ERA GROUP INC.
Form 10-Q
August 13, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2013 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 1-35701

Era Group Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	72-1455213 (IRS Employer Identification No.)
818 Town & Country Blvd., Suite 200 Houston, Texas (Address of Principal Executive Offices)	77024 (Zip Code)

281-606-4900
(Registrant's Telephone Number, Including Area Code)

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 ¨

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 ¨

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The total number of shares of common stock, par value $0.01 per share, outstanding as of July 31, 2013 was 20,181,286. The Registrant has no other class of common stock outstanding.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
ERA GROUP INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	June 30, 2013	December 31, 2012
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$27,345	$11,505
Receivables:		
Trade, net of allowance for doubtful accounts of $3,010 and $2,668 in 2013 and 2012, respectively	40,362	48,527
Other	14,890	4,713
Inventories, net	26,223	26,650
Deferred income taxes	3,642	3,642
Prepaid expenses and other	2,854	1,803
Escrow deposits	16,010	—
Total current assets	131,326	96,840
Property and Equipment	1,012,661	1,030,276
Accumulated depreciation	(251,613)	(242,471)
Net property and equipment	761,048	787,805
Investments, at Equity, and Advances to 50% or Less Owned Companies	35,529	34,696
Goodwill	352	352
Other Assets	17,300	17,871
Total Assets	$945,555	$937,564
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$15,796	$15,703
Accrued wages and benefits	6,976	4,576
Accrued interest	770	1,401
Current portion of long-term debt	2,787	2,787
Other current liabilities	5,253	5,232
Total current liabilities	31,582	29,699
Long-Term Debt	275,667	276,948
Deferred Income Taxes	204,487	203,536
Deferred Gains and Other Liabilities	5,947	7,864
Total liabilities	517,683	518,047
Series A Preferred Stock, at redemption value; $0.01 par value, 10,000,000 shares authorized; none issued and outstanding in 2013; 1,400,000 shares issued and outstanding in 2012	—	144,232
Equity:		
Era Group Inc. stockholders' equity:		
Common stock, $0.01 par value, 60,000,000 shares authorized; 20,181,559 outstanding in 2013 (exclusive of 2,500 treasury shares); none issued and outstanding in 2012	202	—
	—	245

Class B common stock, $0.01 par value, 60,000,000 shares authorized; none issued and outstanding in 2013; 24,500,000 issued and outstanding in 2012		
Additional paid-in capital	420,056	278,838
Retained earnings (accumulated deficit)	7,724	(4,025)
Treasury shares, at cost (2,500 and nil in 2013 and 2012, respectively)	(63)	—
Accumulated other comprehensive income (loss), net of tax	(44)	20
	427,875	275,078
Noncontrolling interest in subsidiary	(3)	207
Total equity	427,872	275,285
Total Liabilities and Stockholders’ Equity	$945,555	$937,564

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

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ERA GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Operating Revenues	$74,237	$62,985	$141,964	$124,037
Costs and Expenses:				
Operating	46,945	39,002	90,061	78,678
Administrative and general	9,545	7,195	18,679	16,872
Depreciation	11,431	10,464	23,092	20,094
	67,921	56,661	131,832	115,644
Gains on Asset Dispositions, Net	4,476	1,077	15,277	2,842
Operating Income	10,792	7,401	25,409	11,235
Other Income (Expense):				
Interest income	150	249	297	581
Interest expense	(4,613)	(2,380)	(9,345)	(4,348)
SEACOR management fees	—	(500)	(168)	(1,000)
Derivative gains (losses), net	21	(180)	18	(304)
Foreign currency gains (losses), net	315	(12)	56	905
Other, net	9	—	12	30
	(4,118)	(2,823)	(9,130)	(4,136)
Income Before Income Tax Expense and Equity in Earnings (Losses) of 50% or Less Owned Companies	6,674	4,578	16,279	7,099
Income Tax Expense	2,398	1,686	5,976	2,420
Income Before Equity in Earnings (Losses) of 50% or Less Owned Companies	4,276	2,892	10,303	4,679
Equity in Earnings (Losses) of 50% or Less Owned Companies, Net of Tax	674	757	1,236	(5,663)
Net Income (Loss)	4,950	3,649	11,539	(984)
Net Loss Attributable to Noncontrolling Interest in Subsidiary	105	—	210	—
Net Income (Loss) Attributable to Era Group Inc.	5,055	3,649	11,749	(984)
Accretion of Redemption Value on Series A Preferred Stock	—	2,135	721	4,235
Net Income (Loss) Attributable to Common Shares	$5,055	$1,514	$11,028	$(5,219)
Earnings (Loss) Per Common Share:				
Basic and Diluted	$0.25	$0.06	$0.53	$(0.21)
Weighted Average Common Shares Outstanding:				
Basic and Diluted	20,140,105	24,500,000	20,793,529	24,500,000

