

CHC Group Ltd.  
Form 10-Q  
March 14, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended January 31, 2014

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: 001-36261

CHC Group Ltd.

(Exact name of registrant as specified in its charter)

Luxembourg

(State or other jurisdiction of  
incorporation or organization)

190 Elgin Avenue

George Town

Grand Cayman, KY1-9005

Cayman Islands

(Address of principal executive offices, zip code)

(604) 276-7500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of January 31, 2014, there were 77,519,484 ordinary shares outstanding.

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 QUARTERLY REPORT ON FORM 10-Q  
 FOR THE QUARTER ENDED  
 January 31, 2014  
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PART I—FINANCIAL INFORMATION

TRADEMARKS

CHC Helicopter and the CHC Helicopter logo are trademarks of CHC Capital (Barbados) Ltd, a wholly owned subsidiary of CHC Group Ltd. All other trademarks and service marks appearing in this Quarterly Report on Form 10-Q are the property of their respective holders. All rights reserved. The absence of a trademark or service mark or logo from this Quarterly Report on Form 10-Q does not constitute a waiver of trademark or other intellectual property rights of CHC Group Ltd., its subsidiaries, affiliates, licensors or any other persons.

GLOSSARY

|                     |   |
|---------------------|---|
| Deepwater           | Water depths of approximately 4,500 feet to 7,499 feet.   |
| Embedded equity     | Embedded equity, an intangible asset, represents the amount by which the estimated market value of a leased helicopter exceeded the leased helicopter purchase option price at September 16, 2008, the acquisition date of the predecessor of our indirect subsidiary by First Reserve Management, L.P. (or First Reserve). Embedded equity is assessed on an ongoing basis for impairment. Impairment, if any, is recognized in the consolidated statements of operations.   |
| EMS                 | Emergency medical services.   |
| Heavy helicopter    | A category of twin-engine helicopters that requires two pilots, can accommodate 16 to 26 passengers and can operate under instrument flight rules, which allow daytime and nighttime flying in a variety of weather conditions. The greater passenger capacity, larger cabin, longer flight range, and ability to operate in adverse weather conditions make heavy helicopters more suitable than single engine helicopters for offshore support. Heavy helicopters are generally utilized to support the oil and gas sector, construction and forestry industries and SAR and EMS customer requirements.   |
| Average HE count    | Our heavy and medium helicopters, including owned and leased, are weighted at 100% and 50%, respectively, to arrive at a single HE count, excluding helicopters that are expected to be retired from the fleet. The average HE count for a period is calculated using a weighed average of the HE count for the beginning and end of each quarter included in that period.  |
| HE Rate             | The Heavy Equivalent Rate, or the HE Rate, is the third-party operating revenue from the Helicopter Services segment (excluding reimbursable revenue) divided by a weighted average factor corresponding to the number of heavy and medium helicopters in our fleet.  |
| Long-term contracts | Contracts of three years or longer in duration.   |
| Medium helicopter   | A category of twin-engine helicopters that generally requires two pilots, can accommodate eight to 15 passengers and can operate under instrument flight rules, which allow daytime and nighttime flying in a variety of weather conditions. The greater passenger capacity, longer flight range, and ability to operate in adverse weather conditions make medium helicopters more suitable than single engine helicopters for offshore support. Medium helicopters are generally utilized to support the oil and gas sector, construction and forestry industries and SAR and EMS customer bases in certain jurisdictions. Medium helicopters can also be used to support the utility and mining sectors, as well as certain parts of the construction and forestry industries, where transporting a smaller number of passengers or carrying light loads over shorter distances is required. |
| MRO                 | Maintenance, repair and overhaul.   |
| New technology      | When used herein to classify our helicopters, a category of higher-value, recently produced, more sophisticated and more comfortable helicopters, including Airbus Helicopters (formerly Eurocopter) EC225, EC135, EC145 and EC155; Agusta's AW139; and Sikorsky' S76C+, S76C++ and S92A.   |
| OEM                 | Original equipment manufacturer.  |
| PBH                 |   |

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Power-by-the-hour. A program where a helicopter operator pays a fee per flight hour to an MRO provider as compensation for repair and overhaul components required in order for the helicopter to maintain an airworthy condition.

Rotables

Helicopter parts that can be repaired and reused such that they typically have an expected life approximately equal to the helicopters they support.

SAR

Search and rescue.

Ultra-deepwater

Water depths of approximately 7,500 feet or more.

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## ITEM 1. FINANCIAL STATEMENTS

CHC Group Ltd.

