

CHC Group Ltd.
Form 10-K
July 15, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED APRIL 30, 2016
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)

Cayman Islands 98-0587405
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
190 Elgin Avenue
George Town
Grand Cayman, KY1-9005
Cayman Islands
(Address of principal executive offices, including zip code)
(604) 276-7500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
Ordinary Shares, par value \$0.003	

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Edgar Filing: CHC Group Ltd. - Form 10-K

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

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 Exchange Act Rule 12b-2). Yes No

The aggregate market value of the voting ordinary shares held by non-affiliates of the registrant, based upon the closing price on the New York Stock Exchange, as of October 31, 2015, was \$11.2 million.

As of July 11, 2016, there were 2,721,592 ordinary shares of the registrant issued and outstanding excluding unvested restricted shares of 958.

DOCUMENT INCORPORATED BY REFERENCE.

Portions of the definitive Proxy Statement for the Registrant's 2016 Annual General Meeting of Shareholders are incorporated by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. The Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days of the Registrant's fiscal year ended April 30, 2016.

Table of Contents

CHC GROUP LTD.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED
April 30, 2016
TABLE OF CONTENTS

	Page Number
<u>Cautionary Note Regarding Forward-Looking Statements and Other Industry and Market Data</u>	<u>ii</u>
<u>Trademarks</u>	<u>vi</u>
<u>Glossary</u>	<u>vi</u>
<u>PART I</u>	
Item 1. <u>Business</u>	<u>1</u>
Item 1A. <u>Risk Factors</u>	<u>8</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>31</u>
Item 2. <u>Properties</u>	<u>31</u>
Item 3. <u>Legal Proceedings</u>	<u>31</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>32</u>
<u>PART II</u>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>32</u>
Item 6. <u>Selected Financial Data</u>	<u>34</u>
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>36</u>
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>70</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>71</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>71</u>
<u>Consolidated Balance Sheets as of April 30, 2015 and 2016</u>	<u>72</u>
<u>Consolidated Statements of Operations for the Years Ended April 30, 2014, 2015 and 2016</u>	<u>73</u>
<u>Consolidated Statements of Comprehensive Loss for the Years Ended April 30, 2014, 2015 and 2016</u>	<u>74</u>
<u>Consolidated Statements of Cash Flows for the Years Ended April 30, 2014, 2015 and 2016</u>	<u>75</u>
<u>Consolidated Statements of Shareholders' Equity (Deficit) for the Years Ended April 30, 2014, 2015 and 2016</u>	<u>77</u>
<u>Notes to Consolidated Financial Statements</u>	<u>78</u>
Item 9. <u>Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>140</u>
Item 9A. <u>Controls and Procedures</u>	<u>140</u>
Item 9B. <u>Other Information</u>	<u>140</u>
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers of the Registrant and Corporate Governance</u>	<u>141</u>
Item 11. <u>Executive Compensation</u>	<u>141</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>141</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>141</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>141</u>
<u>PART IV</u>	
Item 15. <u>Exhibits and Financial Statements Schedules</u>	<u>141</u>
<u>SIGNATURES</u>	
<u>Signatures</u>	<u>142</u>

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND OTHER INDUSTRY AND MARKET DATA

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. All statements contained in this Annual Report on Form 10-K, other than statements of historical fact, are forward-looking statements, including statements regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management. In some cases you can identify these statements by forward-looking words such as “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “could,” “would,” “project,” “plan,” “expect” or the negative or plural of these or similar expressions. Factors that could cause our actual results to differ materially from our forward-looking statements include, but are not limited to, the following:

- we filed for protection under Chapter 11 of the United States Bankruptcy Code and are subject to risks and uncertainties;

- operating under Chapter 11 may restrict our ability to pursue our business strategies;

- our employees face considerable uncertainty due to the Chapter 11 proceedings;

- we may suffer from a protracted restructuring;

- our ability to emerge from Chapter 11 and operate profitably thereafter will depend on increasing our revenue, lowering our costs, and obtaining sufficient financing or other capital to operate successfully;

- we have substantial liquidity needs and, due to our current Chapter 11 proceedings, may not be able to obtain any equity or debt financings in the capital market for the foreseeable future;

- we may be subject to claims that will not be discharged in the Chapter 11 proceedings;

