

Erickson Air-Crane Inc
Form 10-Q
November 07, 2012

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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 whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer 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

As of November 1, 2012, 9,686,844 shares of common stock, par value \$0.0001, were outstanding.

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Table of Contents**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)**

	September 30, 2012	December 31, 2011
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,770	\$ 268
Restricted cash	3,710	
Accounts receivable net of allowances for doubtful accounts of \$479 and \$476 at September 30, 2012 and December 31, 2011, respectively	50,468	26,528
Aircrafts and support parts in process	7,563	27,395
Prepaid expenses and other	2,001	4,217
Income tax receivable	1,792	1,248
Deferred tax assets	3,801	7,602
Total current assets	71,105	67,258
Restricted cash		5,214
Aircraft support parts, net	118,067	101,892
Aircrafts, net	52,138	42,288
Property, plant, and equipment, net	13,225	14,341
Other noncurrent assets	2,391	2,918
Total assets	\$ 256,926	\$ 233,911
Liabilities, redeemable preferred stock and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	\$ 8,312	\$ 8,480
Current debt	61,504	6,500
Accrued and other current liabilities	30,148	19,323
Income taxes payable	1,384	
Total current liabilities	101,348	34,303
Long-term debt	26,076	124,070
Other long-term liabilities	3,807	4,328
Deferred tax liabilities	19,182	14,194
Total liabilities	150,413	176,895
Commitments and contingencies (Note 11)		
Series A redeemable preferred stock, \$0.0001 par value. Authorized zero and 70,000 shares at September 30, 2012 and December 31, 2011, respectively Issued and outstanding zero and 34,999.5 at September 30, 2012 and December 31, 2011, respectively liquidation preference of zero and \$66,161 at September 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 September 30, 2012 and December 31, 2011, respectively;		
Class A; designated 2,000; zero and 1,000 issued and outstanding at September 30, 2012 and December 31, 2011, respectively		

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Class B; designated 300; zero issued and outstanding		
Common stock; 9,602,970 and zero issued and outstanding at September 30, 2012 and December 31, 2011, respectively	1	
Additional paid-in capital	102,139	
Retained earnings (accumulated deficit)	3,396	(9,988)
Accumulated other comprehensive income (loss)	85	(36)
Total stockholders' equity (deficit) attributable to Erickson Air-Crane Incorporated	105,621	(10,023)
Noncontrolling interest	892	878
Total stockholders' equity (deficit)	106,513	(9,145)
Total liabilities, redeemable preferred stock and stockholders' equity (deficit)	\$ 256,926	\$ 233,911

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

Table of Contents**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 September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net revenues:				
Aerial services	\$ 69,639	\$ 53,036	\$ 130,055	\$ 111,235
Manufacturing / MRO	6,622	6,125	11,692	10,819
Total net revenues	76,261	59,161	141,747	122,054
Cost of revenues:				
Aerial services	35,471	29,604	83,661	75,275
Manufacturing / MRO	4,248	3,871	7,184	8,394
Total cost of revenues	39,719	33,475	90,845	83,669
Gross profit	36,542	25,686	50,902	38,385
Operating expenses:				
General and administrative	3,973	2,943	11,405	9,534
Research and development	995	1,369	3,425	3,223
Selling and marketing	1,097	2,155	4,177	5,469
Total operating expenses	6,065	6,467	19,007	18,226
Operating income (loss)	30,477	19,219	31,895	20,159
Other income (expense):				
Interest income				24
Interest expense	(1,524)	(2,339)	(5,537)	(6,580)
Interest expense related to tax contingencies		(54)		(270)
Amortization of debt issuance costs	(297)	(212)	(852)	(553)
Gain (loss) on disposal of equipment		(3)		5
Unrealized foreign exchange gain (loss)	(13)	2,491	28	1,461
Realized foreign exchange gain (loss)	(108)	257	207	(403)
Other income (expense), net	1	48	920	650
Total other income (expense)	(1,941)	188	(5,234)	(5,666)
Income (loss) before noncontrolling interest and income taxes	28,536	19,407	26,661	14,493
Income tax expense (benefit)	10,902	7,881	10,168	6,596
Net income (loss)	17,634	11,526	16,493	7,897
Less: Net (income) loss related to noncontrolling interest	(78)	(11)	(315)	(603)
Net income (loss) attributable to Erickson Air-Crane Incorporated	17,556	11,515	16,178	7,294
Dividends on redeemable preferred stock		2,351	2,794	6,729
Net income (loss) attributable to common stockholders	\$ 17,556	\$ 9,164	\$ 13,384	\$ 565
Other comprehensive income (loss):				
Net income (loss)	\$ 17,634	\$ 11,526	\$ 16,493	\$ 7,897
Foreign currency translation adjustment	158	(345)	117	(329)

