2,160	(23.6)
Other income (expense), net	(594)	(0.3)	3,885	2.5	(4,479)	(115.3)
Total other income (expense), net	\$ (7,584)	(4.2)	\$ (5,265)	(3.4)	\$ (2,319)	44.0

Total other income (expense), net increased by \$2.3 million to \$7.6 million of net expense in 2012 from \$5.3 million of net expense in 2011. Interest expense, net decreased by \$2.2 million to \$7.0 million in 2012, from \$9.2 million in 2011, primarily due to a decrease in the effective interest rates on borrowings and a decrease in our average outstanding borrowings. Other income decreased by \$4.5 million to \$0.6 million in other expense in 2012 from \$3.9 million in other income in 2011, due to the factors described below.

(Dollars in thousands)	Year Ended December 31, 2012	Year Ended December 31, 2011	Change
Other income (expense), net:			
Unrealized foreign exchange gain (loss)	\$ (322)	\$ 1,819	\$ (2,141)
Realized foreign exchange gain (loss)	788	(956)	1,744
Gain (loss) on disposal of equipment	(5)	26	(31)
Amortization of debt issuance costs	(1,174)	(875)	(299)
Interest expense related to tax contingencies		2,745	(2,745)
Other income (expense), net	119	1,126	(1,007)
Other income (expense), net	\$ (594)	\$ 3,885	\$ (4,479)

Other income (expense), net decreased by \$4.5 million to \$0.6 million of other expense in 2012 from \$3.9 million of other income in 2011. Other income (expense), net included \$2.7 million

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associated with the reversal of interest expense from a tax settlement in 2011 and a foreign exchange net gain of \$0.5 million in 2012 compared to a foreign exchange net gain of \$0.9 million in 2011.

Income Tax Expense (Benefit)

(Dollars in thousands)	Year Ended December 31, 2012	% of Revenues	Year Ended December 31, 2011	% of Revenues	Change	% Change
Net income (loss) before income taxes and noncontrolling interest	\$ 25,849	14.3	\$ 11,334	7.4	\$ 14,515	128.1
Income tax expense (benefit)	10,213	5.6	(4,926)	(3.2)	15,139	NM
Net income (loss)	\$ 15,636	8.6	\$ 16,260	10.6	\$ (624)	(3.8)

Income tax expense increased by \$15.1 million to \$10.2 million in 2012 from a \$4.9 million tax benefit in 2011, primarily due to a tax benefit recorded in 2011 of \$9.5 million for the settlement of an outstanding claim related to 2006 foreign tax credits and a \$5.1 million increase in tax expense in 2012 related to the \$14.5 million increase in net income before income taxes and noncontrolling interest as compared to 2011.

Net Income (Loss) Attributable to Erickson Air-Crane Incorporated

(Dollars in thousands)	Year Ended December 31, 2012	% of Revenues	Year Ended December 31, 2011	% of Revenues	Change	% Change
Net income (loss)	\$ 15,636	8.6	\$ 16,260	10.6	\$ (624)	