Consolidated Balance Sheets

(Expressed in thousands of United States dollars except share information)

(Unaudited)

|  | April 30, 2013 | January 31,<br>2014 |
|--|----------------|---------------------|
| Assets   |                |                     |
| Current assets:  |                |                     |
| Cash and cash equivalents  | \$123,801      | \$417,145           |
| Receivables, net of allowance for doubtful accounts of \$4.3 million and \$2.6 million, respectively | 317,302        | 267,461             |
| Income taxes receivable  | 25,871         | 25,003              |
| Deferred income tax assets   | 49             | 79                  |
| Inventories (note 5)   | 105,794        | 124,564             |
| Prepaid expenses   | 22,219         | 28,502              |
| Other assets (note 6)  | 56,083         | 49,571              |
|  | 651,119        | 912,325             |
| Property and equipment, net (note 3)   | 1,075,254      | 1,039,212           |
| Investments  | 26,896         | 30,817              |
| Intangible assets (note 7)   | 197,810        | 179,746             |
| Goodwill   | 430,462        | 424,502             |
| Restricted cash  | 29,639         | 22,689              |
| Other assets (note 6)  | 439,789        | 547,150             |
| Deferred income tax assets   | 10,752         | 10,782              |
| Assets held for sale (note 4)  | 32,047         | 32,637              |
|  | \$2,893,768    | \$3,199,860         |
| Liabilities and Shareholders' Equity   |                |                     |
| Current liabilities:   |                |                     |
| Payables and accruals  | \$420,406      | \$375,648           |
| Deferred revenue   | 27,652         | 31,855              |
| Income taxes payable   | 48,073         | 45,627              |
| Deferred income tax liabilities  | 618            | 522                 |
| Current facility secured by accounts receivable (note 2)   | 53,512         | 46,876              |
| Other liabilities (note 8)   | 47,791         | 29,300              |
| Current portion of long-term debt obligations (note 9)   | 2,138          | 132,792             |
|  | 600,190        | 662,620             |
| Long-term debt obligations (note 9)  | 1,475,087      | 1,545,761           |
| Deferred revenue   | 55,990         | 79,835              |
| Other liabilities (note 8)   | 246,455        | 279,939             |
| Deferred income tax liabilities  | 10,627         | 10,168              |
| Total liabilities  | 2,388,349      | 2,578,323           |
| Redeemable non-controlling interest (note 2)   | (8,262         | ) (5,612            |
| Capital stock: Par value \$0.0001 (note 11):   |                | )                   |
| Authorized: 2,000,000,000  |                |                     |
| Issued: 46,519,484 and 77,519,484  | 5              | 8                   |
| Contributed surplus (notes 11 and 21)  | 1,696,066      | 2,007,445           |
| Deficit  | (1,092,555     | ) (1,241,879        |
|  |                | )                   |

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|                                      |             |             |   |
|--------------------------------------|-------------|-------------|---|
| Accumulated other comprehensive loss | (89,835     | ) (138,425  | ) |
|                                      | 513,681     | 627,149     |   |
|                                      | \$2,893,768 | \$3,199,860 |   |

See accompanying notes to interim consolidated financial statements.

See table in Note 2(a)(i) for certain amounts included in the Consolidated Balance Sheets related to variable interest entities.

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CHC Group Ltd.

Consolidated Statements of Operations

(Expressed in thousands of United States dollars except share information)

(Unaudited)