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

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ERA GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income (Loss)	$4,950	$3,649	$11,539	$(984)
Other Comprehensive Income (Loss):				
Foreign currency translation adjustments	64	(294)	(98)	686
Income tax benefit (expense)	(23)	103	34	(240)
	41	(191)	(64)	446
Comprehensive Income (Loss)	4,991	3,458	11,475	(538)
Comprehensive Loss attributable to Noncontrolling Interest in Subsidiary	105	—	210	—
Comprehensive Income (Loss) attributable to Era Group Inc.	$5,096	$3,458	$11,685	$(538)

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

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ERA GROUP INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(unaudited, in thousands)

	Era Group Inc. Stockholders' Equity								
	Series A Convertible Preferred Stock	Class B Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Shares Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest In Subsidiary	Total Equity
December 31, 2012	$ 144,232	$ 245	$ —	$ 278,838	$ (4,025)	$ —	$ 20	$ 207	$ 275,285
Accretion of redemption value on Series A preferred stock	721	—	—	(721)	—	—	—	—	(721)
Preferred stock dividend	(4,953)	—	—	—	—	—	—	—	—
Recapitalization of Era Group by SEACOR	(140,000)	(245)	199	140,046	—	—	—	—	140,000
Issuance of Era Group stock options in settlement of SEACOR stock options	—	—	—	706	—	—	—	—	706
Issuance of common stock:									
Restricted stock grants	—	—	3	(3)	—	—	—	—	—
Proceeds and tax benefits from share award plans	—	—	—	535	—	—	—	—	535
Share award amortization	—	—	—	592	—	—	—	—	592
Cancellation of restricted stock	—	—	—	63	—	(63)	—	—	—
Net income (loss)	—	—	—	—	11,749	—	—	(210)	11,539
Currency translation adjustments, net of tax	—	—	—	—	—	—	(64)	—	(64)
June 30, 2013	$ —	$ —	$ 202	$ 420,056	$ 7,724	$ (63)	$ (44)	$ (3)	$ 427,872

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

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ERA GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Six Months Ended June 30, 2013	2012
Net Cash Provided by (Used in) Operating Activities	$27,774	$(24,966)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(30,643)	(87,034)
Proceeds from disposition of property and equipment	38,492	4,526
Cash settlements on derivative transactions, net	—	(202)
Investments in and advances to 50% or less owned companies	—	(825)
Principal payments on notes due from equity investees	713	780
Principal payments on third party notes receivable, net	551	566
Net increase in escrow deposits	(16,010)	—
Net cash used in investing activities	(6,897)	(82,189)
Cash Flows from Financing Activities:		
Issuance of Series B preferred stock	—	30,000
Payments on long-term debt	(16,394)	(31,394)
Proceeds from issuance of long-term debt	15,000	38,000
Dividends paid on Series A preferred stock	(4,953)	—
Proceeds and tax benefits from share award plans	535	—
Proceeds from SEACOR on the settlement of stock options	706	—
Net cash (used in) provided by financing activities	(5,106)	36,606
Effects of Exchange Rate Changes on Cash and Cash Equivalents	69	548
Net Increase (Decrease) in Cash and Cash Equivalents	15,840	(70,001)
Cash and Cash Equivalents, Beginning of Period	11,505	79,122
Cash and Cash Equivalents, End of Period	$27,345	$9,121
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$9,578	$3,836

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

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ERA GROUP INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION AND ACCOUNTING POLICY

The condensed consolidated financial statements include the accounts of Era Group Inc. and its consolidated subsidiaries (collectively referred to as the "Company"). The condensed consolidated financial information for the three and six months ended June 30, 2013 and 2012 has been prepared by the Company and has not been audited by its independent registered public accounting firm. In the opinion of management, all adjustments (consisting of normal recurring adjustments) have been made to fairly present the Company's financial position as of June 30, 2013, its results of operations for the three and six months ended June 30, 2013 and 2012, its comprehensive income (loss) for the three and six months ended June 30, 2013 and 2012, its changes in equity for the six months ended June 30, 2013, and its cash flows for the six months ended June 30, 2013 and 2012. Results of operations for the interim periods presented are not necessarily indicative of operating results for the full year or any future periods.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the U.S. have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Unless the context otherwise indicates, any reference in this Quarterly Report on Form 10-Q to the "Company" refers to Era Group Inc. and its consolidated subsidiaries and any reference in this Quarterly Report on Form 10-Q to "Era Group" refers to Era Group Inc.

