Erickson Air-Crane Inc
Form 10-Q
August 08, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012.

Or

o **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	**93-1307561**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5550 SW Macadam Avenue, Suite 200, Portland, Oregon	**97239**
(Address of principal executive offices)	(Zip Code)

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

N/A

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

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 ý No o

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 ý No o

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 o	Accelerated filer o	Non-accelerated filer ý (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of August 3, 2012, 9,602,970 shares of common stock, par value $0.0001, were outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	June 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 1,808	$ 268
Restricted cash	3,081	
Accounts receivable net of allowances for doubtful accounts of $585 and $476 at June 30, 2012 and December 31, 2011, respectively	30,029	26,528
Aircranes and support parts in process	10,529	27,395
Prepaid expenses and other	3,455	4,217
Income tax receivable	1,772	1,248
Deferred tax assets	8,950	7,602
Total current assets	59,624	67,258
Restricted cash	1,855	5,214
Aircrane support parts, net	114,960	101,892
Aircranes, net	52,507	42,288
Property, plant, and equipment, net	14,044	14,341
Other noncurrent assets	2,084	2,918
Total assets	$ 245,074	$ 233,911
Liabilities, redeemable preferred stock and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	$ 8,124	$ 10,526
Current debt	85,962	6,500
Accrued and other current liabilities	18,611	17,277
Income taxes payable	1,005	
Total current liabilities	113,702	34,303
Long-term debt	25,435	124,070
Other long-term liabilities	3,651	4,328
Deferred tax liabilities	13,998	14,194
Total liabilities	156,786	176,895
Commitments and contingencies (Note 11)		
Series A redeemable preferred stock, $0.0001 par value, Authorized zero and 70,000 shares at June 30, 2012 and December 31, 2011, respectively		
Zero and 34,999.5 issued and outstanding at June 30, 2012 and December 31, 2011, respectively liquidation preference of zero and $66,161 at June 30, 2012 and December 31, 2011, respectively		66,161
Stockholders' equity (deficit):		
Common stock, $0.0001 par value. Authorized 110,000,000 and 2,300 shares at June 30, 2012 and December 31, 2011, respectively;		
Class A; designated 2,000; zero and 1,000 issued and outstanding at June 30, 2012 and December 31, 2011, respectively		1

Class B; designated 300; zero issued and outstanding				
Common Stock; 9,602,970 and zero issued and outstanding at June 30, 2012 and December 31, 2011, respectively		1		
Additional paid-in capital		101,706		
Accumulated deficit		(14,160)		(9,988)
Accumulated other comprehensive income (loss)		(54)		(36)
Total stockholders' equity (deficit) attributable to Erickson Air-Crane Incorporated		87,493		(10,023)
Noncontrolling interest		795		878
Total stockholders' equity (deficit)		88,288		(9,145)
Total liabilities, redeemable preferred stock and stockholders' equity (deficit)	$	245,074	$	233,911

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

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except share and per share data)

(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net revenues:				
Aerial services	$ 35,308	$ 39,472	$ 60,416	$ 58,199
Manufacturing / MRO	2,569	3,046	5,070	4,694
Total net revenues	37,877	42,518	65,486	62,893
Cost of revenues:				
Aerial services	26,340	27,121	48,190	45,671
Manufacturing / MRO	1,217	3,068	2,936	4,523
Total cost of revenues	27,557	30,189	51,126	50,194
Gross profit	10,320	12,329	14,360	12,699
Operating expenses:				
General and administrative	4,551	2,721	7,431	6,591
Research and development	1,476	981	2,430	1,854
Selling and marketing	1,220	1,207	3,081	3,314
Total operating expenses	7,247	4,909	12,942	11,759
Operating income (loss)	3,073	7,420	1,418	940
Other income (expense):				
Interest income		26	6	27
Interest expense	(1,748)	(2,454)	(4,019)	(4,244)
Interest expense related to tax contingencies		(132)		(216)
Amortization of debt issuance costs	(271)	(171)	(554)	(341)
Gain on disposal of equipment		8		8
Unrealized foreign exchange gain (loss)	(349)	(968)	41	(1,030)
Realized foreign exchange gain (loss)	352	(607)	315	(660)
Other income (expense), net	845	414	918	602
Total other expense	(1,171)	(3,884)	(3,293)	(5,854)
Income (loss) before noncontrolling interest and income taxes	1,902	3,536	(1,875)	(4,914)
Income tax expense (benefit)	733	(1,054)	(734)	(1,285)
Net income (loss)	1,169	4,590	(1,141)	(3,629)
Less: Net (income) loss related to noncontrolling interest	(52)	(285)	(237)	(592)
Net income (loss) attributable to Erickson Air-Crane Incorporated	1,117	4,305	(1,378)	(4,221)
Dividends on redeemable preferred stock	286	2,241	2,794	4,378
Net income (loss) attributable to common stockholders	$ 831	$ 2,064	$ (4,172)	$ (8,599)
Other comprehensive income (loss):				
Net income (loss)	$ 1,169	$ 4,590	$ (1,141)	$ (3,629)
Foreign currency translation adjustment	(165)	24	(41)	16

Comprehensive income (loss)	1,004	4,614	(1,182)	(3,613)
Comprehensive (income) loss attributable to noncontrolling interest	8	(305)	(214)	(542)
Comprehensive income (loss) attributable to Erickson Air-Crane Incorporated	$ 1,012	$ 4,309	$ (1,396)	$ (4,155)
Net income (loss) per share attributable to common stockholders				
Basic	$ 0.10	$ 2,063.83	$ (1.00)	$ (8,599.00)
Diluted	$ 0.10	$ 2,063.83	$ (1.00)	$ (8,599.00)
Weighted average shares outstanding				
Basic	8,355,869	1,000	4,178,435	1,000
Diluted	8,355,869	1,000	4,178,435	1,000

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

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)

(in thousands, except share data)

(Unaudited)

	Redeemable Series A Preferred Stock		Common Stock Class A		Common Stock		Additional Paid-in Capital	Retained Earnings Accumulated (Deficit)	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity (Deficit) of Erickson Air-Crane	Noncontrolling Interest Amount	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount						
Balance at December 31, 2010	34,999.5	$ 57,010	1,000	$ 1				$ (16,707)	$ 178	$ (16,528)	$ 930	$ (15,598)
Dividends accrued on redeemable preferred stock		9,151						(9,151)		(9,151)		(9,151)
Noncontrolling interest dividend											(254)	(254)
Components of comprehensive income (loss):												
Net income (loss)								15,870		15,870	390	16,260
Foreign currency translation									(214)	(214)	(188)	(402)
Comprehensive income (loss)												15,858
Balance at December 31, 2011	34,999.5	$ 66,161	1,000	$ 1		$		$ (9,988)	$ (36)	$ (10,023)	$ 878	$ (9,145)
Dividends accrued on redeemable preferred stock		2,794						(2,794)		(2,794)		(2,794)
Noncontrolling interest dividend											(297)	(297)
Conversion of preferred and class A common stock to common stock	(34,999.5)	(68,955)	(1,000)	(1)	4,802,970	0.5	68,956			68,956		68,956
Issuance of common stock related to IPO, net of expense					4,800,000	0.5	31,454			31,454		31,454
Stock based compensation							1,296			1,296		1,296
Components of comprehensive income (loss):												
Net income (loss)								(1,378)		(1,378)	237	(1,141)
Foreign currency translation									(18)	(18)	(23)	(41)
Comprehensive income (loss)												(1,182)
Balance at June 30, 2012		$		$	9,602,970	$ 1	$ 101,706	$ (14,160)	$ (54)	$ 87,493	$ 795	$ 88,288

