Erickson Air-Crane Inc.
Form 10-Q
November 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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 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 x 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 x No ¨

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

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

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

As of November 1, 2013, 13,787,914 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)

(Unaudited)

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 5,302	$ 1,468
Restricted cash	2,853	3,781
Accounts receivable net of allowances for doubtful accounts of $742 and $460 in 2013 and 2012, respectively	71,346	24,446
Prepaid expenses and other current assets	5,831	1,426
Income tax receivable	1,610	1,048
Deferred tax assets	9,656	8,208
Total current assets	96,598	40,377
Aircraft support parts, net	124,939	93,041
Aircraft, net	128,707	66,673
Property, plant, and equipment, net	91,926	54,675
Other intangible assets, net	23,597	
Goodwill	252,520	
Other non-current assets	35,117	2,057
Total assets	$ 753,404	$ 256,823
Liabilities and stockholders equity (deficit)		
Current liabilities:		
Accounts payable	$ 28,179	$ 8,746
Current portion of long-term debt		71,202
Accrued and other current liabilities	50,144	19,662
Income tax payable	2,528	6,275
Total current liabilities	80,851	105,885
Long-term debt, less current portion	16,060	26,674

Long-term revolving credit facilities		54,513		
Long-term notes payable		355,000		
Other long-term liabilities		11,000		1,415
Uncertain tax positions		18,286		
Deferred tax liabilities		22,416		17,481
Total liabilities		558,126		151,455
Stockholders equity (deficit):				
Common stock; $0.0001 par value; 110,000,000 shares authorized; 13,786,290 and 9,726,785 issued and outstanding at September 30, 2013 and December 31, 2012, respectively		1		1
Additional paid-in capital		179,845		101,833
Retained earnings (accumulated deficit)		13,803		2,447
Accumulated other comprehensive income (loss)		579		71
Total stockholders equity (deficit) attributable to Erickson Air-Crane Incorporated		194,228		104,352
Noncontrolling interest		1,050		1,016
Total stockholders equity (deficit)		195,278		105,368
Total liabilities and stockholders equity	$	753,404	$	256,823

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 COMPREHENSIVE INCOME (LOSS)

(in thousands, except share and per share data)

(Unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net revenues	$ 120,226	$ 76,261	$ 225,756	$ 141,747
Cost of revenues	74,041	39,719	152,808	90,845
Gross profit	46,185	36,542	72,948	50,902
Operating expenses:				
General and administrative	10,107	3,973	26,486	11,405
Research and development	1,154	995	3,116	3,425
Selling and marketing	1,642	1,097	5,507	4,177
Total operating expenses	12,903	6,065	35,109	19,007
Operating income (loss)	33,282	30,477	37,839	31,895
Other income (expense):				
Interest income (expense), net	(8,665)	(1,524)	(16,516)	(5,537)
Interest income (expense) related to tax contingencies	(560)		(871)	
Amortization of debt issuance costs	(599)	(297)	(1,386)	(852)
Unrealized foreign exchange gain (loss)	159	(13)	299	28
Loss on early extinguishment of debt			(215)	
Realized foreign exchange gain (loss)	(68)	(108)	(218)	207
Gain on disposal of equipment	20		41	
Other income (expense), net	95	1	(267)	920
Total other income (expense)	(9,618)	(1,941)	(19,133)	(5,234)
Net income (loss) before income taxes and noncontrolling interest	23,664	28,536	18,706	26,661
Income tax expense (benefit)	9,176	10,902	7,009	10,168
Net income (loss)	14,488	17,634	11,697	16,493
	37	(78)	(341)	(315)

Less: Net (income) loss related to noncontrolling interest								
Net income (loss) attributable to Erickson Air-Crane Incorporated		14,525		17,556		11,356		16,178
Dividends on Redeemable Preferred Stock								2,794
Net income (loss) attributable to common stockholders	$	14,525	$	17,556	$	11,356	$	13,384
Net income (loss)	$	14,488	$	17,634	$	11,697	$	16,493
Other comprehensive income (loss):								
Foreign currency translation adjustment		727		158		542		117
Comprehensive income (loss)		15,215		17,792		12,239		16,610
Comprehensive (income) loss attributable to noncontrolling interest		(14)		(97)		(375)		(311)
Comprehensive income (loss) attributable to Erickson Air-Crane Incorporated	$	15,201	$	17,695	$	11,864	$	16,299
Net income (loss) per share attributable to common stockholders								
Basic	$	1.26	$	1.80	$	1.10	$	2.21
Diluted	$	1.05	$	1.80	$	1.02	$	2.21
Weighted average shares outstanding								
Basic		11,562,465		9,756,478		10,356,507		6,051,346
Diluted		13,813,514		9,756,478		11,122,050		6,051,346

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 PREFERRED STOCK AND

STOCKHOLDERS EQUITY (DEFICIT)

(in thousands, except share data)

(Unaudited)

	Preferred Stock (see Note 10)		Common Stock Class A		Common Stock							
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity (Deficit) of Erickson Air-Crane	Noncontrolling Interest Amount	To Stockh Equ (Def
ce at nber 31,	34,999.5	$ 66,161	1,000	$ 1		$	$	$ (9,988)	$ (36)	$ (10,023)	$ 878	$ (9
ends d on mable red Stock		2,795						(2,795)		(2,795)		(2
ntrolling t nd											(297)	
rsion of mable red and A non Stock nmon	(34,999.5)	(68,956)	(1,000)	(1)	4,802,970	0.5	68,956			68,956		68
ce of on stock l to IPO, expense					4,800,000	0.5	31,454			31,454		31
based ensation					214,933		2,118			2,118		2
withheld yment of					(91,118)		(695)			(695)		
onents of ehensive e (loss):												

come						15,230		15,230	406	15
n cy tion							107	107	29	
rehensive e (loss)										15
ce at mber 31,		$	$ 9,726,785	$ 1	$ 101,833	$ 2,447	$ 71	$ 104,352	$ 1,016	$ 105
ce of A red Stock	4,008,439	78,044								
ntrolling t nd									(341)	
ce of cted Units			86,010							
based nsation					665			665		
rsion of A red Stock ommon	(4,008,439)	(78,044)	4,008,439		78,044			78,044		78
withheld yment of			(34,944)		(697)			(697)		
onents of ehensive e (loss):										
come						11,356		11,356	341	11
n cy tion							508	508	34	
rehensive e (loss)										12
ce at mber 30,		$	$ 13,786,290	$ 1	$ 179,845	$ 13,803	$ 579	$ 194,228	$ 1,050	$ 195

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 September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash flows from operating activities:				
Net income (loss)	$ 14,488	$ 17,634	$ 11,697	$ 16,493
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	11,566	7,670	25,439	16,413
Deferred income taxes	8,460	10,333	4,665	8,790
Non-cash interest expense on debt	579	641	1,776	2,539
Amortization of debt issuance costs	599	297	1,386	852
Non-cash interest on tax contingencies	561		872	
Stock-based compensation	255	433	665	1,729
Write-off of debt issuance costs related to the early extinguishment of debt			215	
Non-cash interest income on loans	(58)		(99)	
Gain on sale of equipment	(20)		(41)	
Changes in operating assets and liabilities, excluding effects of acquisitions of businesses:				
Accounts receivable	(12,799)	(19,747)	(26,482)	(23,432)
Prepaid expenses and other current assets	(380)	1,468	(2,018)	2,227
Income tax receivable	(246)	(19)	(561)	(543)
Aircraft support parts, net	(9,999)	(5,556)	(23,193)	(17,137)
Other non-current assets	(1,622)		(4,303)	
Accounts payable	4,736	113	(20,740)	(494)
Accrued and other current liabilities	(3,273)	11,031	2,739	10,855
Income tax payable	25	360	1,256	1,319
Other long-term liabilities	(1,119)	156	164	(520)
Uncertain tax positions	463		732	
Net cash provided by (used in) operating activities	12,216	24,814	(25,831)	19,091
Cash flows from investing activities:				

Acquisition of businesses, net of cash acquired (see Note 6)	(22,998)		(231,868)	
Restricted cash	45,953	1,238	942	1,442
Purchases of aircraft and property, plant, and equipment	(7,733)	(1,052)	(32,366)	(4,341)
Purchases of intangible assets	(2,200)		(2,200)	
Decrease (increase) in other assets		(321)	(35)	(26)
Dividends paid to noncontrolling interest			(341)	(297)
Net cash provided by (used in) investing activities	13,022	(135)	(265,868)	(3,222)
Cash flows from financing activities:				
Proceeds from issuance of common stock, net of expenses				31,454
Repayments of subordinated notes			(27,572)	
Repayments of credit facilities	(30,382)	(76,183)	(214,799)	(238,014)
Borrowings from credit facilities	49,535	51,726	197,387	192,487
Borrowing of notes			400,000	
Repayments of notes	(45,000)		(45,000)	
Debt issuance costs	(691)	(274)	(14,667)	(274)
Shares withheld for payment of taxes	(84)		(697)	
Net cash provided by (used in) financing activities	(26,622)	(24,731)	294,652	(14,347)
Effect of foreign currency exchange rates on cash and cash equivalents	865	14	881	(20)
Net increase (decrease) in cash and cash equivalents	(519)	(38)	3,834	1,502
Cash and cash equivalents at beginning of period	5,821	1,808	1,468	268
Cash and cash equivalents at end of period	$ 5,302	$ 1,770	$ 5,302	$ 1,770
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$ 1,972	$ 851	$ 11,820	$ 2,813
Net cash paid (received) during period for income taxes	$ 526	$ 176	$ 971	$ 496