Prior to January 31, 2013, the Company was wholly owned by SEACOR Holdings Inc. (along with its other majority-owned subsidiaries being collectively referred to as "SEACOR") and represented SEACOR's aviation services business segment. On January 31, 2013, SEACOR recapitalized the Company through the exchange of all of its Class B common stock and $140.0 million of its Series A preferred stock for 19,883,583 shares of newly-issued Era Group common stock, par value $0.01 per share (the "Recapitalization"). Following the Recapitalization, the Company had only one class of common stock issued and outstanding and no preferred stock outstanding. On January 31, 2013, SEACOR then completed a spin-off by means of a dividend to SEACOR's stockholders of all of the Company's issued and outstanding common stock (the "Spin-off"). The Company filed a Registration Statement on Form 10 with the Securities and Exchange Commission ("SEC") that was declared effective on January 15, 2013. Prior to the Spin-off, SEACOR and the Company entered into a distribution agreement and several other agreements that govern their post-Spin-off relationship. Era Group is now an independent company with its common stock listed on the New York Stock Exchange under the symbol "ERA."

In connection with the Spin-off, the Company entered into an Amended and Restated Transition Services Agreement with SEACOR. Under the terms of the Amended and Restated Transition Services Agreement, SEACOR continues to provide the Company with certain support services, for up to two years from the effective date of the Spin-off, including payroll processing, information systems support, benefit plan management, cash disbursement support, cash receipt processing and treasury management.

Revenue Recognition. The Company recognizes revenue when it is realized or realizable and earned. Revenue is realized or realizable and earned when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the buyer is fixed or determinable, and collectability is reasonably assured. Revenue that does not meet these criteria is deferred until the criteria are met. Deferred revenues and related activity for the three and six months ended June 30, were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance at beginning of period	$12,733	$2,964	$8,953	$123
Revenues deferred during the period	9,277	7,949	18,209	10,904
Revenues recognized during the period	(6,390)	(1,608)	(11,542)	(1,722)

Balance at end of period	$15,620	$9,305	$15,620	$9,305

As of June 30, 2013, deferred revenues included $12.2 million related to contract-lease revenues for certain helicopters leased by the Company to Aeróleo Taxi Aero S/A (“Aeróleo”), its Brazilian joint venture. The deferral originated from difficulties experienced by Aeróleo following Petróleo Brasileiro S.A.’s (“Petrobras Brazil”) cancellation of certain contract awards for a number of AW139 helicopters under contract-lease from the Company, and the deferral continues as a result of ongoing operating and financial difficulties at Aeróleo including Petrobras Brazil's efforts to suspend contracts for three EC225 helicopters under

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contract-lease from the Company. The Company will recognize revenues as cash is received or earlier should future collectability become reasonably assured. All costs and expenses related to these contract-leases were recognized as incurred.

As of June 30, 2013, deferred revenues also included $3.4 million related to contract-lease revenues for certain helicopters leased by the Company to a customer in India. The deferral resulted from the customer having its operating certificate revoked for a period of time and therefore being unable to operate. The certificate has since been reinstated but uncertainty still remains regarding the collectability of the contract-lease revenues due to the customer's short-term liquidity issues. The Company will recognize revenues as cash is received or earlier should future collectability become reasonably assured. All costs and expenses related to these contract-leases were recognized as incurred.

Reclassifications. Certain reclassifications of prior period information have been made to conform to the presentation of the current period information. These reclassifications had no effect on net income, equity or the components of cash flow as previously reported.

2. FAIR VALUE MEASUREMENTS

The fair value of an asset or liability is the price that would be received to sell an asset or transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company utilizes a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value and defines three levels of inputs that may be used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs derived from observable market data. Level 3 inputs are unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The Company’s financial assets and liabilities that are measured at fair value on a recurring basis were as follows (in thousands):

	Level 1	Level 2	Level 3
December 31, 2012			
LIABILITIES			
Derivative instruments (included in other current liabilities) (1)	$—	$1,025	$—
June 30, 2013			
ASSETS			
Marketable securities (included in other receivables)	$76	$—	$—
LIABILITIES			
Derivative instruments (included in other current liabilities) (1)	—	765	—

(1) The fair value of the Company's derivative instruments was estimated using market data gathered by a third party financial institution, adjusted for market and credit risks applicable to the Company.