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

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ERICKSON AIR-CRANE INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash flows from operating activities:				
Net income (loss)	$ 1,169	$ 4,590	$ (1,141)	$ (3,629)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation	1,989	2,280	4,038	3,623
Deferred income taxes	246	1,701	(1,543)	5,258
Non-cash interest on subordinated notes	724	535	1,898	954
Non-cash interest on tax contingencies		132		216
Stock based compensation	1,296		1,296	
Amortization of debt issuance costs	271	171	554	341
Gain on sale of equipment		(8)		(8)
Changes in operating assets and liabilities:				
Accounts receivable	(1,783)	(14,236)	(3,685)	(9,154)
Aircranes and support parts in process	520	(3,930)	3,924	(5,540)
Prepaid expenses and other	2,638	(583)	759	(1,039)
Income tax receivable	(338)		(524)	
Aircrane support parts, net	(3,103)	(1,998)	(10,800)	(10,143)
Accounts payable	(5,571)	3,395	(2,375)	2,148
Accrued and other current liabilities	(1,657)	6,297	1,593	2,796
Income taxes payable	438	(2,863)	959	(6,811)
Other long-term liabilities	(307)	(1,822)	(676)	(1,599)
Net cash provided by (used in) operating activities	(3,468)	(6,339)	(5,723)	(22,587)
Cash flows from investing activities:				
Purchases of Aircranes, property, plant, and equipment	(1,477)	(4,830)	(3,289)	(7,916)
Restricted cash	217	(1,019)	204	(1,019)
Dividends from noncontrolling interest	(297)	(254)	(297)	(254)
Increase (decrease) in other assets	135	(109)	295	(109)
Net cash provided by (used in) investing activities	(1,422)	(6,212)	(3,087)	(9,298)
Cash flows from financing activities:				
Proceeds from issuance of common stock, net of expenses	31,454		31,454	
Borrowings of debt	77,778	68,599	140,761	159,661
Repayments of debt	(103,925)	(58,339)	(161,831)	(127,235)
Debt issuance costs		(415)		(610)
Net cash provided by (used in) financing activities	5,307	9,845	10,384	31,816
Effect of foreign currency exchange rates on cash and cash equivalents	(38)	(40)	(34)	(577)
Net increase (decrease) in cash and cash equivalents	379	(2,746)	1,540	(646)
Cash and cash equivalents at beginning of period	1,429	4,028	268	1,928

Cash and cash equivalents at end of period	$	1,808	$	1,282	$	1,808	$	1,282
Supplemental disclosure of cash flow information:								
Cash paid during the year for interest	$	1,194	$	1,985	$	1,976	$	3,231
Net cash paid (received) during period for income taxes	$	362	$	97	$	320	$	233

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

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Description of the Business

The consolidated financial statements include the accounts of Erickson Air-Crane Incorporated ("EAC") and its subsidiaries and affiliated companies: CAC Development Ltd. ("Canada"), Canadian Air-Crane Ltd. ("CAC"), Erickson Air-Crane Malaysia Sdn. Bhd. ("EACM"), European Air-Crane S.p.A. ("EuAC"), and Dutch Air-Crane B.V. ("DAC") (collectively referred to as the "Company"). At June 30, 2012, EuAC owned a 60% equity interest in Societa Italiania de Manutenzioni Aeroautiche S.p.A. ("SIMA"), which is an aircraft maintenance organization located in Lucca, Italy. Additionally, EACM owned a 49% equity interest in Layang-Layang Services Sdn. Bhd., which provides aircraft rental services in Malaysia.

In April 2012, the Company completed its initial public offering ("IPO") of common stock in which a total of 4,800,000 shares of common stock were sold and issued, including 1,050,000 shares purchased by the existing stockholders of the Company, at an issue price of $8.00 per share. The Company raised a total of $38.4 million in gross proceeds from the IPO, or approximately $31.5 million in net proceeds after deducting underwriting discounts and commissions of $2.1 million and offering costs of $4.8 million. Upon the closing of the IPO, all shares of the Company's redeemable preferred stock and all shares of the Company's Class A common stock outstanding automatically converted into an aggregate of 4,802,970 shares of the Company's common stock. Proceeds received from the IPO were used to pay down indebtedness under the Company's revolving credit facility.

As of June 30, 2012, the Company owned and operated a fleet of twelve S-64E and five S-64F model Aircranes which are used in timber harvesting, firefighting, and construction operations predominantly in North America, South America, Europe, Southeast Asia, and Australia. During the quarter ended June 30, 2012, the Company placed one S-64F model Aircrane in service in its fleet that was previously included in Aircranes and support parts in process and removed one S-64E. The S-64E model Aircrane that was removed from the fleet for anticipated maintenance has been partially disassembled and is currently held at our Central Point facility. Five of the Aircranes were deployed outside of North America as of June 30, 2012.

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

Note 2 Basis of Presentation

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

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 2 Basis of Presentation (Continued)

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and following the guidance of Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the U.S. Securities and Exchange Commission (the "SEC"). As permitted under such rules, certain notes and other financial information normally required by accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted; however, the unaudited consolidated financial statements do include such notes and financial information sufficient so as to make the interim information presented not misleading. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes as of December 31, 2011 included in the Company's Registration Statement on Form S-1/A filed with the SEC on April 10, 2012.

The balance sheet at December 31, 2011 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in the U.S. GAAP and IFRSs." This guidance contains certain updates to the measurement guidance as well as enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for "Level 3" measurements including enhanced disclosure for: (1) the valuation process used by the reporting entity; and (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any. This guidance was effective for interim and annual periods beginning on or after December 15, 2011, with early adoption prohibited. This guidance will only impact the Company's "Level 3" disclosures. The Company has adopted the provisions of this standard and noted no material impact on the financial condition or results of operations of the Company.

In December 2011, the FASB issued ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." Under the amendments in ASU 2011-05 "Presentation of Comprehensive Income," entities are required to present reclassification adjustments and the effect of those reclassification adjustments on the face of the financial statements where net income is presented, by component of net income, and on the face of the financial statements where other comprehensive income is presented, by component of other comprehensive income. In addition, the amendments in ASU 2011-05 require that reclassification adjustments be presented in interim financial periods. The amendments in ASU 2011-12 supersede changes to those paragraphs in ASU 2011-05 that pertain to how, when, and where reclassification adjustments are presented. ASU 2011-12 was issued to allow FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented.

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 2 Basis of Presentation (Continued)

On January 1, 2012 the Company adopted the provisions of this standard and noted no material impact on the financial condition or results of operations of the Company.

In December 2011, the FASB issued an accounting standards update to ASC 210-20, *Offsetting,* requiring new disclosures about financial instruments and derivative instruments that are either offset by or subject to an enforceable master netting arrangement or similar agreement. The standards update is effective for fiscal years beginning after December 15, 2012. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Note 3. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consisted of the following (in thousands):

	June 30, 2012	December 31, 2011
Trade accounts receivable	$ 28,805	$ 26,432
Other receivables	1,809	572
Less: Allowance for doubtful accounts	(585)	(476)
	$ 30,029	$ 26,528

The Company had no bad debt expense in the three months ended June 30, 2012 and a net recovery of bad debt expense in the three months ended June 30, 2011 of $0.2 million. The Company had $0.1 million of bad debts expense in the six months ended June 30, 2012 and a net recovery of bad debt expense in the six months ended June 30, 2011 of $0.2 million.