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: EAC Acquisition Corporation (EAC Acq.), Evergreen Helicopters, Inc. and its subsidiaries (EHI), CAC Development Ltd. (Canada), Canadian Air-Crane Ltd. (CAC), Erickson Air-Crane Malaysia Sdn. Bhd. (EACM), European Air-Crane S.p.A. (EuAC), EAC do Brasil Participações LTDA, Air Amazonia Serviços Aeronáuticos Ltda. (Air Amazonia) and Dutch Air-Crane B.V. (DAC) (collectively referred to as the Company). EuAC owns a 60% equity interest in Societa Italiania de Manutenzioni Aeroautiche S.p.A. (SIMA), which is an aircraft maintenance organization located in Lucca, Italy; and EACM owns a 49% equity interest in Layang-Layang Services Sdn. Bhd., which provides aircraft rental services in Malaysia.

As of September 30, 2013, the Company owned a fleet of 20 heavy lift helicopters, comprised of 13 S-64E and seven S-64F model Aircranes, and 36 medium and light lift aircraft of varying model types, comprised of 28 rotor wing aircraft and eight fixed-wing aircraft. As of September 30, 2013, the Company leased a fleet of 34 medium and light lift aircraft of varying types, comprised of 29 rotary wing aircraft and five fixed-wing aircraft. The Company s fleet operations span the globe, including a presence in North America, South America, Europe, the Middle East, Africa, Asia, and Australia. As of September 30, 2013, 14 of the owned aircraft and 21 of the leased aircraft were deployed outside of North America.

The Company owns the Type Certificate and Production Certificate for the S-64 Aircrane which gives it the authorization to convert and remanufacture the S-64 Aircrane 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. During the quarter ended September 30, 2013, the Company purchased a Type Certificate from Pratt & Whitney for engines used in the S-64 Aircrane.

Fiscal 2013

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

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

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

On September 3, 2013, the Company completed its acquisition of Air Amazonia which included a fleet of six rotor wing aircraft and ground facilities. This fleet serves oil and gas activities in the Solimoes region of Brazil. In addition to the acquired fleet, the Company also has the right of first refusal to purchase any or all of HRT s remaining eight aircraft over the 12 months from the closing date of the acquisition and the right of first refusal on all helicopter services in the Solimoes region of Brazil from HRT as operator, as well as on all helicopter services in all of Brazil (including offshore) from HRT.

Fiscal 2012

In April 2012, the Company completed its initial public offering 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 initial public offering, 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 initial public offering, all shares of the Company s redeemable preferred stock (Redeemable Preferred Stock) and Class A common stock then outstanding automatically converted into an aggregate of 4,802,970 shares of the Company s common stock. Proceeds received from the initial public offering were used to pay down indebtedness.

Note 2. Basis of Presentation

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

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, 2012 included in the Company s annual report on Form 10-K filed with the SEC on March 8, 2013.

The balance sheet at December 31, 2012 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.

Reclassification has been made to prior period amounts of deferred overhauls from aircraft support parts, net to property, plant, and equipment, net on the consolidated balance sheets and consolidated statements of cash flows to conform to current period presentation. (See Note 4 Aircraft Support Parts, net). Such reclassification had no effect on previously reported consolidated statements of stockholders equity or statements of comprehensive income (loss).

Recent Accounting Pronouncements

In July 2013, the FASB issued accounting standards update (ASU) No. 2013-11 Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, to resolve the diversity in practice in the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013 for all unrecognized tax benefits that exist at the effective date. Early adoption is permitted and retrospective application is permitted. The Company has not elected early adoption or retrospective application of this ASU and the Company will continue to evaluate the impact adopting this standard will have on its consolidated financial statements.

In March 2013, the FASB issued ASU No. 2013-05 Foreign Currency Matters (Topic 830): Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity, to resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. The standards update is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. As the Company has not ceased to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, the adoption of this guidance is not expected to have a significant impact on the Company s consolidated financial position, results of operations, or cash flows.

In February 2013, the FASB issued ASU No. 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, requiring new disclosures for items reclassified out of accumulated other comprehensive income (AOCI), including (1) changes in AOCI balances by component and (2) significant items reclassified out of AOCI. The guidance does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. The standards update was effective for reporting periods beginning after December 15, 2012, to be applied prospectively. As this guidance only requires expanded disclosures, the adoption of this guidance did not have a significant impact on the Company s consolidated financial position, results of operations, or cash flows.

In January 2013, the FASB issued ASU No. 2013-01 Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, to clarify the scope of ASU 2011-11. This ASU would apply to derivatives including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or are subject to a master netting arrangement or similar agreement. The ASU was effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods to be applied retrospectively. As this guidance only requires expanded disclosures, the adoption of this guidance did not

have a significant impact on the Company s consolidated financial position, results of operations, or cash flows.

Note 3. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Trade accounts receivable	$ 67,680	$ 23,387
Other receivables	4,408	1,519
Less: Allowance for doubtful accounts	(742)	(460)
	$ 71,346	$ 24,446

The Company had bad debt expense of $0.3 million in the three months ended September 30, 2013 and had a net recovery of bad debt expense of $0.1 million in the three months ended September 30, 2012. The Company had bad debt expense of $0.5 million in the nine months ended September 30, 2013 and had no net bad debt expense in the nine months ended September 30, 2012.

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, 2013, four customers made up 45.1% of the Company s accounts receivable balance. At December 31, 2012, three customers made up 54.3% of the Company s accounts receivable balance.

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The following is a summary of customers that accounted for at least 10% of the total current and non-current trade receivables for the Company as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Fluor	14.1%	
NAMSA[(1)]	12.8%	
Army Contracting Command Rock Island	10.5%	
Hellenic Fire Brigade[(1)]	7.7%	23.9%
Italian Ministry of Civil Protection		15.5%
Helicorp (Australia)		14.9%
	45.1%	54.3%

(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 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 in Greece. At September 30, 2013, the receivable from Hellenic Fire Brigade was classified in other non-current assets due to the long-term nature of obtaining resolution regarding the Company s permanent establishment status in Greece.

The following is a summary of customers that accounted for at least 10% of the Company s net revenues in the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
U.S. Forest Service	26.7%	44.9%	18.0%	32.2%
Fluor [(1)]	14.0%		12.0%	
NAMSA (Greece)	6.8%	13.0%	4.4%	8.4%
Italian Ministry of Civil Protection	1.1%	14.1%	3.7%	14.3%
	48.6%	72.0%	38.1%	54.9%

(1) Fluor was a customer serviced by EHI for the three months and nine months ended September 30, 2012.

The Company entered into a collaborative agreement during the three months ended September 30, 2013 for the ongoing development and testing of composite main rotor blades for the Aircrane and the CH-54. The agreement calls for the parties to equally share costs associated with the completion of testing. Under the agreement, once the testing

and certifications are completed, the Company maintains the sole and exclusive right to sell the blades for the S-64E and S-64F helicopters to third parties. The purchaser of the intellectual property received the sole and exclusive right to sell the composite blades for the CH-54A and CH-54B helicopters to third parties. The initial sale of the intellectual property to the counterparty of the collaborative agreement was recorded in net revenues on the Company s consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2013. The Company s portion of ongoing project costs, to the extent they qualify for capitalization on the Company s consolidated balance sheets, are included as aircraft support parts, net and property, plant, and equipment, net. The Company s portion of these costs that are to be expensed as incurred are classified on the Company s consolidated statements of comprehensive income (loss) as research and development expense.

Note 4. Aircraft Support Parts, net

Aircraft support parts, net consists of aircraft parts and work-in-process which are valued at the lower of cost or market utilizing the first-in first-out method. Costs capitalized in aircraft support parts include materials, labor, and operating overhead. Work-in-process consists of remanufactured aircraft in various stages of production and in-process aircraft support parts. Upon completion of an aircraft remanufacture, based on the demand for the Company s services, the Company may transfer an aircraft into its fleet. As of September 30, 2013 and December 31, 2012, there were zero and one aircraft being remanufactured, respectively.