- our restructuring efforts through the Chapter 11 proceedings may be expensive, take resources and distract management;

- we are in the process of rejecting and abandoning a significant portion of our helicopter fleet through the Chapter 11 proceedings, which may result in an inability to quickly respond to new opportunities and a significant loss of market share and profit margins;

- our consolidated financial statements have been prepared assuming that we will continue as a going concern, our independent registered public accounting firm has raised substantial doubts about our ability to continue as a going concern, and we have not included any adjustments that might result from the outcome of this uncertainty;

- we have a history of net losses;

- our substantial level of indebtedness, operating lease commitments, purchase and other commitments could materially adversely affect our ability to fulfill our obligations under our debt agreements, our ability to react to changes in our business and our ability to incur additional debt to fund future needs;

- all flights with the aircraft type H225 and AS332 L2 have been temporarily grounded which may cause a material and adverse impact to our financial viability;

• our operations and fleet are reliant on Airbus helicopters;

• operating helicopters involves a degree of inherent risk and we are exposed to the risk of losses from safety incidents;

• if we are unable to mitigate potential losses through a robust safety management and insurance coverage program, our financial condition would be jeopardized in the event of a safety or other hazardous incident;

• failure to maintain standards of acceptable safety performance could have an adverse impact on our ability to attract and retain customers and could adversely impact our reputation, operations and financial performance;

ii

Table of Contents

our operations are largely dependent upon the level of activity in the offshore oil and gas industry;

the oil and gas industries on which we are largely dependent are suffering through a severe downturn, resulting in significant negative impact on demand for our services, and no assurance can be given that the downturn will not continue to be prolonged;

many of the markets in which we operate are highly competitive, and if we are unable to effectively compete, it may result in a loss of market share or a decrease in revenue or profit margins;

we rely on a limited number of large offshore helicopter support contracts with a limited number of customers. If any of these are terminated early or not renewed, our revenues could decline;

negative publicity may adversely impact us;

our fixed operating expenses and long-term contracts with customers could adversely affect our business under certain circumstances;

we depend on a small number of helicopter manufacturers and any safety issues can severely limit our ability to continue operating helicopters already in our fleet;

we depend on a limited number of third-party suppliers for helicopter parts and subcontract services;

restructuring of our operations and organizational structure may lead to significant costs;

our business requires substantial capital expenditures, lease and working capital financing, which we are currently blocked from accessing through the capital markets and banks. Any further deterioration of current industry or business conditions, the capital and banking markets or a prolonged period in Chapter 11 proceedings generally could adversely impact our business, financial condition and results of operations;

we rely on the secondary used helicopter market to dispose of our older helicopters and parts due to our ongoing fleet modernization efforts;

our operations are subject to extensive regulations which could increase our costs and adversely affect us;

our MRO business, Heli-One, could suffer if licenses issued by OEMs and/or governmental authorities are not renewed or we cannot obtain additional licenses;

we derive significant revenue from non-wholly owned variable interest entities. If we are unable to maintain good relations with the other owners of such non-wholly owned entities, our business, financial condition or results of operations could be adversely affected;

our operations may suffer due to political, regulatory, commercial and economic uncertainty;

our business in countries with a history of corruption and transactions with foreign governments increases the compliance risks associated with our international activities;

- we are subject to extensive federal, state, local and foreign environmental, health and safety laws, rules, regulations and ordinances that could have an adverse impact on our business;

- we are subject to many different forms of taxation in various jurisdictions throughout the world, which could lead to disagreements with tax authorities regarding the application of tax laws;

- the offshore helicopter services industry is cyclical;

- we are exposed to foreign currency risks;

- our failure to hedge exposure to fluctuations in foreign currency exchange rates effectively could unfavorably affect our financial performance;

iii

Table of Contents

we are exposed to credit risks;