The Company performs ongoing credit evaluations of its customers and believes it has made adequate provisions for potential credit losses. The Company does not generally require collateral on accounts receivable; however, under certain circumstances, the Company may require from its customers a letter of credit, a parent corporation guarantee, or full or partial prepayment prior to performing services. The Company estimates its allowance for doubtful accounts using a specific identification method based on an evaluation of payment history, the customer's credit situation, and other factors. At June 30, 2012, three customers made up 53.3% of the Company's accounts receivable balance. At December 31, 2011, three customers made up 52.5% of the Company's accounts receivable balance. Allowance for doubtful accounts was $0.6 million and $0.5 million at June 30, 2012 and December 31, 2011, respectively.

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 3. Accounts Receivable and Allowance for Doubtful Accounts (Continued)

The accounts receivable attributable to the following customers represented the percentage of total accounts receivable as set forth in the table below:

	Percentage of Total Accounts Receivable	
	As of June 30, 2012	As of December 31, 2011
Italian Ministry of Civil Protection	14.8%	18.9%
Hellenic Fire Brigade (Greece)	18.7%	21.6%
Helicorp (Australia)		12.0%
US Forest Service	19.8%	
	53.3%	52.5%

The following is a summary of customers that accounted for at least 10% of the Company's sales in the three or six months ended June 30, 2012 or 2011:

	Percentage of Revenues			
	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
Helicorp (Australia)			11.7%	13.3%
Italian Ministry of Civil Protection	12.9%	14.3%	14.6%	16.8%
US Forest Service	29.7%	40.8%	17.4%	27.6%
Western Forest Products (Canada)	10.1%	9.1%	9.2%	6.2%
	52.7%	64.2%	52.9%	63.9%

Note 4. Aircranes and Support Parts in Process

Aircranes and support parts in process consist of Aircranes in various stages of production. At June 30, 2012, the balance included no completed Aircranes. At December 31, 2011, the balance included one completed Aircrane and one substantially completed Aircrane. During the six months ended June 30, 2012, significant parts and components from the Aircrane that was substantially completed at year-end were placed into the Company's Aircrane support parts inventory to support the Company's fleet for the upcoming fire season. During the three months ended June 30, 2012, the completed Aircrane was put into service in our fleet to support increased demand from one of our major customers.

Note 5. Aircrane Support Parts, net

Aircrane support parts consist of Aircrane parts, overhauls of certain major components, and work-in-process which are valued at the lower of cost or market utilizing the first-in first-out method. Cost capitalized for Aircrane support parts include materials, labor, and operating overhead. Overhauls on certain major components are capitalized, and then amortized based on estimated flight hours between overhauls.

ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 5. Aircrane Support Parts, net (Continued)

Aircrane support parts consisted of the following (in thousands):

	June 30, 2012	December 31, 2011
Aircrane parts	$ 63,229	$ 50,572
Major component overhauls	34,822	30,777
Work-in-process	21,399	25,593
Less: Excess and obsolete reserve	(4,490)	(5,050)
	$ 114,960	$ 101,892

Note 6. Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following (in thousands):

	June 30, 2012	December 31, 2011
Payroll and related taxes	$ 4,385	$ 3,627
Customer advance payments	4,061	4,326
Cost per Hour	3,248	2,770
Advance from Cambiano		1,284
Warranty	100	1,015
Interest	211	58
Other	6,606	4,197
Total	$ 18,611	$ 17,277

Note 7. Debt

Credit Facilities

At the end of June 2010, the Company entered into a Credit Agreement (the "Credit Agreement") with a bank syndicate led by Wells Fargo Bank, National Association (Wells Fargo), which consisted of up to $132.5 million in senior credit facilities, including a $65.0 million term loan facility and a revolving credit facility of up to $67.5 million. The Company is currently in discussions with several lenders, including lenders of the syndicate to refinance the debt.

The $67.5 million revolving credit facility has a $30.0 million sublimit to be used for issuance of letters of credit and a $10.0 million sublimit for swingline loans. Subject to the terms of the Credit Agreement, including lender approval, the Company may request an increase in the senior credit facility of up to $50.0 million. A request for an increase must be in a minimum amount of $10.0 million and the Company may request an increase no more than three times during the term of the senior credit facilities.

The interest rate on the senior credit facilities is calculated based on LIBOR or a base rate. The base rate is the higher of the federal funds rate plus 150 basis points, the prime rate as quoted by Wells Fargo, or LIBOR plus 150 basis points. The interest rate is calculated as LIBOR or base rate

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 7. Debt (Continued)

plus a LIBOR margin or base rate margin, respectively. Margin rates are tied to the total senior debt leverage covenant (Funded Indebtedness to Bank EBITDA) per the Company's Credit Agreement. LIBOR margin ranges between 2.75% and 5.00% and base rate margin ranges between 1.75% and 4.00%. The Company pays a quarterly unused commitment fee between 0.375% and 0.625% and fees between 2.75% and 5.00% on outstanding letters of credit, both of which are based on the level of the Funded Indebtedness to Bank EBITDA ratio.

The senior credit facilities contain several affirmative and negative covenants customary for similar senior credit facilities, including a leverage ratio test based on maximum senior Funded Indebtedness (excluding subordinated debt) to Bank EBITDA, a minimum fixed charge coverage ratio, and a minimum tangible net worth test for certain periods in 2012. The indebtedness under the senior credit facilities is secured by liens on substantially all of the Company's assets, including the Company's interests in its subsidiaries, the Company's real and personal property, and interests in property and proceeds thereof, including, but not limited to, intangible assets, the type certificates and supplemental type certificates for the Company's aircraft. As of June 30, 2013, the Company classified the debt outstanding under its Credit Agreement as current debt due to the expiration date of its Credit Agreement of June 24, 2013. On August 3, 2012, the Company amended its credit agreement to revise its minimum fixed charge covenant ratio to allow for the debt reclassification from long term to short term as of June 30, 2012. Absent this amendment the Company would not have been in compliance with its minimum fixed charge covenant ratio at June 30, 2012. The Company was in compliance with all of its covenants under the Credit Agreement as of June 30, 2012. The outstanding balance under the revolving credit facility at June 30, 2012 and December 31, 2011, excluding letters of credit, was $34.0 million and $51.8 million, respectively. The weighted average interest rate for borrowings under the revolving credit facility for the three months ended June 30, 2012 and June 30, 2011 was 3.82% and 7.21%, respectively. The weighted average interest rate for borrowings under the revolving credit facility for the six months ended June 30, 2012 and June 30, 2011 was 3.93% and 6.36%, respectively. The borrowing rate at June 30, 2012 and December 31, 2011 was 3.53% and 3.61%, respectively. The Company had $2.3 million outstanding standby letters of credit issued as of June 30, 2012 and December 31, 2011. Borrowing availability was $31.3 million and $13.4 million as of June 30, 2012 and December 31, 2011, respectively.