Reclassification has been made to prior period amounts of deferred overhauls from aircraft support parts, net to property, plant, and equipment, net on the consolidated balance sheets and consolidated statements of cash flows to conform to current period presentation and to conform to common industry presentation. Such reclassification had no effect on previously reported consolidated statements of stockholders equity or statements of comprehensive income (loss). The prior period reclassification includes $36.3 million of deferred overhauls and $4.0 million of related work-in-process from aircraft support parts, net to property, plant, and equipment, net at December 31, 2012. Deferred overhauls will be presented separately in property, plant, and equipment, net, while work-in-process related to deferred overhauls will be presented in construction-in-progress within property, plant, and equipment, net.

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

	September 30, 2013	December 31, 2012
Aircraft parts	$ 112,804	$ 71,331
Work-in-process[(1)]	18,030	27,770
Less: Excess and obsolete reserve	(5,895)	(6,060)
Total	$ 124,939	$ 93,041

(1) Work-in-process includes aircraft being remanufactured of zero and $8.5 million at September 30, 2013 and December 31, 2012, respectively.

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Note 5. Aircraft and Property, Plant and Equipment

Aircraft consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Aircraft	$ 150,204	$ 82,735
Less: accumulated depreciation	(21,497)	(16,062)
	$ 128,707	$ 66,673

Property, plant, and equipment consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Land and land improvements	$ 308	$ 308
Buildings	5,736	1,499
Vehicles and equipment	25,443	22,702
Deferred overhauls, net (see Note 4)	60,770	36,256
Construction-in-progress (see Note 4)	15,379	6,821
	107,636	67,586
Less: accumulated depreciation	(15,710)	(12,911)
	$ 91,926	$ 54,675

During the three months ended September 30, 2013 and September 30, 2012, depreciation expense was $4.2 million and $2.3 million, respectively. During the nine months ended September 30, 2013 and September 30, 2012, depreciation expense was $9.9 million and $6.3 million, respectively. During the three months ended September 30, 2013 and September 30, 2012, amortization expense associated with deferred overhauls was $6.6 million and $5.4 million, respectively. During the nine months ended September 30, 2013 and September 30, 2012, amortization expense associated with deferred overhauls was $14.3 million and $10.1 million, respectively.

Note 6. Acquisitions

Evergreen Helicopters, Inc.

On May 2, 2013, the Company completed its acquisition of EHI, based in McMinnville Oregon, and prior to the acquisition, a wholly owned subsidiary of EIA. EHI operates a fleet of aircraft of varying rotary-wing and fixed-wing types for a wide range of passenger transport and light, medium and heavy load-carrying missions. This diverse fleet serves both government and commercial customers, including programs with the U.S. military in support of overseas operations. EHI maintains a global presence with operations in North America, the Middle East, Africa, and Asia-Pacific.

The Company purchased 100% of the outstanding share capital of EHI for $251.6 million, consisting of $186.6 million in cash, $17.5 million in the Company s subordinated notes, and 4,008,439 shares of the Company s

Mandatorily Convertible Cumulative Participating Preferred Stock, Series A (the Series A Preferred Stock) valued at $47.5 million based on an agreed upon value of $11.85 per share. The Series A Preferred Stock, converted according to its terms at the Company s option into an equal number of shares of common stock. The fair value of the Series A Preferred Stock issued as part of the consideration transferred was measured on the acquisition date at the then-current fair value and resulted in a per share equity component different from the $11.85 per share agreed upon value of preferred stock of the Company. The Company issued 4,008,439 shares of Series A Preferred Stock, valued at $78.0 million, or $19.47 per share on the acquisition date. The fair value of the subordinated notes was estimated at $15.9 million, assuming a market level borrowing rate of 9.0%.

In connection with the acquisition of EHI, EHI purchased nine aircraft from an affiliated entity of EIA for an aggregate purchase price of $13.0 million, all of which was paid by the Company at closing.

In connection with the acquisition of EHI, consideration transferred included a term note receivable for the estimated working capital shortfall of EHI. EIA issued a term loan note with principal value of $6.15 million to the Company to fund the working capital shortfall of EHI. The term loan note fair value of $5.0 million assumes a market level borrowing rate of 11.0%. The Company is in the process of finalizing the working capital adjustment under the purchase agreement.

In connection with the acquisition of EHI, the Company prepaid $6.8 million to a lessor, an affiliated entity of EIA and EHI, on the acquisition date for the remaining future lease obligations on three aircraft and returned the aircraft to the lessor on the acquisition date. As the transaction was entered into primarily for the benefit of the affiliated entity of EIA and EHI, the Company included the transaction as consideration transferred.

The following table presents the fair value of the consideration transferred (in thousands):

	Consideration Transferred
Cash	$ 186,615
Consideration for nine aircraft purchased from an affiliated entity of EIA	12,971
Prepayment of aircraft lease expense to an affiliated entity of EIA	6,808
Prepayment of McMinnville headquarters lease	2,616
Total cash consideration transferred	209,010
Series A Preferred Stock	78,044
Subordinated notes	15,900
Term loan note receivable	(4,960)
Total consideration transferred	$ 297,994

The Company incurred approximately $1.7 million and $7.2 million in acquisition and integration-related expenses during the three months and nine months ended September 30, 2013, respectively, which are included in general and administrative expenses.

The assets purchased and liabilities assumed for EHI have been reflected in the Company s consolidated balance sheet as of September 30, 2013, and the results of operations of EHI are included in the Company s consolidated statements of comprehensive income (loss) since the closing date of the acquisition. The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the acquisition date. The Company is in the process of finalizing the purchase accounting related to the acquisition, including the working capital adjustment under the purchase agreement; thus, the estimated amounts presented herein are subject to change:

(in thousands)	**May 2, 2013**
Cash and cash equivalents	$ 140
Accounts receivables	25,134
Prepaid expenses and other current assets	2,036
Aircraft support parts	20,380
Aircraft, net	23,291
Property, plant and equipment	35,413
Goodwill[1]	248,466
Other intangible assets	19,700
Other non-current assets	5,005
Accounts payable	(39,634)
Accrued liabilities	(22,358)
Uncertain tax positions	(11,030)
Other long-term liabilities	(8,549)
Total purchase price	$ 297,994

(1) EHI has certain Federal Aviation Administration certificates (FAA Certificates) and Department of Defense Commercial Airlift Review Board designations (DOD CARB). EHI had accumulated FAA Certificates and DOD CARB through its 50 years of operating history and it would require a significant amount of resources and time for an independent party to recreate these intangible assets. FAA Certificates and DOD CARB are designated to specific aircraft and cannot be transferred or purchased separately and are considered a part of goodwill.

Intangible assets assumed include goodwill of $248.5 million, customer relationships of $19.3 million amortized over a period of 9 years, and tradenames of $0.4 million amortized over a period of 6 months. The goodwill and other intangible assets totaling $268.2 million will be amortized over a 15 year period for tax purposes.

Liabilities assumed include $19.8 million in deferred maintenance costs consisting of aircraft lease return-to-service liabilities. In connection with the Company s acquisition of EHI from EIA, the Company pre-negotiated accelerated timelines and return-to-service obligations with the lessors of EHI in exchange for obtaining consent for the transfer of the leases to the Company. These obligations are binding and therefore the related return-to-service costs are highly probable. The deferred maintenance costs were a result of cash constraints on EIA, which caused EHI to remove parts from the affected aircraft which were installed on other aircraft under contract. The Company estimated the return-to-service obligations for nine leased aircraft using historical maintenance costs incurred for the same or like components during the year ended December 31, 2012.

Pro Forma Results of Operations

The following pro forma information presents a summary of the Company s results of operations assuming the EHI acquisition had occurred at the beginning of the periods presented. The pro forma results include the straight-line amortization associated with acquired intangible assets consisting of customer relationships of $19.3 million amortized over a period of nine years and tradenames of $0.4 million amortized over a period of six months, fair value adjustments to depreciable property, plant, and equipment assets, and interest expense associated with debt used to fund the acquisition. The following pro forma information assumes the shares of Series A Preferred Stock had converted into the same number of shares of common stock at the beginning of the periods presented. To better reflect the combined operating results, significant nonrecurring acquisition-related expenses directly attributable to the transaction have been excluded. In addition, the pro forma results do not include any anticipated synergies or other expected benefits of the acquisition. Accordingly, the unaudited pro forma information is not necessarily indicative of the results that would have occurred if the acquisition had been completed at the beginning of the periods presented, nor is it necessarily indicative of future results.

(in thousands, except share and per share data)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine months Ended September 30, 2013	Nine months Ended September 30, 2012
Net revenues	$ 120,226	$ 127,158	$ 286,231	$ 294,110
Net income (loss) attributable to common stockholders	$ 14,525	$ 20,524	$ 20,252	$ 18,573
Net income (loss) per share attributable to common stockholders				
Basic	$ 1.05	$ 1.49	$ 1.47	$ 1.85
Diluted	$ 1.05	$ 1.49	$ 1.47	$ 1.85
Weighted average shares outstanding				
Basic(1)	13,784,537	13,764,917	13,762,947	10,059,785
Diluted(1)	13,813,519	13,764,917	13,779,663	10,059,785

(1) Weighted average shares outstanding for the purposes of the above pro forma calculation assume the 4,008,439 shares of Series A Preferred Stock converted into the same number of shares of common stock at the beginning of the periods presented.