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Comprehensive income (loss)	17,792	11,181	16,610	7,568
Comprehensive (income) loss attributable to noncontrolling interest	(97)	79	(311)	(463)
Comprehensive income (loss) attributable to Erickson Air-Crane Incorporated	\$ 17,695	\$ 11,260	\$ 16,299	\$ 7,105
Net income (loss) per share attributable to common stockholders				
Basic	\$ 1.80	\$ 9,164.10	\$ 2.21	\$ 565.10
Diluted	\$ 1.80	\$ 9,164.10	\$ 2.21	\$ 565.10
Weighted average shares outstanding				
Basic	9,756,478	1,000	6,051,346	1,000
Diluted	9,756,478	1,000	6,051,346	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	Accumulated Retained Earnings (Deficit)		Other Comprehensive Income (loss)		Total Stockholders' Equity (Deficit)		Total Noncontrolling Interest Amount	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount						Erickson Air-Crane			
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		16,260	
Foreign currency translation									(214)	(214)	(188)	(402)		(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		68,956	
Issuance of common stock related to IPO, net of expense					4,800,000	0.5	31,454			31,454		31,454		31,454	
Stock based compensation							1,729			1,729		1,729		1,729	
Components of comprehensive income (loss):															
Net income (loss)								16,178		16,178	315	16,493		16,493	
Foreign currency translation									121	121	(4)	117		117	
Comprehensive income (loss)														16,610	
Balance at September 30, 2012		\$		\$	9,602,970	\$ 1	\$ 102,139	\$ 3,396	\$ 85	\$ 105,621	\$ 892	\$ 106,513			

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

Table of Contents**ERICKSON AIR-CRANE INCORPORATED****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(Unaudited)**

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows from operating activities:				
Net income (loss)	\$ 17,634	\$ 11,526	\$ 16,493	\$ 7,897
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation	2,256	1,978	6,294	5,601
Deferred income taxes	10,333	2,180	8,790	7,438
Non-cash interest on subordinated notes	641	1,124	2,539	2,078
Non-cash interest on tax contingencies		54		270
Stock based compensation	433		1,729	
Amortization of debt issuance costs	297	212	852	553
Gain on sale of equipment		3		(5)
Changes in operating assets and liabilities:				
Accounts receivable	(19,747)	2,099	(23,432)	(7,055)
Aircrafts and support parts in process	5	(3,267)	3,929	(8,807)
Prepaid expenses and other	1,468	(1,588)	2,227	(2,627)
Income tax receivable	(19)		(543)	
Aircraft support parts, net	(147)	(3,282)	(10,947)	(13,425)
Accounts payable	113	(1,638)	(494)	510
Accrued and other current liabilities	11,031	(6,753)	10,855	(3,957)
Income taxes payable	360	6,744	1,319	(67)
Other long-term liabilities	156	(1,221)	(520)	(2,820)
Net cash provided by (used in) operating activities	24,814	8,171	19,091	(14,416)
Cash flows from investing activities:				
Purchases of Aircrafts, property, plant, and equipment	(1,052)	(2,498)	(4,341)	(10,414)
Restricted cash	1,238	3	1,442	(1,016)
Dividends paid to noncontrolling interest			(297)	(254)
Increase (decrease) in other assets	(321)	(312)	(26)	(421)
Net cash provided by (used in) investing activities	(135)	(2,807)	(3,222)	(12,105)
Cash flows from financing activities:				
Proceeds from issuance of common stock, net of expenses			31,454	
Borrowings of debt	51,726	87,170	192,487	246,831
Repayments of debt	(76,183)	(90,604)	(238,014)	(217,839)
Debt issuance costs	(274)	(166)	(274)	(776)
Net cash provided by (used in) financing activities	(24,731)	(3,600)	(14,347)	28,216
Effect of foreign currency exchange rates on cash and cash equivalents	14	10	(20)	(567)
Net increase (decrease) in cash and cash equivalents	(38)	1,774	1,502	1,128
Cash and cash equivalents at beginning of period	1,808	1,282	268	1,928
Cash and cash equivalents at end of period	\$ 1,770	\$ 3,056	\$ 1,770	\$ 3,056

Supplemental disclosure of cash flow information:

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Cash paid during the period for interest	\$	851	\$	1,627	\$	2,813	\$	4,858
Net cash paid (received) during the period for income taxes	\$	176	\$	(998)	\$	496	\$	(765)

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 September 30, 2012, EuAC owned a 60% equity interest in Societa Italiana 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 September 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. Five of the Aircranes were deployed outside of North America as of September 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 certain 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.

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.

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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 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 will have on its consolidated financial statements.