The weighted average interest rate for the term loan borrowings for the three months ended June 30, 2012 and 2011 was 3.27% and 6.18%, respectively. The weighted average interest rate for the term loan borrowings for the six months ended June 30, 2012 and 2011 was 3.27% and 5.50%, respectively. At June 30, 2012 and December 31, 2011 the outstanding balance under the term loan facility was $52.0 million and $55.3 million, respectively. The borrowing rate at June 30, 2012 and December 31, 2011 was 3.21% and 3.17%, respectively.

Working Capital Guarantee Credit Agreement

On June 30, 2011, in connection with an amendment to the Credit Agreement, the Company obtained a separate line of credit with Wells Fargo for up to $10.0 million (the "Working Capital Guarantee Credit Agreement"), pursuant to which Wells Fargo issues standby letters of credit to certain of the Company's non-domestic customers for the purpose of assuring the Company's performance of its obligations to such customers. The standby letters of credit are required to be

ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 7. Debt (Continued)

collateralized by funds obtained from the Company through the issuance of promissory notes to ZM Private Equity Fund I, L.P. in the initial principal amount of $700,000 and to ZM Private Equity Fund II, L.P. in the initial principal amount of $300,000, each with an initial interest rate of 20.0% per annum. No periodic principal or interest payments are required and the notes mature no earlier than June 30, 2016. In connection with the IPO in April of 2012, the interest rate on the subordinated promissory notes was amended from 20.0% per annum to 10.0% per annum. As of June 30, 2012 and December 31, 2011 the Company had $1.1 million and $8.6 million, respectively, in outstanding letters of credit under this line of credit.

Subordinated Notes

On June 30, 2010, the Company issued unsecured subordinated promissory notes with an aggregate principal amount of $8.5 million to ZM Private Equity Funds I and II, L.P. at an initial interest rate of 20.0% per annum. No periodic principal or interest payments are required and the promissory notes mature on June 30, 2015. Interest payments are accrued to principal on a quarterly basis. The promissory notes can be prepaid at any time prior to maturity, at the Company's option, at the original principal amount plus accrued interest without any prepayment penalties, subject to limitations under the agreement. In connection with the IPO in April of 2012, the interest rate on the subordinated promissory notes was amended from 20.0% per annum to 10.0% per annum.

On June 30, 2011, in connection with an amendment to the Credit Agreement, an additional $10.0 million of unsecured subordinated promissory notes were obtained from ZM Private Equity Funds I and II, L.P. at an initial interest rate of 20.0% per annum. No periodic principal or interest payments are required and the notes mature no earlier than June 30, 2016. Additionally, in connection with the Working Capital Guarantee Credit Agreement as disclosed above, ZM Private Equity Funds I and II issued $1.0 million in unsecured subordinated promissory notes. In connection with the IPO in April of 2012, the interest rate on the subordinated promissory notes was amended from 20.0% per annum to 10.0% per annum.

The weighted average interest rate on the subordinated promissory notes for the three months ended June 30, 2012 and 2011 was 11.65% and 20.00%, respectively. The weighted average interest rate for the six months ended June 30, 2012 and 2011 was 15.82% and 20.00%, respectively. The borrowing rate was 10.0% and 20.0% and the balance was $25.4 million and $23.5 million at June 30, 2012 and December 31, 2011, respectively.

Total debt outstanding was as follows (in thousands):

	June 30, 2012	December 31, 2011
Term Debt	$ 52,000	$ 55,250
Revolving Line of Credit	33,962	51,783
Subordinated Notes	25,435	23,537
	$ 111,397	$ 130,570

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 7. Debt (Continued)

On July 29, 2008, EuAC entered into an Agreement with Banca Di Credito Cooperativo Di Cambiano ("Cambiano") whereby Cambiano agreed to periodically advances European Air-Crane up to €6.0 million. Advances are based on documentary proof of receivables due from the Italian government. The purpose of this agreement is to fulfill short term liquidity needs. At June 30, 2012 and December 31, 2011, there were zero and €2.6 million in advances outstanding, respectively, under this arrangement included within accounts payable and accrued liabilities. The agreement may be canceled by either party at any time.

On August 4, 2008, EuAC executed a bank guarantee and pledged €3.0 million as restricted cash in connection with a performance guarantee for a four-year leasing contract in Italy; these restrictions will expire in June 2013. Following receipt of the restricted cash, Cambiano issued a letter of credit for the performance bond. The Company has classified these as current and noncurrent assets based on the anticipated release date of the restriction.

Note 8. Income Taxes

The Company's effective income tax rate for the three months ended June 30, 2012 and 2011 was 38.5% and 29.8% respectively. The Company's effective income tax rate for the six months ended June 30, 2012 and 2011 was 39.1% and 26.1% respectively. The Company's effective income tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amount of income it earns in those jurisdictions. It is also affected by discrete items that may occur in any given year.

In accounting for income taxes, the Company recognizes deferred tax assets if realization of such assets is more likely than not. The Company believes, based on factors including, but not limited to, the ability to generate future taxable income from reversing taxable temporary differences and forecasts of financial and taxable income or loss by jurisdiction, that as of June 30, 2012 it is more likely than not that the Company will realize all of its deferred tax assets, including its net operating loss carry forwards. The Company's utilization of net operating loss carryforwards may be subject to annual limitations due to ownership change provisions of Internal Revenue Code Section 382.

As of June 30, 2012, there have been no material changes to the Company's uncertain tax position disclosure as provided at December 31, 2011. It is the Company's policy to recognize interest and penalties related to uncertain tax positions in Other income (expense).

Note 9. Redeemable Preferred Stock and Stockholders' Equity

As of December 31, 2011, the Company was authorized to issue two classes of stock to be designated as "Common Stock" and "Preferred Stock." The total number of shares the Company was authorized to issue was 72,300 shares: (i) 2,300 shares of which were Common Stock, $0.0001 par value per share, and (ii) 70,000 shares of which were Preferred Stock, $0.0001 par value per share. For Common Stock, 2,000 shares were designated "Class A Common Stock" and 300 shares were designated "Class B Common Stock." All 70,000 shares of Preferred Stock are designated "Series A Redeemable Preferred Stock." On September 27, 2007, the Company issued 1,000 shares of Class A Common Stock at $0.50 per share and 34,999.5 shares of Preferred Stock issued at $1,000 per share.

In April 2012, the Company completed its IPO of common stock. In connection with the IPO, the Company amended its certificate of incorporation to authorize the Company to issue 110,000,000

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 9. Redeemable Preferred Stock and Stockholders' Equity (Continued)

shares of Common Stock and up to 10,000,000 shares of Preferred Stock. Upon the closing of the IPO, all outstanding shares of Redeemable Preferred Stock and all outstanding shares of Class A Common Stock automatically converted into an aggregate of 4,802,970 shares of the Company's common stock.

The Board of Directors is authorized, at any time, to provide for the issuance of shares of Preferred Stock, in one or more series with such designations, preferences and rights, and such qualifications, limitations and restrictions, as shall be set forth in the resolutions of the Board of Directors providing for the issuance thereof.

Note 10. Reportable Segments

ASC 280-10-50 *Disclosure about Segments of an Enterprise and Related Information*, establishes standards for the manner in which companies report information about operating segments, products, services, geographic areas and major customers. The method of determining what information to report is based on the way that management organizes the operating segments within the Company for making operating decisions and assessing financial performance. Based on the nature of its products and services, the Company operates in two business segments: Aerial Services; and Manufacturing, Repair, and Overhaul ("MRO").