Air Amazonia

On September 3, 2013, the Company completed its acquisition of Air Amazonia, the aerial services business of HRT, based in Brazil, including a fleet of six rotor wing aircraft and ground facilities. This fleet serves oil and gas activities in the Solimoes region of Brazil. In addition to the acquired fleet, the Company also has the right of first refusal to purchase any or all of HRT s remaining eight aircraft over the 12 months from the closing date of the acquisition and the right of first refusal on all helicopter services in the Solimoes region of Brazil from HRT as operator, as well as on all helicopter services in all of Brazil (including offshore) from HRT.

In connection with the acquisition of Air Amazonia, consideration transferred included cash of $23.1 million at closing for the business, which includes a fully operational fleet of six rotary-wing aircraft of varying types and mission capabilities and an additional $3.0 million within 12 months of closing.

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During the three months and nine months ended September 30, 2013, the Company incurred approximately $0.6 million and $1.3 million in acquisition and integration-related expenses, respectively, and these costs are included in general and administrative expenses.

The assets purchased and liabilities assumed for Air Amazonia have been reflected in the Company s consolidated balance sheet as of September 30, 2013, and the results of operations of Air Amazonia are included in the Company s consolidated statements of comprehensive income (loss) since the closing date of the acquisition. The preliminary assessment included aircraft of $20.0 million and goodwill and other intangible assets of $7.6 million. The Company is in the process of finalizing the purchase accounting related to the acquisition, including the working capital adjustment under the purchase agreement; thus, the estimated amounts presented herein are subject to change.

Note 7. Accrued and Other Current Liabilities

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

	September 30, 2013	December 31, 2012
Deferred maintenance on aircraft (see Note 6)	$ 13,824	$
Compensation and benefits, including taxes	11,335	6,630
Interest	12,371	1,099
Deferred revenue	1,741	1,242
Advance from Cambiano (see Note 8)		2,025
Cost per hour (see Note 15)	1,087	3,569
Other	9,786	5,097
Total	$ 50,144	$ 19,662

Note 8. Debt

Outstanding debt consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Notes	$ 355,000	$
Revolving Credit Facility	54,513	
2020 subordinated notes	16,060	
Term debt		48,750
Revolving line of credit		22,452
2015 and 2016 subordinated notes		26,674
	$ 425,573	$ 97,876

Notes Offering

On May 2, 2013, the Company closed its $400.0 million aggregate principal note offering. The Notes bear interest at 8.25%, are second priority senior secured obligations, and are due in 2020. The Notes are guaranteed by certain of the Company s existing and future domestic subsidiaries.

The Company used the net proceeds of the offering to (i) finance a portion of the purchase price for the EHI acquisition, (ii) refinance its 2015 Subordinated Notes and 2016 Subordinated Notes, (iii) refinance its prior senior secured asset-based revolving credit facility, comprised of the Term Debt and Revolving Line of Credit, (iv) pay related fees and expenses, and (v) record the remaining cash to the balance sheet.

The indenture under which the Notes were issued, among other things, limits the Company s ability and the ability of its restricted subsidiaries to: (i) pay dividends or distributions, repurchase equity, prepay subordinated debt or make certain investments; (ii) incur additional debt or issue certain disqualified stock and preferred stock; (iii) incur liens on assets; (iv) merge or consolidate with another company or sell all or substantially all assets; (v) enter into transactions with affiliates; and (vi) allow to exist certain restrictions on the ability of the guarantors to pay dividends or make other payments to the Company.

The Notes are secured by second-position liens, subject to certain exceptions and permitted liens, on substantially all of the Company and the guarantors existing and future assets that secure the Company s new Revolving Credit Facility.

The interest rate on the Notes is fixed at 8.25%. The outstanding balance under the Notes at September 30, 2013 was $355.0 million.

A total of $46.0 million of the net proceeds were initially deposited in escrow, consisting of $45.0 million of aggregate principal and $1.0 million related to anticipated interest, to be used toward the acquisition of Air Amazonia. Pursuant to the terms of the Notes, these proceeds of the offering were not released from escrow to consummate the Air Amazonia acquisition before July 31, 2013, and as a result, an aggregate principal amount of Notes equal to $45.0 million were redeemed, on a pro rata basis, on August 5, 2013 pursuant to a special mandatory redemption, at a price equal to 100% of the principal amount of the Notes being redeemed, plus accrued and unpaid interest to, but not including, August 5, 2013. The Company funded the purchase price of the Air Amazonia acquisition with borrowings from its Revolving Credit Facility during the fiscal quarter ended September 30, 2013 (see Note 6 Acquisitions).

Revolving Credit Facility

On May 2, 2013, the Company entered into the Revolving Credit Facility, providing a new $100.0 million, five-year revolving credit facility with a group of financial institutions led by Wells Fargo Bank N.A. and including Bank of the West, Deutsche Bank Trust Company Americas, and HSBC Bank USA NA. On June 14, 2013, the Revolving Credit Facility was amended to increase the maximum aggregate amount that the Company may borrow from $100.0 million to $125.0 million. The interest rate under the Revolving Credit Facility is 325-450 basis points over LIBOR depending on the Company s senior leverage ratio. The proceeds under the Revolving Credit Facility are primarily used for general corporate purposes and the Company used a portion of the proceeds to fund the purchase price of the Air Amazonia acquisition.

The Company and each of the Company s current and future, direct and indirect, material subsidiaries guarantee the indebtedness under the Revolving Credit Facility on a senior secured first lien basis.

The Revolving Credit Facility contains certain financial covenants, including, without limitation, a minimum fixed charge coverage ratio of 1.20:1.00 if the Company s average excess availability, as calculated pursuant to the terms of the Revolving Credit Facility, is greater than $15.0 million or 1.05:1.00 if the Company s average excess availability, as calculated pursuant to the terms of the Revolving Credit Facility, is less than or equal to $15.0 million and an annual growth capital expenditures limit of approximately $25.0 million, subject to standard carry-over provisions.

The Revolving Credit Facility includes mandatory prepayment requirements for the certain types of transactions, including, without limitation, requiring prepayment from (a) proceeds that the Company receives as a result of certain asset sales, subject to re-investment provisions on terms to be determined, and (b) proceeds from extraordinary receipts.

The outstanding balance under the Revolving Credit Facility at September 30, 2013 was $54.5 million. The weighted average interest rate for borrowings under the Revolving Credit Facility for the three and nine months (from inception on May 2, 2013) ended September 30, 2013 was 5.34% and 5.43%, respectively. The interest rate at September 30, 2013 was 5.03%. As of September 30, 2013 the Company had $4.6 million in outstanding standby letters of credit under the Revolving Credit Facility and maximum borrowing availability was $65.8 million.

2020 Subordinated Notes

Pursuant to the terms of the EHI stock purchase agreement, the consideration included $17.5 million of the Company s subordinated notes. The subordinated notes accrue interest at a fixed rate of 6.0% per annum, mature on November 2, 2020, and may be prepaid at the Company s option. Upon an event of default under the subordinated notes, the interest rate will increase to 8.0% per annum until the event of default is cured. The Company has agreed to pay, in cash, quarterly installments of interest only (in arrears) until March 31, 2015, after which date the Company has agreed to pay, in addition to such interest, on a quarterly basis $1.0 million in principal. Upon any refinancing of the Notes or the Revolving Credit Facility the principal amount of the subordinated notes with all accrued interest thereon will become due and payable. Upon a change of control, the principal amount together with all accrued interest shall forthwith be due and payable. Until the principal amount of the subordinated notes together with all accrued interest thereon has been paid in full, the Company and its subsidiaries may not declare or pay any dividend, make any payment on account of, or take certain other actions in respect of any of the Company or its subsidiaries equity interests, subject to certain exceptions.

For purchase accounting of the EHI acquisition, the fair value of the subordinated notes was estimated at $15.9 million, assuming a market level borrowing rate of 9.00%. The outstanding balance under the 2020 Subordinated Notes at September 30, 2013 was $17.5 million, comprised of the $16.0 million fair value and $1.5 million related to the unamortized discount on the debt, for the three months and nine months ended September 30, 2013. The weighted average interest rate for borrowings under the 2020 Subordinated Notes was 6.00%.

Term Debt and Revolving Line of Credit

At the end of June 2010, the Company entered into a 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 secured asset-based revolving credit facilities, including a $65.0 million term loan facility (Term Debt) and a revolving credit facility (Revolving Line of Credit) of up to $67.5 million. The Revolving Line of Credit had a $30.0 million sublimit for issuance of letters of credit and a $10.0 million sublimit for swingline loans. In connection with the $400.0 million Notes offering and the Revolving Credit Facility, all of the Term Debt and Revolving Line of Credit, were paid in full to Wells Fargo and were discontinued on May 2, 2013.