Note 3. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consisted of the following (in thousands):

	September 30, 2012	December 31, 2011
Trade accounts receivable	\$ 48,994	\$ 26,432
Other receivables	1,953	572
Less: Allowance for doubtful accounts	(479)	(476)
	\$ 50,468	\$ 26,528

The Company had a net recovery of \$0.1 million of bad debt expense in the three months ended September 30, 2012 and September 30, 2011. The Company had no bad debt expense in the nine months ended September 30, 2012 and a net recovery of bad debt expense in the nine months ended September 30, 2011 of \$0.3 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 September 30, 2012, four customers made up 76.4% of the Company's accounts

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receivable balance. At December 31, 2011, three customers made up 52.5% of the Company's accounts receivable balance. Allowance for doubtful accounts was \$0.5 million and \$0.5 million at September 30, 2012 and December 31, 2011, respectively.

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 September 30, 2012	As of December 31, 2011
Italian Ministry of Civil Protection	34.8%	18.9%
NAMSA (Greece)	19.7%	
Hellenic Fire Brigade (Greece)	11.3%	21.6%
US Forest Service	10.6%	
Helicorp (Australia)		12.0%
	76.4%	52.5%

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

	Percentage of Revenues			
	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
US Forest Service	44.9%	34.8%	32.2%	31.1%
Italian Ministry of Civil Protection	14.1%	16.7%	14.3%	16.7%
NAMSA (Greece)(1)	13.0%		8.4%	
Hellenic Fire Brigade (Greece)(1)		16.5%		9.1%
Helicorp (Australia)			5.4%	6.8%
	72.0%	68.0%	60.3%	63.7%

(1)

On May 23, 2012, the Company entered into a three year agreement with the NATO Maintenance and Supply Agency ("NAMSA"), pursuant to which the Company has agreed to supply aerial firefighting services in Greece for the 2012 to 2014 firefighting seasons. Prior to the agreement with NAMSA the Company contracted directly with the Hellenic Fire Brigade to provide firefighting services for Greece.

Note 4. Aircranes and Support Parts in Process

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Aircranes and support parts in process consist of Aircranes in various stages of production. At September 30, 2012, the balance of \$7.6 million included no completed Aircranes and one partially completed Aircrane. At December 31, 2011, the balance of \$27.4 million included one completed Aircrane and one substantially completed Aircrane.

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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. Costs 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.

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

	September 30, 2012	December 31, 2011
Aircrane parts	\$ 67,484	\$ 50,572
Major component overhauls	32,787	30,777
Work-in-process	22,301	25,593
Less: Excess and obsolete reserve	(4,505)	(5,050)
	\$ 118,067	\$ 101,892

Note 6. Accrued and Other Current Liabilities

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

	September 30, 2012	December 31, 2011
Advance from Cambiano	\$ 6,431	\$ 3,330
Payroll and related taxes	5,675	3,627
Cost per Hour	5,153	2,770
Customer advance payments	3,641	4,326
Forward contracts	349	22
Interest	243	58
Warranty	90	1,015
Other	8,566	4,175
Total	\$ 30,148	\$ 19,323

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. As of September 30, 2012, the Company classified the debt outstanding under its Credit Agreement as current debt due to the maturity date of its Credit Agreement of June 24, 2013. The Company is currently in discussions with its lenders to refinance the debt.

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 7. Debt (Continued)

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 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 an 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, 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. On August 3, 2012, the Company amended its credit agreement to revise its minimum fixed charge coverage ratio to allow for the debt reclassification from long term to short term as of June 30, 2012 and periods thereafter. Absent this amendment the Company would not have been in compliance with its minimum fixed charge coverage ratio at June 30, 2012 or September 30, 2012. The Company was in compliance with all of its covenants under the Credit Agreement as of September 30, 2012. The outstanding balance under the revolving credit facility at September 30, 2012 and December 31, 2011, excluding letters of credit, was \$11.1 million and \$51.8 million, respectively. The weighted average interest rate for borrowings under the revolving credit facility for the three months ended September 30, 2012 and September 30, 2011 was 3.84% and 4.94%, respectively. The weighted average interest rate for borrowings under the revolving credit facility for the nine months ended September 30, 2012 and September 30, 2011 was 3.90% and 5.88%, respectively. The borrowing rate at September 30, 2012 and December 31, 2011 was 3.70% and 3.61%, respectively. The Company had \$0.1 million and \$2.3 million of outstanding standby letters of credit issued under the facility as of September 30, 2012 and December 31, 2011, respectively. Borrowing availability was \$56.3 million and \$13.4 million as of September 30, 2012 and December 31, 2011, respectively.

The weighted average interest rate for the term loan borrowings for the three months ended September 30, 2012 and 2011 was 3.47% and 4.62%, respectively. The weighted average interest rate for the term loan borrowings for the nine months ended September 30, 2012 and 2011 was 3.33% and 5.20%, respectively. At September 30, 2012 and December 31, 2011 the outstanding balance under the

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 7. Debt (Continued)

term loan facility was \$50.4 million and \$55.3 million, respectively. The borrowing rate at September 30, 2012 and December 31, 2011 was 3.72% 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 collateralized by up to \$1.0 million in 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. 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 September 30, 2012 and December 31, 2011 the Company had \$3.3 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, the Company issued an additional \$10.0 million of unsecured subordinated promissory notes 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 notes mature no earlier than June 30, 2016. Additionally, in connection with the Working Capital Guarantee Credit Agreement as disclosed above, the Company issued \$1.0 million in unsecured subordinated promissory notes to ZM Private Equity Funds I and II. 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 September 30, 2012 and 2011 was 10.00% and 20.00%, respectively. The weighted average interest rate for the nine months ended September 30, 2012 and 2011 was 13.87% and 20.00%, respectively. The borrowing rate was 10.0% and 20.0% and the balance was \$26.1 million and \$23.5 million at September 30, 2012 and December 31, 2011, respectively.

Table of Contents**ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 7. Debt (Continued)**

Total debt outstanding was as follows (in thousands):

	September 30, 2012	December 31, 2011
Term Debt	\$ 50,375	\$ 55,250
Revolving Line of Credit	11,129	51,783
Subordinated Notes	26,076	23,537
	\$ 87,580	\$ 130,570

On July 29, 2008, EuAC entered into an Agreement with Banca Di Credito Cooperativo Di Cambiano ("Cambiano") whereby Cambiano agreed to periodically advance European Air-Crane up to €6.0 million. Advances are secured by receivables due from the Italian government. The purpose of this agreement is to fulfill short term liquidity needs for EuAC. At September 30, 2012 and December 31, 2011, there were €5.0 (\$6.4 million) and €2.6 (\$3.3 million) million in advances outstanding, respectively, under this arrangement and are included within accrued and other current 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. In the third quarter of 2012, the restricted cash amount was reduced to €2.0 million (\$2.6 million), in conjunction with the reduction in the corresponding letter of credit. The Company has classified the restricted cash related to the pledges as current 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 September 30, 2012 and 2011 was 38.2% and 40.6% respectively. The Company's effective income tax rate for the nine months ended September 30, 2012 and 2011 was 38.1% and 45.5% 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 September 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 September 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).

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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

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 up to 110,000,000 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.

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 10. Reportable Segments (Continued)

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 September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net revenues:				
Aerial Services	\$ 69,639	\$ 53,036	\$ 130,055	\$ 111,235
Manufacturing / MRO	6,622	6,125	11,692	10,819
Total net revenues	\$ 76,261	\$ 59,161	\$ 141,747	\$ 122,054

Gross Profit by Reportable Segment (in thousands):

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Gross profit:				
Aerial Services	\$ 34,168	\$ 23,432	\$ 46,394	\$ 35,960
Manufacturing / MRO	2,374	2,254	4,508	2,425
Total gross profit	\$ 36,542	\$ 25,686	\$ 50,902	\$ 38,385

Assets by Reportable Segment (in thousands):

	September 30, 2012	December 31, 2011
Assets:		
Aerial Services	\$ 144,733	\$ 109,229
Manufacturing / MRO	90,789	97,549
Corporate	21,404	27,133
Total assets	\$ 256,926	\$ 233,911

Table of Contents**ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 10. Reportable Segments (Continued)***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 September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net revenues:				
North America	\$ 49,493	\$ 33,304	\$ 82,282	\$ 68,107
South America	3,700	837	10,419	837
Europe	20,710	19,671	33,839	32,187
Asia	2,358	5,349	7,553	12,588
Australia			7,654	8,335
Total net revenues	\$ 76,261	\$ 59,161	\$ 141,747	\$ 122,054

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 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 C\$0.8 million, due to the uncertainty of collection of the amount. In June 2012, the Company was notified that its 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 expects to receive a full refund of the C\$0.8 million assessment. Accordingly, the Company has removed the C\$0.8 million reserve relating to this matter.

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ERICKSON AIR-CRANE INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 11. Commitments and Contingencies (Continued)

Put Option

As of September 30, 2012, San Diego Gas & Electric Company ("SDG&E") held the right to exercise a put option that would have, if exercised, required the Company to repurchase on July 31, 2013 the S-64 Airplane the Company sold to SDG&E in 2009. Additionally, the Company had a right to purchase at its option the Airplane prior to the execution of the put option. The original sales agreement,