The accounting policies of the Company's business segments are the same as those described in the summary of significant accounting policies included elsewhere herein.

Revenue and gross profit by segment are the main metrics used by the chief operating decision maker, management team and the board of directors of the Company to plan, forecast and review the Company's business performance.

The following table sets forth information about the Company's operations by its two reportable segments and by geographic area. Amounts identified as "Corporate" are assets or expenses that are not allocated to a specific segment:

Revenue by Reportable Segment (in thousands):

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net revenues:				
Aerial Services	$ 35,308	$ 39,472	$ 60,416	$ 58,199
Manufacturing / MRO	2,569	3,046	5,070	4,694
Total net revenues	$ 37,877	$ 42,518	$ 65,486	$ 62,893

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 10. Reportable Segments (Continued)

Gross Profit by Reportable Segment (in thousands):

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Gross profit:				
Aerial Services	$ 8,968	$ 12,351	$ 12,226	$ 12,528
Manufacturing / MRO	1,352	(22)	2,134	171
Total gross profit	$ 10,320	$ 12,329	$ 14,360	$ 12,699

Assets by Reportable Segment (in thousands):

	June 30, 2012	December 31, 2010
Assets:		
Aerial Services	$ 125,858	$ 109,229
Manufacturing / MRO	89,966	97,549
Corporate	29,250	27,133
Total assets	$ 245,074	$ 233,911

Revenue by Geographic Area (in thousands):

For the Aerial Services business segment, revenues are attributed to geographic area based on the country where the services were performed; for the Manufacturing / MRO business segment, revenues are attributed to geographic area based on the country in which the customer is located.

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net revenues:				
North America	$ 24,036	$ 30,257	$ 32,788	$ 34,802
South America	3,216		6,719	
Europe	8,428	7,480	13,129	12,516
Asia	1,928	4,781	5,196	7,239
Australia	269		7,654	8,336
Total net revenues	$ 37,877	$ 42,518	$ 65,486	$ 62,893

Note 11. Commitments and Contingencies

Environmental Remediation Matters

The Company is continuing to participate in remediating environmental damage resulting from the identification of hazardous substances at its Central Point, Oregon facility. Under an Asset Purchase Agreement with Erickson Group, Ltd. ("Erickson Group"), a previous owner of the Company, Erickson Group agreed to bear the financial responsibility for the payment of the first $1.5 million of

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 11. Commitments and Contingencies (Continued)

the cleanup costs. Erickson Group and the Company agreed to each bear one-half of the financial responsibility for the payment of the next $1.0 million of cleanup costs, and any aggregate costs in excess of $2.5 million will be the sole responsibility of Erickson Group. Erickson Group is responsible for directing and controlling the remediation efforts. Since 2000, the Company has paid $0.4 million to Erickson Group for a portion of its exposure on the $0.5 million layer of financial responsibility and has recorded a liability for the remaining $0.1 million exposure on its remaining share. Environmental consultants indicate that the Central Point site may require monitoring for another 20 years; therefore, the Company believes the full amount of its financial share will ultimately be paid.

Canada Revenue Agency

In 2008, the Company was assessed by the Canada Revenue Agency ("CRA") C$0.8 million in Regulation 102 withholding tax and interest for the tax years 2002 and 2003. During 2008, the Company paid the assessment and filed a Notice of Objection with the Chief of Appeals of the CRA. In 2010, the Company established a reserve in the amount of $0.8 million, due to the uncertainty of collection of the amount. In June 2012, the Company was notified that it's litigation with the CRA resulted in a favorable outcome for the Company, with the CRA conceding the matter in the Company's favor. The Company is currently working with the CRA on formal settlement documentation and expects to receive a full refund of the C$0.8 million assessment. Accordingly, the Company has removed the $0.8 million reserve relating to this matter.

Put Option

A significant customer holds the right to exercise a put option that would, if exercised, require the Company to repurchase on July 31, 2013 the S-64 Aircrane the Company sold to the customer in 2009. Additionally, the Company may purchase at its option the Aircrane prior to the execution of the put option. The original sales agreement, dated May 27, 2009, included the right of the customer to put the aircraft back to the Company on January 30, 2013 for its then fair market value determined by an appraisal process defined under the agreement. Management believes an anticipated range of fair value, based upon the Company's experience, industry knowledge, and the low cumulative flight hours on the Aircrane, should be between $15.0 million and $20.0 million.

Legal Proceedings

In the ordinary course of business, the Company is party to various legal proceedings. The Company reviews these actions on an ongoing basis to determine whether it is probable that a loss has occurred and uses that information when making accrual and disclosure decisions. The Company is not engaged in any material litigation at this time.

Note 12. Related Party Transactions

Second Lien Debt

On June 30, 2010, concurrent with the refinancing of the Company's senior debt, the Company used proceeds from the senior credit facilities to partially pay-down $11.5 million of its $20.0 million Second Lien Debt, with the remaining $8.5 million being exchanged for unsecured subordinated

ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 12. Related Party Transactions (Continued)

promissory notes at a rate of 20.0% per annum, which is payable in kind by increasing the principal amount of such notes and is payable quarterly. In connection with the IPO in April of 2012, the interest rate on the subordinated promissory notes was amended from 20.0% per annum to 10.0% per annum.

On June 30, 2011, in connection with an amendment to the Credit Agreement, an additional $10.0 million of unsecured subordinated promissory notes were issued to ZM Private Equity Funds I and II, L.P. at a rate of 20.0% per annum, which is payable in kind by increasing the principal amount of such notes and is payable quarterly. No periodic principal or interest payments are required and the notes mature no earlier than June 30, 2016. Additionally, in connection with the Working Capital Guarantee Credit Agreement, the Company issued $1.0 million in unsecured subordinated promissory notes to ZM Private Equity Funds I and II, L.P. at a rate of 20.0% per annum, which is payable in kind by increasing the principal amount of such notes and is payable quarterly. In connection with the IPO in April of 2012, the interest rate on the subordinated promissory notes was amended from 20.0% per annum to 10.0% per annum.

Note 13. Derivative Instruments and Hedging Activities

The Company has entered into a number of foreign currency forward contracts. The purpose of these transactions is to reduce the impact of future currency fluctuations related to anticipated cash receipts from expected future revenue that is denominated in a currency other than U.S. dollars. The change in the valuation of the foreign currency forwards portfolio is recorded within unrecognized or recognized gain (loss) in the accompanying consolidated statements of operations.

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 13. Derivative Instruments and Hedging Activities (Continued)

A summary of open foreign currency forward contracts at June 30, 2012 and December 31, 2011 are as follows (all contracts are obligations for the Company to deliver foreign currency i.e., short positions) (in thousands):

Purpose/Maturity	Foreign Quantity	Contract Value	Market Value	Asset (Liability)
June 30, 2012:				
Europe Aerial Operations maturing through December 2012	€ 5,176	$ 7,202	$ 6,568	$ 634
Australia Aerial Operations maturing through March 2013	AUD 8,698	8,474	8,717	(243)
Canada Aerial Operations maturing through December 2012	CAD 5,455	5,424	5,352	72
		$ 21,100	$ 20,637	$ 463

Purpose/Maturity	Foreign Quantity	Contract Value	Market Value	Asset (Liability)
December 31, 2011:				
Italy Aerial Operations maturing through December 2012	€ 2,848	$ 3,948	$ 3,702	$ 246
Greece Aerial Operations maturing through December 2012	€ 13,718	18,789	17,790	999
Australia Aerial Operations maturing through March 2013	AUD 17,848	16,417	17,746	(1,329)
		$ 39,154	$ 39,238	$ (84)

The Company's foreign currency forward contracts were measured at fair value within Level 2 of the fair value hierarchy at June 30, 2012 and December 31, 2011, which is valued using quoted market prices for contracts with similar terms and maturity dates.