The interest rate on the senior credit facilities was calculated based on LIBOR or a base rate. The base rate was 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 was calculated as LIBOR or base rate plus a LIBOR margin or base rate margin, respectively. Margin rates were tied to the total senior debt leverage covenant 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 paid 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 were based on the level of the senior debt leverage covenant ratio.

The outstanding balance under the Revolving Line of Credit at December 31, 2012, excluding letters of credit, was $22.5 million.

The weighted average interest rate for borrowings under the Revolving Line of Credit facility for the period from January 1, 2013 to the termination date of May 2, 2013 was 3.91%. The weighted average interest rate for borrowings under the Revolving Line of Credit for the three and nine months ended September 30, 2012 was 3.84% and 3.90%, respectively. The interest rate at December 31, 2012 was 3.75%. Maximum borrowing availability was $43.0 million as of December 31, 2012. The Company had $2.0 million of outstanding standby letters of credit issued under the Revolving Line of Credit as of December 31, 2012. In connection with the consummation of the Revolving Credit Facility, all standby letters of credit were transferred to the Revolving Credit Facility on May 2, 2013.

The weighted average interest rate for the Term Debt borrowings for the period from January 1, 2013 to the termination date of May 2, 2013 was 3.13%. The weighted average interest rate for the term loan borrowings for the three and nine months ended September 30, 2012 was 3.47% and 3.33%, respectively. The interest rate at December 31, 2012 was 3.13%. At December 31, 2012 the outstanding balance under the term loan facility was $48.8 million.

Working Capital Guarantee Credit Agreement

On June 30, 2011, the Company obtained a separate line of credit with Wells Fargo for up to $10.0 million, pursuant to which Wells Fargo would issue 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. As of December 31, 2012 the Company had $4.6 million in outstanding standby letters of credit. In connection with the consummation of the Revolving Credit Facility, all standby letters of credit were transferred to the Revolving Credit Facility, and the Working Capital line of credit was discontinued.

2015 Subordinated Notes and 2016 Subordinated Notes

On June 30, 2010, the Company issued unsecured subordinated promissory notes (2015 Subordinated Notes) with an aggregate principal amount of $8.5 million to ZM Private Equity Fund II, L.P. and certain of its affiliates at an initial interest rate of 20.0% per annum. No periodic principal or interest payments were required and the 2015 Subordinated Notes were to mature on June 30, 2015. Interest payments were accrued to principal on a quarterly basis. The 2015 Subordinated Notes could 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 Company s initial public offering in April of 2012, the interest rate on the 2015 Subordinated Notes was amended from 20.0% per annum to 10.0% per annum. In connection with the Notes offering, all of the 2015 Subordinated Notes were repaid in full on May 2, 2013.

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 (2016 Subordinated Notes) to ZM Private Equity Funds I, L.P and ZM Private Equity Fund II, L.P. (together with ZM EAC LLC, the ZM Funds), at an initial interest rate of 20.0% per annum. No periodic principal or interest payments were required and the 2016 Subordinated Notes were to mature on June 30, 2016.

Additionally, in connection with the Working Capital Guarantee Credit Agreement, the Company issued $1.0 million in additional 2016 Subordinated Notes to the ZM Funds. In connection with the Company s initial public offering in April of 2012, the interest rate on the 2016 Subordinated Notes was amended from 20.0% per annum to 10.0% per annum. In connection with the Notes offering, all of the 2016 Subordinated Notes were repaid in full on May 2, 2013.

The weighted average interest rate for the 2015 and 2016 Subordinated Notes for the period from January 1, 2013 to the termination date of May 2, 2013 was 10.0%. The weighted average interest rate for the 2015 and 2016 Subordinated Notes for the three and nine months ended September 30, 2012 was 10.0% and 13.9%, respectively. For the 2015 and 2016 Subordinated Notes, the interest rate was 10.0% and the balance was $26.7 million at December 31, 2012.

Advance from Cambiano

On July 29, 2008, EuAC entered into an Agreement with Banca Di Credito Cooperativo Di Cambiano (Cambiano) whereby EuAC may request advances up to 6.0 million. On July 29, 2013, EuAC entered into an Amended Agreement which reduced the available advances from 6.0 million to 4.0 million. Advances are based on documentary proof of receivables due from the Italian government. The purpose of this Agreement is to provide short term liquidity needs. There were no advances outstanding as of September 30, 2013 and $2.0 million (1.5 million) of advances outstanding as of December 31, 2012 under this arrangement included within 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. 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 $2.6 million (2.0 million), in conjunction with the reduction in the corresponding letter of credit. The restrictions renewed in June 2013 through the remainder of the 2013 fire season and the Company has classified the restricted cash related to the pledges as current assets based on the anticipated release date of the restriction.

Note 9. Income Taxes

The Company s effective income tax rate for the three months ended September 30, 2013 and 2012 was 38.8% and 38.2%, respectively. The Company s effective income tax rate for the nine months ended September 30, 2013 and 2012 was 37.5% and 38.1%, 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 period.

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, 2013 it is more likely than not that the Company will realize all of its deferred tax assets, including its net operating loss carry forwards and tax credits. The Company s utilization of net operating loss carryforwards and credit may be subject to annual limitations due to ownership change provisions of Internal Revenue Code Section 382.

On May 2, 2013, the Company acquired EHI and the Company intends to make a 338(h)(10) election to treat the acquisition as an asset purchase. EHI s assumed liabilities upon acquisition included $11.0 million in uncertain tax positions, $2.8 million of related accrued tax penalties, and $5.8 million of related accrued interest. Aside from EHI s uncertain tax positions accrual assumed upon acquisition, as of September 30, 2013, there have been no material

changes to the Company s uncertain tax position disclosure at December 31, 2012 included in the Company s annual report on Form 10-K filed with the SEC on March 8, 2013.

As of September 30, 2013, primarily due to the acquisition of EHI, long term liabilities included unrecognized tax benefits related to uncertain tax positions of $18.3 million, related accrued interest of $6.7 million, and related accrued penalties of $4.3 million. During the three months ended September 30, 2013, the Company recorded $0.5 million of income tax expense related to uncertain tax positions, $0.6 million of interest expense related to these tax contingencies and $0.3 million of expense for associated penalties. During the nine months ended September 30, 2013, the Company recorded $1.3 million of income tax expense related to uncertain tax positions, $0.9 million of interest expense related to these tax contingencies and $0.7 million of expense for associated penalties.

The Company does not believe it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months because the Company does not believe the remaining open issues will be resolved within the next 12 months. It is the Company s policy to recognize interest and penalties related to uncertain tax positions in other income (expense).

On September 3, 2013, the Company completed its acquisition of Air Amazonia and the Company intends to make a 338(g) election for Air Amazonia. The Company intends to record goodwill for Brazil income tax purposes for the amount paid in excess of the net equity of Air Amazonia, which may result in the generation of an amortizable premium or a step-up in the tax bases of otherwise depreciable or amortizable assets.

The Company is currently under tax examination in Italy for the financial year 2010. The tax authority completed its examination on October 7, 2013 and subsequently issued proposed adjustments. The proposed adjustments are not expected to have a significant impact on the Company s consolidated financial position, results of operations, or cash flows.

The Greek tax authorities are currently conducting a permanent establishment examination of the Company for the Company s financial years 2010 and 2011. As of September 30, 2013, unrecognized tax benefits include all material uncertain tax positions associated with the examination. The Company is not under examination by tax authorities in any other jurisdictions.

Note 10. Authorized Capital Stock

On May 2, 2013, the Company purchased 100% of the outstanding share capital of EHI from EIA for consideration that included 4,008,439 shares of Series A Preferred Stock. The Series A Preferred Stock converted according to its terms, at the Company s option, into an equal number of shares of the Company s common stock, on August 20, 2013, following the Company obtaining stockholder approval of the issuance of shares of its common stock upon such conversion under Nasdaq Marketplace Rules.

In April 2012, the Company completed its initial public offering of common stock. In connection with the initial public offering, 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 initial public offering, 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 11. Reportable Segments

The Company reports segment information based on the management approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company s reportable segments. Prior to May 2, 2013, the Company s reportable operating segments were Aerial services, which consisted of firefighting, timber harvesting, infrastructure construction, and crewing, and Manufacturing/MRO, which consisted of aftermarket support and maintenance, repair, and overhaul (MRO) services for the Aircrane and other aircraft and the remanufacture of Aircranes and related components. On May 2, 2013, the Company completed its acquisition of EHI. As a result of the acquisition, the Company established new reportable operating segments to assess performance by type of customer, Government and Commercial. Segment data for prior periods has been reclassified to reflect the establishment of the Government and Commercial segments. The Government segment includes firefighting, defense and security, and transportation and other operating segments, as these lines of business are primarily contracted with government customers. The Commercial segment includes both logging and construction operating segments, as these lines of business are primarily contracted with commercial customers.

The Company deploys its fleet of aircraft to maximize fleet utilization. When making fleet resource allocation decisions, the Company s chief operating decision maker (CODM) primarily considers aircraft type required, route economics, and the financial impact of the resource allocation decision on an individual customer basis. Because the fleet and related resources are used interchangeably between reportable operating segments, the Company does not generate for the CODM s use an allocation of fleet and fleet support assets including aircraft, net, aircraft support parts, net, and property, plant, and equipment, net, across the reportable operating segments.

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The Company s CODM, management team and board of directors evaluate the performance of the Company s operating segments based on net sales and gross profit. Gross profit for each segment includes net sales to third parties and related cost of sales directly attributable to the segment. Gross profit for each segment excludes costs shared by the segments but not allocated to the segments for the use of the CODM and excludes costs not directly attributable to the segments. Costs excluded from segment gross profit are primarily fixed or semi-fixed in nature and include salaries and benefits of pilots and field mechanics, depreciation and amortization costs related to aircraft, aircraft lease costs, aircraft insurance, and other similar type costs. The Company includes intercompany transfers between segments for management reporting purposes. The accounting policies used to prepare and review the Company s reportable operating segments are the same as those described in the summary of significant accounting policies included in the Company s annual report on Form 10-K filed with the SEC on March 8, 2013.

Government. The Company s Government revenue is derived primarily from contracts with various governments who use its services for firefighting, defense and security, and transportation and other government-related activities. Many of the Company s contracts for Government services are multi-year and provide the majority of its current revenue backlog.

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

Defense and Security. The Company generally charges a daily standby fee for the contract period with an additional rate for hours flown; some contracts include a minimum number of hours to be flown before the hourly rate is charged. The Company has both domestic and international contracts, but the majority of its defense and security-related work is performed outside of the U.S.

Transportation and Other Government-Related Activities. This line of business captures several types of government services including transportation of items for various government entities that are not defense or security related, crewing and cost per hour (CPH) services for government customers, as well as other government-related services. Crewing services are typically for customers who have purchased an Aircrane but lack trained or certified operating personnel-related to the Aircrane. The Company offers pilots and field maintenance crews as part of its crewing services. For government customers who desire better predictability and stability in their aircraft operating costs, the Company offers CPH contracts in which it provides major components and rotable parts at a fixed cost per flight hour.

Commercial. The Company s Commercial revenue is derived primarily from timber harvesting, infrastructure construction, and manufacturing/ MRO.

Timber Harvesting Contracts. The Company generally operates on either an hourly rate structure or a per cubic meter of high grade timber delivered basis. The Company serves a variety of customers in North

America and Asia.

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

MRO, Component Part Sale, and Other. The Company has an ongoing revenue stream from customers who own or operate either Aircranes or the military version CH-54s, or other aircraft and require parts support for their helicopters. Further, the Company provides services to customers who own or operate Aircranes, CH-54s, or other aircraft and need their aircraft components repaired or overhauled by a certified facility. The Company is also pursuing aftermarket opportunities to manufacture and sell parts or provide maintenance, repair, or overhaul for other aircraft components.

In the Company s Central Point, Oregon facility it has the capability to remanufacture Aircranes on existing S-64 and CH-54 airframes for either resale or to induct into the Company s fleet, and this remains a core business competency. Customers who identify a year-round or otherwise critical application for an Aircrane may find it advantageous to own an Aircrane rather than leasing the Company s fleet services. The Company has sold nine Aircranes since 2002 and subsequently re-purchased one of these Aircranes in 2012. While the Company continues to pursue Aircranes sales and will make sales strategically when opportunities arise, it does not rely on Aircrane sales as an essential part of its business planning.

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

Revenue by Reportable Segment (in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net revenues:				
Government	$ 92,908	$ 57,628	$ 154,370	$ 88,152
Commercial	27,318	18,633	71,386	53,595
	$ 120,226	$ 76,261	$ 225,756	$ 141,747

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Gross Profit by Reportable Segment (in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Gross Profit:				
Government	$ 63,272	$ 36,995	$ 102,603	$ 53,616
Commercial	14,804	9,992	39,814	29,448
Non-allocated costs(1)	(31,891)	(10,445)	(69,469)	(32,162)
	$ 46,185	$ 36,542	$ 72,948	$ 50,902

(1) Non-allocated costs include costs that are shared by both of the reporting segments but are not allocated to the operating segments for the use of the CODM and expenses that are not directly attributable to the operating segments.

Assets by Reportable Segment (in thousands):

	September 30, 2013	December 31, 2012
Assets:		
Government	$ 49,874	$ 16,573
Commercial	14,875	14,929
Corporate(1)	347,252	24,103
Fixed assets (2)	341,403	201,218
Total assets	$ 753,404	$ 256,823

(1) Corporate assets are comprised primarily of cash, prepaid and other current assets, intangible assets, net, goodwill and deferred tax assets.

(2) Fixed assets are comprised of the aircraft fleet and fleet support assets including aircraft, net, aircraft support parts, net, and property, plant, and equipment, net. Property, plant, and equipment, net are primarily used to support the aircraft fleet, with minimal amounts allocated to the corporate function.

A reconciliation of the Company s segment gross profit to operating income(loss) for the three and nine month periods ended September 30, 2013 and September 30, 2012 is as follows (in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Reconciliation to operating income (loss):				Numerator:
Income from continuing operations	$ 4.9	$ 9.7		
Income from discontinued operations	-	-		
Net income	$ 4.9	$ 9.7		
Denominator:				
Basic				
Weighted average common shares	23.1	22.6		
Diluted				
Effect of dilutive securities:				
Employee and director incentive stock options and awards	0.4	0.5		
Adjusted weighted average common shares	23.5	23.1		
Basic earnings per share				
Basic from continuing operations	$ 0.21	$ 0.43		
Basic from discontinuing operations	-	-		
Total basic earnings per share	$ 0.21	$ 0.43		
Diluted earnings per share				
Diluted from continuing operations	$ 0.21	$ 0.42		
Diluted from discontinuing operations	-	-		
Total diluted earnings per share	$ 0.21	$ 0.42		
Anti-dilutive stock options	0.20	0.20		
Anti-dilutive stock options price range - low	$ 44.51	$ 40.93		
Anti-dilutive stock options price range - high	$ 48.87	$ 45.90		

10. OTHER COMPREHENSIVE INCOME

Comprehensive income is as follows:

(In millions)	First Quarter Ended	
	March 31, 2007	April 1, 2006
Net income	$ 4.9	$ 9.7
Other comprehensive income:		
Foreign currency translation adjustments	0.4	2.0
Pension liability adjustment	0.6	-
Comprehensive income, net of tax	$ 5.9	$ 11.7

Accumulated other comprehensive income consists of the following:

(In millions)	March 31, 2007	December 30, 2006
Cumulative foreign currency translation adjustments	$ 15.0	$ 14.6
Pension liability adjustment, net of tax	(1.4)	(2.0)
	$ 13.6	$ 12.6

11. CONTINGENCIES AND COMMITMENTS

At March 31, 2007, the Company had $4.3 million of commitments primarily for the purchase of machinery and equipment, and building expansions.

The Company provides warranties on most of its products. The warranty terms vary but are generally two years from date of manufacture or one year from date of installation. Provisions for estimated expenses related to product warranty are made at the time products are sold or when specific warranty issues are identified. These estimates are established using historical information about the nature, frequency, and average cost of warranty claims. The Company actively studies trends of warranty claims and takes action to improve product quality and minimize warranty claims. The Company believes that the warranty reserve is appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserve.

Below is a table that shows the activity in the warranty accrual, as recorded in “Accrued liabilities” in the Company’s balance sheet:

(In millions)	First Quarter Ended	
	March 31, 2007	April 1, 2006
Beginning balance	$ 10.0	$ 7.0
Accruals related to product warranties	1.6	1.8
Reductions for payments made	(2.0)	(1.6)
Ending balance	$ 9.6	$ 7.2

12. STOCK-BASED COMPENSATION

Prior to January 1, 2006, the Company accounted for stock-based employee compensation plans under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), "Share-Based Payment," using the modified prospective-transition method

The total stock-based compensation recognized in the first quarter ended March 31, 2007 and April 1, 2006 is $1.4 million and $0.9 million, respectively.

The Company has authorized the grant of options to purchase common stock and award shares of common stock of the Company to employees and non-employee directors of the Company and its subsidiaries under two stock plans. The plans and the original number of authorized shares available for grants are as follows:

	Authorized Shares
Franklin Electric Co., Inc. Stock Option Plan	3,600,000
Franklin Electric Co., Inc. Stock Plan - options	1,150,000
Franklin Electric Co., Inc. Stock Plan - stock awards	150,000

During 2005, all remaining authorized shares available for grant under the Franklin Electric Co., Inc. Stock Option Plan were awarded. On April 29, 2005, the Franklin Electric Co., Inc. Stock Plan (the "Stock Plan") was approved by the Company's shareholders. Under the Stock Plan, employees and non-employee directors may be granted stock options or stock awards. The Company currently issues new shares from its common stock outstanding balance to satisfy share option exercises and stock awards.

Stock Option Grants:
Under each of the above plans, the exercise price of each option equals the market price of the Company's common stock on the date of grant and the options expire ten years after the date of the grant. Generally, options granted to nonemployee directors vest 33 percent a year and become fully vested and exercisable after three years. Options granted to employees vest at 20 or 25 percent a year and become fully vested and exercisable after five years or four years, respectively. Subject to the terms of the plans, in general, the aggregate option price and any applicable tax withholdings may be satisfied in cash or its equivalent, or by the plan participant's delivery of shares of the Company's common stock owned more than six months, having a fair market value at the time of exercise equal to the aggregate option price and/or the applicable tax withholdings.

The fair value of each option award, is estimated on the date of grant using the Black-Scholes option valuation model with a single approach and amortized using a straight-line attribution method over the option's vesting period. Options granted to retirement eligible employees are immediately expensed. The Company uses historical data to estimate the expected volatility of its stock; the weighted average expected life; the period of time options granted are expected to be outstanding; and its dividend yield. The risk-free rates for periods within the contractual life of the option are based on the U.S. Treasury yield curve in effect at the time of the grant.

The assumptions used for the Black-Scholes model to determine the fair value of options granted during the first quarter ended March 31, 2007 are as follows:

Risk-free interest rate	4.74-4.78%
Dividend yield	.65-.67%

Weighted-average dividend yield	.653%
Volatility factor	.3529-.3701
Weighted-average volatility	.3554
Expected term	5.3-6.2 years
Forfeiture rate	4.18%

A summary of the Company's stock option plans activity and related information, for the first quarter ended March 31, 2007 follows:

(shares in thousands)

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (000's)
Outstanding at beginning of 2007	1,398	$ 26.65		
Granted	131	48.87		
Exercised	(110)	20.60		
Forfeited	(5)	33.32		
Outstanding at the end of the first quarter ended March 31, 2007	1,414	$ 29.15	5.90	$ 24,839
Expected to vest after applying the forfeiture rate	1,369	$ 28.84	5.83	$ 24,453
Vested and exercisable at end of the period	911	$ 24.06	4.77	$ 20,446

There were 131,000 options granted during the first quarter. The total intrinsic value of options exercised during the first quarter of 2007 was $3.2 million. There were no share-based liabilities paid during the first quarter 2007.

A summary of the Company's nonvested shares activity and related information, for the first quarter ended March 31, 2007 follows:

(shares in thousands)

Nonvested Shares	Shares	Weighted-Average Exercise Price
Nonvested at beginning of period	556	$33.95
Granted	131	48.87
Vested	(179)	32.48
Forfeited	(6)	33.32
Nonvested at end of period	502	$38.37

As of March 31, 2007, there was $4.8 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted-average period of 2.11 years.

Stock Awards:
Under the Stock Plan, nonemployee directors and employees may be granted stock awards or grants of restricted shares of the Company's common stock, vesting subject to the employees' performance of certain goals. The Stock Plan is an amendment and restatement of the Franklin Electric Co., Inc. Key Employee Performance Incentive Stock Plan (the "Incentive Plan"), established in 2000. Prior to April 29, 2005, 16,300 shares had been awarded under the Incentive Plan and an additional 150,000 shares were authorized for stock awards under the Stock Plan.

The stock awards are granted at the market value on the date of grant and the restricted stock awards cliff vest over either 4 or 5 years and the attainment of certain performance goals. Dividends are paid to the recipient prior to vesting. Stock awards granted to retirement eligible employees were immediately expensed in 2006 and 2007.

A summary of the Company's restricted stock award activity and related information, for the first quarter ended March 31, 2007 follows:

(shares in thousands)

Nonvested Shares	Shares	Weighted-Average Grant Date Fair Value
Nonvested at beginning of period	40	$43.39
Awarded	23	48.87
Nonvested at end of period	63	$45.42

There were no shares vested or forfeited during the first quarter ended March 31, 2007.

As of March 31, 2007, there was $1.9 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.2 years.

13. RESTRUCTURING

During the first quarter of 2007, the Company initiated Phase 2 of its Global Manufacturing Realignment Program (the "Realignment Program"). Phase 2 of the Realignment Program includes the expansion of recently established facilities in lower-cost regions and the further shifting of production out of higher cost manufacturing facilities. Phase 2 also includes the process of consolidating certain Fueling Systems product manufacturing into its Madison, Wisconsin facility.

Restructuring expenses, primarily manufacturing equipment relocation and production re-alignment, for the first quarter of 2007 were approximately $1.2 million (pre-tax). The Company estimates that full-year 2007 restructuring expenses will be approximately $6 million (pre-tax) and will include severance and other employee related expenses, as well as manufacturing equipment relocation. As of March 31, 2007, there were no restructuring reserves in the Company's consolidated balance sheet.

14. SUBSEQUENT EVENT

The Company amended and restated an uncommitted shelf agreement with Prudential Capital in the amount of $175 million in the second quarter. Under the shelf agreement the Company has issued notes for $110 million in the second quarter at a fixed rate of 5.79 percent with a 10-year average life, and which includes financial covenants similar to the Company's other borrowing agreements. Proceeds of the facility will be used to further reduce short term variable rate borrowings, fund future acquisitions and purchase Company stock. The company intends to issue an additional $40 million of notes in the third quarter, also with a rate of 5.79 percent and similar terms.

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

Q1 2007 VS Q1 2006

OVERVIEW

Sales for first quarter 2007 were up from first quarter 2006. The increase in sales was primarily related to sales from the Company's two acquisitions. First quarter sales excluding acquisitions declined about 7 percent from the same period a year ago. Earnings declined in first quarter 2007 primarily due to the significant decline in Water Systems small submersible motor product sales volume and resulted in a product mix change. The contribution margin of small submersible motors is more than other Water Systems products resulting in a further decline of earnings due to the mix change. The Company also had increased fixed costs in connection with selling, general and administrative spending resulting from the Company's strategy of selling to a more diversified customer base by marketing its Water Systems products directly to distributors.

RESULTS OF OPERATIONS

Net sales for first quarter 2007 were $130.5 million, an increase of $28.8 million or 28 percent compared to first quarter 2006 sales of $101.7 million. Incremental sales related to acquisitions for 2007 were $36.0 million or 35 percent of sales. The majority of the sales growth from acquisitions resulted from sales by Little Giant Pump Company.

Global Water Systems sales for first quarter 2007 increased by 20 percent from the same period a year ago. However, excluding the Little Giant acquisition, global Water Systems sales decreased by 12 percent versus first quarter 2006. Sales of North American 4-inch submersible motor units declined primarily due to the liquidation of stockpiled 4-inch submersible motors by several large integrated pump OEMs, fewer sales to these OEMs, and weak overall North American water systems industry demand due to lower new housing construction and harsh weather conditions in key regions. In addition, sales volume for first quarter 2007 was down in comparison to 2006 because of a seasonality shift in the Company's business. The Company now sells primarily to distributors whose sales are associated more with general construction activity which is more concentrated in the second and third quarters of the year. Acquisition and volume changes were the primary factors in Water Systems sales changes in the first quarter. Changes in selling price increased net sales by about 4 percent and foreign exchange rate changes increased net sales by about 1 percent.

Global Fueling Systems sales for first quarter 2007 increased by 64 percent over the same period a year ago primarily due to the acquisition of Healy Systems. Excluding the Healy acquisition, first quarter Fueling System sales increased by 15 percent over last year. The volume growth across product lines in place in both years was about 11 percent, led by continued penetration of the fuel management electronics platform. Changes in selling price increased net sales by about 3 percent.

Cost of sales as a percent of net sales for first quarters 2007 and 2006 was 70.2 percent and 65.2 percent, respectively. Correspondingly, the gross margin declined from about 35 percent to 30 percent. Approximately 55 percent of the gross margin decline in first quarter 2007 compared to 2006 was primarily attributable to the reduction of North American market sales volume of 4-inch submersible motors; North American Water Systems market price promotions accounted for approximately 20 percent of the margin decline; and, the balance was attributable to the mix effect of including Little Giant sales with lower gross margins. Material and component costs increased in first quarter 2007 from the same period in 2006 and were mostly offset by increased sales prices.