- our customers may seek to shift risk to us;

if oil and gas companies undertake cost reduction methods, there may be an adverse effect on our business;

reductions in spending on helicopter services by government agencies could lead to modifications of SAR and EMS contract terms or delays in receiving payments, which could adversely impact our business, financial condition and results of operations;

failure to develop or implement new technologies and disruption to our systems could affect our results of operations;

we rely on information technology, and if we are unable to protect against service interruptions, data corruption, cyber-based attacks or network security breaches, our operations could be disrupted and our business could be negatively affected;

the loss of key personnel could affect our growth and future success;

labor problems could adversely affect us;

if the assets in our defined benefit pension plans are not sufficient to meet the plans' obligations, we could be required to make substantial cash contributions and our liquidity could be adversely affected;

adverse results of legal proceedings could materially and adversely affect our business, financial condition or results of operations;

in the event we are or become treated as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes, our U.S. shareholders could be subject to adverse U.S. federal income tax consequences;

we are controlled by a shareholder group, which might have interests that conflict with ours or the interests of our other shareholders;

due to our Chapter 11 bankruptcy proceedings, our ordinary shares may have no value and any investment in our shares is highly speculative;

the market for our ordinary shares historically has experienced significant price and volume fluctuations;

we have not paid dividends on our ordinary shares historically and may not pay any cash dividends on our ordinary shares or preferred shares for the foreseeable future;

pursuant to the terms of the preferred shares, which rank senior to our ordinary shares, we are required to pay regular cash dividends or issue shares in respect of amounts accrued as dividends on the preferred shares, and we may be required under certain circumstances to repurchase the preferred shares; we are currently unable to pay such obligations while we are in Chapter 11 proceedings and are likely not to pay any cash dividends for the foreseeable future;

-

our preferred shares have rights, preferences and privileges that are not held by, and are preferential to the rights of, holders of our ordinary shares. Such preferential rights could adversely affect our liquidity and financial condition, and may result in the interests of the holders of our preferred shares differing from those of the holders of our ordinary shares;

we are a holding company and, accordingly, are dependent upon distributions from our subsidiaries to generate the funds necessary to meet our financial obligations and pay dividends;

the requirements of being a public company may strain our resources and distract our management;

provisions of our articles of association and Cayman Islands corporate law may discourage or prevent an acquisition of us which could adversely affect the value of our ordinary shares;

Table of Contents

our organizational documents contain a variety of anti-takeover provisions that could delay, deter or prevent a change in control;

shareholder rights under Cayman Islands law may differ materially from shareholder rights in the United States, which could adversely affect the ability of us and our shareholders to protect our and their interests;

as a shareholder, you might have difficulty obtaining or enforcing a judgment against us because we are incorporated under the laws of the Cayman Islands; and

our Major Investors, Clayton, Dubilier & Rice (“CD&R”) and First Reserve Management, L.P. (“First Reserve”), may compete with us, and our articles of association contain a provision that expressly permits our non-employee directors to compete with us.

We caution you that the above list of cautionary statements is not exhaustive and should be considered with the risks described under “Item 1A. Risk Factors” and elsewhere in this Annual Report on Form 10-K. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. We disclaim any intentions or obligations to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.

The market data and other statistical information (such as the size of certain markets and our position and the position of our competitors within these markets, oil and gas production and market information) used throughout this Annual Report on Form 10-K are based on independent industry publications, government publications, reports by market research firms or other published independent sources. Some market data and statistical information are also based on our good faith estimates, which are derived from our review of internal surveys, as well as the independent sources listed above. This information may prove to be inaccurate because of the method by which we obtain some of the data for our estimates or because this information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties. As a result, although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness. The industry in which we operate is subject to a high degree of uncertainty and risk due to a variety of factors, including those described in “Item 1A. Risk Factors” of this Annual Report on Form 10-K.

Unless the context otherwise requires, references in this Annual Report on Form 10-K to “Company,” “CHC,” “we,” “us” and “our” refer to CHC Group Ltd. and its subsidiaries. Our fiscal year ends on April 30, and we refer to fiscal years based on the end of such period (the fiscal year ended April 30, 2016 is referred to as “fiscal 2016”). Certain operational terms used in this Annual Report on Form 10-K are defined under the heading “Glossary.”

Table of Contents

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 Annual Report on Form 10-K are the property of their respective holders. All rights reserved. The absence of a trademark or service mark or logo from this Annual Report on Form 10-K 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 wholly owned subsidiary by 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 night-time 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.

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 night-time 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 H225, H135, H145 and H155; AgustaWestland's AW139; and Sikorsky's S76C++ and S92A.

OEM Original equipment manufacturer.

PBH	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.

vi

Table of Contents