Note 14. Warranty Reserves

Sales of Aircranes to third parties include limited warranty provisions that require the Company to remedy deficiencies in quality or performance of its products over a specified period of time, generally from two to five years depending on the type of part, component or airframe, including technical assistance services. Warranty reserves are established at the time that revenue is recognized at levels that represent the estimate of the costs that will be incurred to fulfill those warranty requirements and is included in accrued and other current liabilities in the financial statements. Warranty reserves may be adjusted periodically to sustain levels representing the estimate of the costs to fulfill those warranty requirements over the remaining life of the warranty.

For three months ended June 30, 2012, warranty expense was a net credit of $0.4 million. Warranty liability was adjusted as of June 30, 2012 based on anticipated usage prior to the warranty expiration in August 2012. For the six months ended June 30, 2012 warranty expense was a net credit of $0.4 million.

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 14. Warranty Reserves (Continued)

Net warranty expense was $0.9 million and $0.9 million for three months and six months ended June 30, 2011. As of June 30, 2012 and December 31, 2011 warranty liability reserve was $0.1 million and $1.0 million, respectively.

Note 15. Variable Interest Entity

An entity is generally considered a Variable Interest Entity (VIE) that is subject to consolidation under ASC 810 *Consolidation*, if the total equity investment at risk is not sufficient for the entity to finance its activities without additional subordinated financial support; or as a group, the holders of the equity investment at risk lack any one of the following characteristics: (a) the power, through voting rights or similar rights, to direct the activities that most significantly impact the entity's economic performance; (b) the obligation to absorb expected losses of the entity; (c) the right to receive the expected residual returns of the entity.

European Air-Crane, S.p.A. ("EuAC") is 49% owned by Erickson Air-Crane, Incorporated ("EAC"); 49% owned by Grupo Inaer ("Inaer" formerly Elilario Italia S.p.A.); and 2% owned by Fiduciaria Centro Nord ("FCN"). EAC provided FCN with the financial means to purchase and transfer the shares of EuAC, in exchange for the patrimonial and administrative rights derived from the shares. These rights include the right to decide whether and how to vote in shareholders' meetings and the right to decide whether, when and to whom the shares should be transferred and endorsed.

The Company believes that EuAC is a VIE and that the Company is the primary beneficiary of the VIE through its ability to make decisions about the entity's activities, the exposure to the expected losses of the entity if they occur, and the right to receive the expected residual returns of the entity if they occur. As such, the consolidated financial statements include the balances of EuAC. Noncontrolling interest of $0.8 million and $0.9 million relates to the other owners' stockholdings and is reflected in stockholders' equity in the accompanying consolidated balance sheet at June 30, 2012 and December 31, 2011, respectively.

Note 16. Seasonality

The Company's Aerial Services operations in any given location are seasonal and depend on prevailing weather conditions. The Company's flight hours are substantially reduced in winter or monsoon seasons. The global deployment of the Company's helicopters and crews helps to limit the effect of seasonality, but the Company's 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 the Company's business, the Company often has unabsorbed costs in the first quarter and the fourth quarter which could lead to negative reported gross profit in these quarters.

Note 17. Earnings (Loss) Per Share

The Company calculates basic earnings (loss) per share by dividing net income (loss) by the weighted average number of shares of common stock outstanding. Shares issuable upon the satisfaction of certain conditions are considered outstanding and included in the computation of basic earnings

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 17. Earnings (Loss) Per Share (Continued)

(loss) per share. The following table shows the computation of basic and diluted earnings (loss) per share:

(in millions, except share per share data)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income (loss) attributable to common stockholders	$ 831	$ 2,064	$ (4,172)	$ (8,599)
Basic weighted average shares outstanding	8,355,869	1,000	4,178,435	1,000
Dilutive effect of share based awards				
Diluted weighted average shares outstanding	8,355,869	1,000	4,178,435	1,000
Basic earnings (loss) per share	$ 0.10	$ 2,063.83	$ (1.00)	$ (8,599.00)
Diluted earnings (loss) per share	$ 0.10	$ 2,063.83	$ (1.00)	$ (8,599.00)
Antidilutive common stock equivalents excluded from diluted earnings (loss) per share	87,076		87,076	

Note 18. Stock-based Compensation

In connection with the completion of the IPO, the Company adopted its 2012 Long Term Incentive Plan. The goal of the plan is to align the interests of the Company's executive officers with the interests of its stockholders. Because vesting is based on continued employment, these equity based incentives are also intended to encourage the retention of the Company's named executive officers and other employees through the vesting period of the awards. The Company issued 257,799 RSUs concurrently with the closing of the IPO, including: (1) 252,935 RSUs to certain members of its management and (2) 4,864 RSUs to its independent directors. The fair value of restricted stock units is determined based on the quoted closing price of its common stock on the date of grant.

The following table summarizes the Company's restricted stock units awards activity during the six-month period ended June 30, 2012:

	Restricted Stock Units Awards
Outstanding at December 31, 2011	
Granted	257,799
Exercised	
Vested restricted stock units	(151,114)
Forfeited	
Expired	
Outstanding at June 30, 2012	106,685

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 18. Stock-based Compensation (Continued)

During the six-month period ended June 30, 2012, the Company granted 257,799 restricted stock awards with a weighted-average fair value on the date of grant of $8.00 per share. In connection with these grants, the Company recognized approximately $1.3 million in stock-based compensation expense during the three and six-month periods ended June 30, 2012.

Unrecognized stock-based compensation expense related to outstanding unvested restricted stock unit awards is expected to be recorded as follows:

(dollars in thousands)	Restricted stock unit awards
2012 (period from July 1 through December 31, 2012)	$ 211
2013	291
2014	164
2015	61
2016	31
2017	9
Total	$ 767

Note 19. Subsequent Events

In accordance with ASC 855 *"Subsequent Events,"* the Company has evaluated subsequent events through the date the financial statements were available to be issued and any events have been properly disclosed in the financial statements.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and notes appearing elsewhere in this quarterly report on Form 10-Q.

Some of the statements contained in this Form 10-Q and any documents incorporated herein by reference constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included or incorporated in this Form 10-Q are forward-looking statements, particularly statements which relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the development and introduction of new products, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "intends," "predicts," "potential" or the negative of these terms or other comparable terminology.

The forward-looking statements contained in this Form 10-Q and any documents incorporated herein by reference reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, those factors described in "Risk Factors" and elsewhere in this report.

The forward-looking statements contained in this Form 10-Q reflect our views and assumptions only as of the date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Form 10-Q. Except as required by applicable securities law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Overview

We specialize in the operation and manufacture of the Erickson S-64 Aircrane, or 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 own and operate a fleet of 17 Aircranes which we use to support a wide variety of government and commercial customers worldwide across a broad range of critical aerial services including firefighting, timber harvesting, infrastructure construction, and crewing. We refer to this segment of our business as Aerial Services. We also manufacture Aircranes and related components for sale to government and commercial customers and provide aftermarket support and maintenance, repair and overhaul services for the Aircrane and other aircraft. We refer to this segment of our business as Manufacturing / MRO.