|  | Three months ended  |                     | Nine months ended   |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | January 31,<br>2013 | January 31,<br>2014 | January 31,<br>2013 | January 31,<br>2014 |
| Revenue  | \$441,839           | \$453,894           | \$1,304,694         | \$1,312,197         |
| Operating expenses:  |                     |                     |                     |                     |
| Direct costs   | (355,645            | ) (378,013          | ) (1,053,129        | ) (1,092,913        |
| Earnings from equity accounted investees   | 850                 | 2,072               | 2,687               | 5,990               |
| General and administration costs   | (18,729             | ) (39,182           | ) (56,299           | ) (77,839           |
| Depreciation   | (28,701             | ) (35,407           | ) (84,646           | ) (106,158          |
| Restructuring costs  | (4,890              | ) —                 | (8,617              | ) —                 |
| Asset impairments (notes 3, 4, 6 and 7)  | (7,813              | ) 58                | (24,218             | ) (22,956           |
| Gain (loss) on disposal of assets  | (4,402              | ) 2,478             | (9,019              | ) (1,943            |
|  | (419,330            | ) (447,994          | ) (1,233,241        | ) (1,295,819        |
| Operating income   | 22,509              | 5,900               | 71,453              | 16,378              |
| Interest on long-term debt   | (33,991             | ) (39,782           | ) (93,949           | ) (117,636          |
| Foreign exchange gain (loss)   | 3,731               | (11,573             | ) 6,982             | (24,476             |
| Other financing charges (note 10)  | (10,852             | ) (5,730            | ) (22,435           | ) (1,615            |
| Loss from continuing operations before income tax  | (18,603             | ) (51,185           | ) (37,949           | ) (127,349          |
| Income tax expense (note 12)   | (44,303             | ) (6,689            | ) (50,606           | ) (17,489           |
| Loss from continuing operations  | (62,906             | ) (57,874           | ) (88,555           | ) (144,838          |
| Earnings from discontinued operations, net of tax  | 212                 | —                   | 1,024               | —                   |
| Net loss   | \$(62,694           | ) \$(57,874         | ) \$(87,531         | ) \$(144,838        |
| Net earnings (loss) attributable to:   |                     |                     |                     |                     |
| Controlling interest   | \$(58,421           | ) \$(60,003         | ) \$(84,606         | ) \$(149,324        |
| Non-controlling interest   | (4,273              | ) 2,129             | (2,925              | ) 4,486             |
| Net loss   | \$(62,694           | ) \$(57,874         | ) \$(87,531         | ) \$(144,838        |
| Net loss per ordinary share attributable to<br>controlling interest - basic and diluted (note 11): |                     |                     |                     |                     |
| Continuing operations  | \$(1.26             | ) \$(1.16           | ) \$(1.84           | ) \$(3.10           |
| Discontinued operations  | \$—                 | \$—                 | \$0.02              | \$—                 |
| Net loss per ordinary share  | \$(1.26             | ) \$(1.16           | ) \$(1.82           | ) \$(3.10           |
| Weighted average number of shares outstanding -<br>basic and diluted:                              | 46,519,484          | 51,573,832          | 46,519,484          | 48,204,267          |

See accompanying notes to interim consolidated financial statements.

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CHC Group Ltd.

Consolidated Statements of Comprehensive Loss

(Expressed in thousands of United States dollars)

(Unaudited)

|   | Three months ended  |                     | Nine months ended   |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | January 31,<br>2013 | January 31,<br>2014 | January 31,<br>2013 | January 31,<br>2014 |
| Net loss  | \$(62,694           | ) \$(57,874         | ) \$(87,531         | ) \$(144,838        |
| Other comprehensive income (loss):                            |                     |                     |                     |                     |
| Net foreign currency translation adjustments                  | 23,186              | (32,628             | ) 19,369            | (52,428             |
| Net change in defined benefit pension plan, net of income tax | (2,169              | ) 348               | (6,722              | ) 1,046             |
| Net change in cash flow hedges                                | —                   | —                   | (169                | ) —                 |
| Comprehensive loss  | \$(41,677           | ) \$(90,154         | ) \$(75,053         | ) \$(196,220        |
| Comprehensive income (loss) attributable to:                  |                     |                     |                     |                     |
| Controlling interest  | \$(35,437           | ) \$(91,464         | ) \$(71,627         | ) \$(197,914        |
| Non-controlling interest                                      | (6,240              | ) 1,310             | (3,426              | ) 1,694             |
| Comprehensive loss  | \$(41,677           | ) \$(90,154         | ) \$(75,053         | ) \$(196,220        |

See accompanying notes to interim consolidated financial statements.



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CHC Group Ltd.

Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars)

(Unaudited)

|   | Nine months ended   |                     |
|---|---------------------|---------------------|
|   | January 31,<br>2013 | January 31,<br>2014 |
| Cash provided by (used in):   |                     |                     |
| Operating activities:   |                     |                     |
| Net loss  | \$(87,531           | ) \$(144,838        |
| Earnings from discontinued operations, net of tax   | 1,024               | —                   |
| Loss from continuing operations   | (88,555             | ) (144,838          |
| Adjustments to reconcile net loss to cash flows provided by (used in) operating activities: |                     |                     |
| Depreciation  | 84,646              | 106,158             |
| Loss on disposal of assets  | 9,019               | 1,943               |
| Asset impairments   | 24,218              | 22,956              |
| Earnings from equity accounted investees  | (2,687              | ) (5,990            |
| Deferred income taxes   | 22,944              | (378                |
| Non-cash stock-based compensation expense   | 334                 | 23,148              |
| Amortization of unfavorable contract credits  | (2,842              | ) —                 |
| Amortization of lease related fixed interest rate obligations                               | (2,136              | ) (1,135            |
| Amortization of long-term debt and lease deferred financing costs                           | 7,511               | 10,246              |
| Non-cash accrued interest income on funded residual value guarantees                        | (5,329              | ) (4,800            |
| Mark to market loss (gain) on derivative instruments  | 6,884               | (8,231              |
| Non-cash defined benefit pension expense (note 13)  | 5,277               | 344                 |