Selling and administrative ("SG&A") expense as a percent of net sales for 2007 and 2006 was 22.6 percent and 20.1 percent, respectively. SG&A expense spending increased by $9.0 million in first quarter 2007 compared to first quarter last year. Selling and marketing expenses for Water Systems in North America increased $1.1 million due to the Company's strategy of selling to a more diversified customer base. The acquisitions of Little Giant and Healy added approximately $7.0 million of selling, general and administrative expenses including expenses for additional professional fees and information systems costs. Fueling Systems selling, general and administrative expenses increased $0.3 million for first quarter 2007 compared to the same period in the prior year and stock-based compensation expenses increased $0.5 million.

During the first quarter of 2007, the Company initiated Phase 2 of its Global Manufacturing Realignment Program. Phase 2 of the Realignment Program includes the expansion of recently established facilities in lower-cost regions and the further shifting of production out of higher cost manufacturing facilities. Submersible motor manufacturing capacity at the new Linares, Mexico facility has been expanded with a corresponding downsizing of motor capacity at the Siloam Springs, Arkansas facility. During the second quarter of 2007, a manufacturing personnel reduction of 200 will be implemented at the Siloam Springs facility. The Company is also in the process of consolidating certain Fueling Systems product manufacturing into its Madison, Wisconsin facility. Restructuring expenses for the first quarter of 2007 were approximately $1.2 million (pre-tax), and reduced first quarter EPS by approximately $0.03 per share. Full-year 2007 restructuring expenses are estimated at $6 million (pre-tax) and will include severance and other employee related expenses, as well as, manufacturing equipment relocation costs.

Interest expense for first quarter 2007 and 2006 was $1.2 million and $0.2 million, respectively. Interest expense increased in 2007 due primarily to debt increases associated with the acquisitions of Little Giant Pump Company and Healy Systems, as well as, increased working capital for inventory and accounts receivable.

Included in “Other income” for first quarter 2007 and 2006 was interest income of $0.3 million and $0.6 million, respectively, primarily derived from the investment of cash balances in short-term U.S. treasury and agency securities. Also, included in other income for first quarter 2007 was income from equity investments of $0.1 million.

Foreign currency-based transactions produced a gain for first quarter 2007 of about $0.2 million primarily due to euro rate changes relative to the U.S. dollar. Foreign currency-based transactions were neutral in first quarter 2006.

The provision for income taxes in 2007 and 2006 was $2.7 million and $5.5 million, respectively. The effective tax rates were 35.3 and 36.1 percent for 2007 and 2006, respectively. The effective tax rate differs from the United States statutory rate of 35 percent, generally due to foreign income exclusion and R&D credits and due to the effects of state and foreign income taxes, net of federal tax benefits.

Net income for first quarter 2007 was $4.9 million, or $0.21 per diluted share, compared to first quarter 2006 net income of $9.7 million or $0.42 per diluted share.

CAPITAL RESOURCES AND LIQUIDITY

Operating activities consumed approximately $47.1 million of cash during first quarter 2007 compared to cash consumed during first quarter 2006 of $18.2 million. The operating cash flows used in first quarter 2007 were primarily related to increases in receivables and inventory. The increase in receivables is due to the higher sales and increasing days of sales outstanding due to a more diversified customer base and sale terms, about $18.0 million. The increase in inventory, about $20.7 million, was primarily in finished goods due to seasonal inventory buildup. The operating cash flow used in first quarter 2006 was also primarily in accounts receivable and inventory for the same reasons as the current first quarter. Cash outflows for accounts payable and other accrued expenses for both 2007 and 2006 were primarily attributable to the timing of payments made to vendors, increased inventories and payments for employee benefits. In first quarter 2007 income tax payments exceeded accruals for income taxes during the quarter due to lower earnings.

Net cash flows used in investing activities were $3.3 million in first quarter 2007, primarily for the purchase of property, plant and equipment, net of additional proceeds from divestiture of EMPD in 2006. In first quarter 2006, the Company generated cash of $36.0 million from short-term investment securities sold, net of short-term investment securities purchased. In first quarter 2006, the Company also purchased property, plant and equipment of approximately $2.9 million.

Cash flows from financing activities in first quarter 2007 were $51.0 million primarily from long-term debt. Net cash flows from financing activities were $1.9 million in first quarter 2006, primarily from common stock proceeds. The Company paid $2.5 million and $2.3 million in dividends on the Company's common stock in first quarter 2007 and 2006, respectively.

Cash and cash equivalents at the end of first quarter 2007 were $34.5 million compared to $34.0 million at the end of fiscal year 2006. Working capital increased $66.7 million in first quarter 2007 from year end 2006. The Company's working capital increased in first quarter 2007 as the Company increased accounts receivable and inventory as noted above.

In September 2004, the Company entered into an unsecured, 60-month $80.0 million, amended and restated on December 14, 2006 to $120.0 million revolving credit agreement (the "Agreement"). The Company had outstanding borrowings of $100.0 million under the Agreement at March 31, 2007. The Company also has certain overdraft facilities at its foreign subsidiaries, of which none were outstanding at March 31, 2007. The Company is subject to certain financial covenants with respect to borrowings, interest coverage, working capital, loans or advances, and investments. The Company was in compliance with all debt covenants at all times in first quarter 2007 and 2006.

At March 31, 2007, the Company had $4.3 million of commitments primarily for the purchase of machinery and equipment, and building expansions. Management believes that internally generated funds and existing credit arrangements provide sufficient liquidity to meet these current commitments. The Company amended and restated an uncommitted shelf agreement with Prudential Capital in the amount of $175 million in the second quarter. Under the shelf agreement the Company has issued notes for $110 million in the second quarter at a fixed rate of 5.79 percent with a 10-year average life, and which includes financial covenants similar to the Company's other borrowing agreements. Proceeds of the facility will be used to further reduce short term variable rate borrowings, fund future acquisitions and purchase Company stock. The company intends to issue an additional $40 million of notes in the third quarter, also with a rate of 5.79 percent and similar terms.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk associated with changes in foreign currency exchange rates and interest rates. Foreign currency exchange rate risk is mitigated through several means: maintenance of local production facilities in the markets served, invoicing of customers in the same currency as the source of the products, prompt settlement of inter-company balances utilizing a global netting system and limited use of foreign currency denominated debt. Interest rate exposure is limited to variable rate interest borrowings under the Company's revolving credit agreement and an interest rate swap.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report (the "Evaluation Date"), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective in bringing to their attention on a timely basis material information relating to the Company to be included in the Company's periodic filings under the Exchange Act.

There have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act during the first fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There were no material changes to the risk factors set forth in part 1, Item 1A, in the Company's annual report on Form 10-K for the fiscal year ended December 30, 2006. Additional risks and uncertainties, not presently known to the Company or currently deemed immaterial, could negatively impact the Company's results of operations or financial condition in the future.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Issuer Purchases of Equity Securities

There is no fixed expiration date for the plan. The Company did not repurchase any shares of its stock in the first quarter of 2007. On April 5, 2007, the Company's Board of Directors increased the Company's stock repurchase authority to permit the repurchase of up to 2,300,000 shares of the Company's common stock.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The 2007 Annual Meeting of Shareholders of the Company was held on April 27, 2007 to: 1) elect two directors for terms expiring at the 2010 Annual Meeting of Shareholders; 2) approve an amendment to the Company's Restated Articles of Incorporation to increase the number of shares of authorized common stock; and 3) ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2007 fiscal year. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934, and there was no solicitation in opposition to the Boards nominees for director.

All of the matters submitted to a vote of shareholders were approved, as shown by the following voting results:

1) Elect two directors for terms expiring at the 2010 Annual Meeting of Shareholders.

Nominees for Director	For	Withhold Authority
Thomas L. Young	20,108,404	1,232,369
R. Scott Trumbull	21,232,318	108,455

2) Approve an amendment to the Company's Restated Articles of Incorporation to increase the number of shares of authorized Common Stock by 20,000,000, from 45,000,000 to 65,000,000.

For	Against	Abstain	Broker Non-Vote
19,117,220	2,103,371	20,178	100,004

3) Ratification of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2007 fiscal year.

For	Against	Abstain
21,200,858	121,554	18,361

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Total shares represented at the Annual Meeting in person or by proxy were 21,340,773 of a total of 23,111,339 shares outstanding as of the February 23, 2007 record date. This represented 92.3 percent of Company common stock and constituted a quorum.

ITEM 6. EXHIBITS

See the Exhibit Index located on page 21.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report to be signed on its behalf by the undersigned thereunto duly authorized.

FRANKLIN ELECTRIC CO., INC.
Registrant

Date May 8, 2007	By	/s/ R. Scott Trumbull R. Scott Trumbull, Chairman and Chief Executive Officer (Principal Executive Officer)
Date May 8, 2007	By	/s/ Thomas J. Strupp Thomas J. Strupp, Vice President and Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)

FRANKLIN ELECTRIC CO., INC.
EXHIBIT INDEX TO THE QUARTERLY REPORT ON FORM 10-Q
FOR THE FIRST QUARTER ENDED MARCH 31, 2007

Number	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002