In our Aerial Services segment, we typically lease our Aircranes to customers and provide associated crewing and maintenance services. Through our Manufacturing / MRO segment we manufacture Aircranes from existing airframes, manufacture new components on a contract basis, and

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provide customers with MRO services. We also offer cost per hour, or 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.

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.

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

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), net consists primarily of the interest paid on outstanding indebtedness, realized/unrealized foreign exchange gains and losses, amortization of debt issuance costs, and interest 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 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.

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Results of Operations

Three Months Ended June 30, 2012 and 2011

The following table presents our consolidated operating results for the three months ended June 30, 2012 compared to the three months ended June 30, 2011:

(Dollars in thousands)	Three Months Ended June 30, 2012	% of Revenues	Three Months Ended June 30, 2011	% of Revenues	Change	% Change
Net revenues:						
Aerial Services	$ 35,308	93.2	$ 39,472	92.8	$ (4,164)	(10.5)
Manufacturing / MRO	2,569	6.8	3,046	7.2	(477)	(15.7)
Total revenues	37,877	100.0	42,518	100.0	(4,641)	(10.9)
Cost of revenues:						
Aerial Services	26,340	74.6(1)	27,121	68.7(1)	(781)	(2.9)
Manufacturing / MRO	1,217	47.4(1)	3,068	100.7(1)	(1,851)	(60.3)
Total cost of revenues	27,557	72.8	30,189	71.0	(2,632)	(8.7)
Gross profit						
Aerial Services	8,968	25.4(1)	12,351	31.3(1)	(3,383)	(27.4)
Manufacturing / MRO	1,352	52.6(1)	(22)	(0.7)(1)	1,374	NM(2)
Total gross profit	10,320	27.2	12,329	29.0	(2,009)	(16.3)
Operating expenses:						
General and administrative	4,551	12.0	2,721	6.4	1,830	67.3
Research and development	1,476	3.9	981	2.3	495	50.5
Selling and marketing	1,220	3.2	1,207	2.8	13	1.1
Total operating expenses	7,247	19.1	4,909	11.5	2,338	47.6
Income (loss) from operations	3,073	8.1	7,420	17.5	(4,347)	(58.6)
Other income (expense), net:						
Interest expense, net	(1,748)	(4.6)	(2,428)	(5.7)	680	(28.0)
Other income (expense), net	577	1.5	(1,456)	(3.4)	2,033	NM(2)
Total other income (expense)	(1,171)	(3.1)	(3,884)	(9.1)	2,713	69.9
Net income (loss) before income taxes and noncontrolling interest	1,902	5.0	3,536	8.3	(1,634)	(46.2)
Income tax expense (benefit)	733	1.9	(1,054)	(2.5)	1,787	NM(2)
Net income (loss)	1,169	3.1	4,590	10.8	(3,421)	(74.5)
Less: Net (income) loss related to noncontrolling interest	(52)	(0.1)	(285)	(0.7)	233	(81.8)
Net income (loss) attributable to Erickson Air-Crane Incorporated	1,117	2.9	4,305	10.1	(3,188)	(74.1)
Dividends on Series A Redeemable Preferred Stock	286	0.8	2,241	5.3	(1,955)	(87.2)
Net income (loss) attributable to common stockholders	$ 831	2.2	$ 2,064	4.9	$ (1,233)	(59.7)

(1) Percentage of net revenues of segment.

(2) We use the abbreviation "NM" to refer to changes that are not meaningful.

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Revenues

Consolidated revenues decreased by $4.6 million, or 10.9%, to $37.9 million in the second quarter of 2012 from $42.5 million for the second quarter of 2011. The decrease in revenues was attributable to a $4.2 million decrease in Aerial Services revenues and a $0.5 million decrease in Manufacturing / MRO revenues compared to the 2011 period.

(Dollars in thousands)	Three Months Ended June 30, 2012	% of Revenues	Three Months Ended June 30, 2011	% of Revenues	Change	% Change
Net revenues:						
Aerial Services	$ 35,308	93.2	$ 39,472	92.8	$ (4,164)	(10.5)
Manufacturing / MRO	2,569	6.8	3,046	7.2	(477)	(15.7)
Total revenues	$ 37,877	100.0	$ 42,518	100.0	$ (4,641)	(10.9)

Aerial Services. Aerial Services revenues decreased by $4.2 million, or 10.5%, to $35.3 million in the second quarter of 2012 from $39.5 million in the second quarter of 2011. This decrease was due primarily to a 17.7% decrease in revenue flight hours for Aerial Services during the second quarter of 2012 to 2,902 hours from 3,527 hours in the second quarter of 2011. The decrease in revenue flight hours was primarily due to decreased revenue flight hours in firefighting and timber harvesting services, and was partially offset by an increase in infrastructure construction revenue flight hours.

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

(Dollars in thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Change	% Change
Aerial Services Revenues:				
Firefighting	$ 13,407	$ 20,477	$ (7,070)	(34.5)
Timber Harvesting	8,218	11,407	(3,189)	(28.0)
Infrastructure Construction	9,003	2,537	6,466	NM
Crewing	4,680	5,051	(371)	(7.3)
Total Aerial Services revenues	$ 35,308	$ 39,472	$ (4,164)	(10.5)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Change	% Change
Aerial Services Revenue Flight Hours:				
Firefighting	709	1,310	(601)	(45.9)
Timber Harvesting	1,203	1,643	(440)	(26.8)
Infrastructure Construction	705	209	496	NM
Crewing	285	365	(80)	(21.9)
Total Aerial Services revenue flight hours	2,902	3,527	(625)	(17.7)

Firefighting revenues decreased by $7.1 million, or 34.5%, to $13.4 million in the second quarter of 2012 from $20.5 million in the second quarter of 2011. This decrease was largely due to fewer

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United States and Canada flight hours in the second quarter of 2012 compared to the second quarter of 2011, primarily due to an earlier start to the North American fire season in 2011.

Timber Harvesting revenues decreased by $3.2 million, or 28.0%, to $8.2 million in the second quarter of 2012 from $11.4 million in the second quarter of 2011. This decrease was primarily due to decreased revenues from flight hour activity with our Canadian and Malaysian customers in the second quarter of 2012 compared to the second quarter of 2011.

Infrastructure Construction revenues increased by $6.5 million to $9.0 million in the second quarter of 2012 from $2.5 million in the second quarter of 2011. This increase was primarily due to second quarter 2012 revenues from a new oil-and-gas customer in Peru, and from powerline construction customers in the United States and Italy.

Crewing revenues decreased by $0.4 million, or 7.3%, to $4.7 million in the second quarter of 2012 from $5.1 million in the second quarter of 2011.

Manufacturing / MRO. Manufacturing / MRO revenue decreased by $0.5 million, or 15.7%, to $2.6 million in the second quarter of 2012 from $3.0 million in the second quarter of 2011. This decrease was primarily due to lower flight hours on our CPH contract in Italy, as well as lower training and firefighting demand from our Italian customer.