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The estimated fair values of the Company's other financial assets and liabilities were as follows (in thousands):

	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3
December 31, 2012				
ASSETS				
Cash and cash equivalents	$11,505	$11,505	$—	$—
Notes receivable from other business ventures (included in other receivables and other assets)	925	925	—	—
LIABILITIES				
Long-term debt, including current portion	279,735	—	283,120	—
June 30, 2013				
ASSETS				
Cash and cash equivalents	$27,345	$27,345	$—	$—
Notes receivable from other business ventures (included in other receivables and other assets)	677	677	—	—
LIABILITIES				
Long-term debt, including current portion	278,454	—	281,731	—

The carrying values of cash and cash equivalents, accounts receivable, escrow deposits, notes receivable from other business ventures and accounts payable approximate fair value. The fair value of the Company's long-term debt was estimated using discounted cash flow analysis based on estimated current rates for similar types of arrangements. Considerable judgment was required in developing certain of the estimates of fair value and, accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

3. DERIVATIVE INSTRUMENTS

In 2011, the Company entered into two interest rate swap agreements maturing in 2014 and 2015 that call for the Company to pay fixed interest rates of 1.67% and 1.83% on an aggregate notional value of $31.8 million and receive a variable interest rate based on the London Interbank Offered Rate ("LIBOR") on these notional values. The general purpose of these interest rate swap agreements is to provide protection against increases in interest rates, which might lead to higher interest costs for the Company. The fair value of these derivative instruments at June 30, 2013 and December 31, 2012 was a liability of $0.8 million and $1.0 million, respectively. The unrealized change in fair market value was gains of $0.1 million and losses of less than $0.1 million on these derivative instruments for the three months ended June 30, 2013 and 2012, respectively, and gains of $0.3 million and losses of $0.1 million for the six months ended June 30, 2013 and 2012, respectively.

4. ESCROW DEPOSITS

In February 2013, the Company entered into agreements for the sale of two S76C++ medium helicopters for cash proceeds totaling $18.0 million. The sales transactions closed in May 2013 and were each treated as a tax-free like-kind exchange under Section 1031 for tax purposes whereby $16.0 million of the proceeds were held by a qualified intermediary and thus reflected as an escrow deposit in the consolidated balance sheet. Qualified properties were not identified (purchased) to complete the like-kind exchanges under Section 1031 prior to expiration of the 45-day period subsequent to the closing date. As a result, the Company has classified the escrow deposit of $16.0 million as a current asset at June 30, 2013.

5. EQUIPMENT ACQUISITIONS AND DISPOSITIONS

During the six months ended June 30, 2013, capital expenditures were $30.6 million and consisted primarily of helicopter acquisitions and deposits on future helicopter deliveries. The Company records helicopter acquisitions in Property and Equipment and places helicopters in service once all completion work has been finalized and the helicopters are ready for use. As of June 30, 2013, the Company had one medium helicopter that was delivered in May 2013 but not placed in service until July 2013. A summary of changes to our operating helicopter fleet during the six

months ended June 30, 2013 is as follows:
Equipment Additions. During the six months ended June 30, 2013, the Company placed two medium helicopters in service, one of which was delivered in the prior year.

Equipment Dispositions. Major equipment dispositions for the six months ended June 30, 2013 were as follows:

Light helicopters — twin engine [(1)]	2
Medium helicopters	5
Heavy helicopters	1
	8

(1) Includes two light-twin helicopters that had previously been removed from service.

During the first quarter of 2013, the Company recognized a $5.4 million gain on the sale of an EC225 helicopter. The helicopter was previously on contract-lease to a customer and was damaged in an incident in May 2012, and it was subsequently sold to that customer in March 2013 for cash proceeds of $13.1 million and a note receivable of $11.5 million.

During the first quarter of 2013, the Company recognized $2.1 million in insurance proceeds on a S76A helicopter involved in an incident in March 2013, resulting in a gain of $1.2 million.

During the three months ended June 30, 2013, the Company sold or otherwise disposed of property and equipment for proceeds of $18.1 million and recognized gains of $4.5 million. During the six months ended June 30, 2013, the Company sold or otherwise disposed of property and equipment, including the transactions described above, for cash proceeds of $38.5 million and net receivables of $11.4 million, of which $10.7 million was received in July 2013, resulting in gains of $15.2 million. In addition, the Company recognized previously deferred gains of $0.1 million.

6. INVESTMENTS, AT EQUITY, AND ADVANCES TO 50% OR LESS OWNED COMPANIES

Combined Condensed Financials. Summarized financial information for Dart Holding Company Ltd. ("Dart"), in which the Company has a 50% ownership interest was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Operating Revenues	$10,873	$13,130	$21,649	$24,712
Costs and Expenses:				
Operating and administrative	8,348	8,645	16,107	17,196
Depreciation	1,284	1,359	2,582	2,709
	9,632	10,004	18,689	19,905
Operating Income	$1,241	$3,126	$2,960	$4,807
Net Income	$929	$3,563	$2,104	$1,469

7. INCOME TAXES

The following table shows the effective income tax rate on continuing operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Statutory rate	35.0 %	35.0 %	35.0 %	35.0 %
Non-deductible expenses [(1)]	0.2 %	0.6 %	— %	(1.4)%
Minority interest	0.6 %	— %	0.5 %	— %