Gross Profit

Consolidated gross profit decreased by $2.0 million to $10.3 million in the second quarter of 2012 from $12.3 million in the second quarter of 2011. The decrease was attributable to a decrease in Aerial Services gross profit of $3.4 million which was partially offset by an increase in Manufacturing / MRO gross profit of $1.4 million in the second quarter of 2012.

(Dollars in thousands)	Three Months Ended June 30, 2012	% of Related Revenues	Three Months Ended June 30, 2011	% of Related Revenues	Change	% Change
Gross profit						
Aerial Services	$ 8,968	25.4	$ 12,351	31.3	$ (3,383)	(27.4)
Manufacturing / MRO	1,352	52.6	(22)	(0.7)	1,374	NM
Total gross profit	$ 10,320	27.2	$ 12,329	29.0	$ (2,009)	(16.3)

Aerial Services. Aerial Services gross profit decreased by $3.4 million to $9.0 million in the second quarter of 2012 from $12.4 million in the second quarter of 2011. Gross profit margin was 25.4% in the second quarter of 2012 compared to 31.3% in the second quarter of 2011. The revenue decrease of $4.2 million for the second quarter of 2012 compared to the second quarter of 2011 was the primary reason for the gross profit decrease. Certain costs of Aerial Services revenues are fixed in nature, and the decrease in flight hour revenues directly impacted our operating margins and results, and were partially offset by reduced costs associated with aircraft maintenance activities in the second quarter of 2012.

Manufacturing / MRO. Manufacturing / MRO gross profit increased to $1.4 million in the second quarter of 2012 compared to $0.0 million in the second quarter of 2011. The primary reason for the gross profit improvement was differences in warranty expense, with a credit of $0.4 million in the second quarter of 2012 due to a change in the estimate of flight hours on a customer's Aircrane, compared to a $0.9 million expense in the second quarter of 2011 associated with an accessory failure on a customer's Aircrane.

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Operating Expenses

(Dollars in thousands)	Three Months Ended June 30, 2012	% of Revenues	Three Months Ended June 30, 2011	% of Revenues	Change	% Change
Operating expenses:						
General and administrative	$ 4,551	12.0	$ 2,721	6.4	$ 1,830	67.3
Research and development	1,476	3.9	981	2.3	495	50.5
Selling and marketing	1,220	3.2	1,207	2.8	13	1.1
Total operating expenses	7,247	19.1	4,909	11.5	2,338	47.6
Income (loss) from operations	$ 3,073	8.1	$ 7,420	17.5	$ (4,347)	(58.6)

Operating expenses increased by $2.3 million, or 47.6%, to $7.2 million in the second quarter of 2012 from $4.9 million in the second quarter of 2011. The change in general and administrative expense was primarily due to stock based compensation expense of $1.3 million in the second quarter of 2012 related to restricted stock granted to employees and our Board of Directors upon the completion of our initial public offering ("IPO"). There was no stock based compensation expense in the three months ended June 30, 2011. The change in research and development expense was primarily due to increased spending on main rotor blade development and other engineering projects.

Other Income (Expense), Net

(Dollars in thousands)	Three Months Ended June 30, 2012	% of Revenues	Three Months Ended June 30, 2011	% of Revenues	Change	% Change
Other income (expense), net:						
Interest expense, net	$ (1,748)	(4.6)	$ (2,428)	(5.7)	$ 680	(28.0)
Other income (expense), net	577	1.5	(1,456)	(3.4)	2,033	NM
Total other income (expense), net	$ (1,171)	(3.1)	$ (3,884)	(9.1)	$ 2,713	69.9

Total other income (expense), net increased by $2.7 million to $1.2 million of expense in the second quarter of 2012 from $3.9 million of expense in the second quarter of 2011. Interest expense, net decreased by $0.7 million, to $1.7 million in the second quarter of 2012, from $2.4 million in the second quarter of 2011, due to a decrease in our average outstanding borrowings, which was coupled with a decrease in the average borrowing rate. Our average outstanding borrowings decreased due to

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the paydown of outstanding borrowings in the second quarter of 2012 with the net proceeds of our IPO.

(Dollars in thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Change
Other income (expense), net:			
Unrealized foreign exchange gain (loss)	$ (349)	$ (968)	$ 619
Realized foreign exchange gain (loss)	352	(607)	959
Amortization of debt issuance costs	(271)	(171)	(100)
Interest expense related to tax contingencies		(132)	132
Gain (loss) on disposal of assets		8	(8)
Other income (expense), net	845	414	431
Other income (expense), net	$ 577	$ (1,456)	$ 2,033

Other income (expense), net expense increased by $2.0 million to a net income of $0.6 million in the second quarter of 2012 from a net expense of $1.5 million in the second quarter of 2011. The unrealized foreign exchange gain in the second quarter of 2012 was primarily due to changes in the Euro exchange rate and the corresponding effect on the Euro hedge contracts outstanding in the second quarter of 2012. Other income (expense), net for the three months ended June 30, 2012 included the $0.8 million removal of the reserve on the receivable from the Canadian Revenue Agency ("CRA").

Income Tax Expense (Benefit)

(Dollars in thousands)	Three Months Ended June 30, 2012	% of Revenues	Three Months Ended June 30, 2011	% of Revenues	Change	% Change
Net income (loss) before income taxes and noncontrolling interest	$ 1,902	5.0	$ 3,536	8.3	$ (1,634)	(46.2)
Income tax expense (benefit)	733	1.9	(1,054)	(2.5)	1,787	NM
Net income (loss)	$ 1,169	3.1	$ 4,590	(10.8)	$ (3,421)	(74.5)

Income tax expense (benefit) changed by $1.8 million to a $0.7 million expense in the second quarter of 2012 from a $1.1 million benefit in the second quarter of 2011. The change was due to a lower anticipated overall tax rate for 2011 compared to the anticipated 2012 effective tax rate, coupled with a smaller net loss position for the three months ended June 30, 2012 compared to the same period in 2011.

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

(Dollars in thousands)	Three Months Ended June 30, 2012	% of Revenues	Three Months Ended June 30, 2011	% of Revenues	Change	% Change
Net income (loss)	$ 1,169	3.1	$ 4,590	10.8	$ (3,421)	(74.5)
Less: Net (income) loss related to noncontrolling interest	(52)	(0.1)	(285)	(0.7)	233	(81.8)
Net income (loss) attributable to Erickson Air-Crane Incorporated	1,117	2.9	4,305	10.1	(3,188)	(74.1)
Dividends on Series A Redeemable Preferred Stock	286	0.8	2,241	5.3	(1,955)	(87.2)
Net income (loss) attributable to common stockholders	$ 831	2.2	$ 2,064	4.9	$ (1,233)	(59.7)

Net income (loss) attributable to Erickson Air-Crane Incorporated decreased by $3.2 million to a $1.1 million net income in the second quarter of 2012 from a $4.3 million net income in the second quarter of 2011, due to the changes in revenues, expenses, and taxes discussed above. Dividends on Series A Redeemable Preferred Stock decreased by $2.0 million due to the conversion of preferred stock to common stock in conjunction with the IPO. Net income (loss) attributable to common stockholders decreased by $1.2 million to $0.8 million in the second quarter of 2012 from $2.1 million in the second quarter of 2011.

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Six Months Ended June 30, 2012 and 2011

The following table presents our consolidated operating results for the six months ended June 30, 2012 compared to the six months ended June 30, 2011: