

Keystone Helicopter hummed steadily along for 50 years. Enter Steve Townes. It's amazing what a little vision and capital can do. | BY SCOTT PRUDEN | PHOTOGRAPH BY SHANE MCCAULEY

TO THE LAYMAN'S EYE, the aircraft inside the Keystone Helicopter hangar near Chester County/G.O. Carlson Airport look like they've been the victims of an aeronautic chop shop. Sikorskys and Bells sit in various stages of what seems like disassembly. If they were Chevys or Dodges, they'd be up on blocks near the curb in a bad neighborhood.

But the choppers haven't been taken apart; they're still being put together. They are what Keystone techs call "green" aircraft. The basic parts—the fuselages, the engines and the rotors—were assembled elsewhere, then shipped to Chester County, where a clutch of technicians will install the avionics and seats and generally make the craft look like something you'd want to fly in.

But that's only part of what happens at Keystone. No more than 25 feet away, the whine of a 52,000 rpm jet engine bleeds through the sound-proof room where it's being tested. Elsewhere, engines from manufacturers like Rolls-Royce and Pratt & Whitney await repair for return to clients in Japan and Brazil. Engineers and technicians inspect and repair the instruments and equipment in copters used as law enforcement and business craft. Out in the field, Keystone pilots are shuttling patients between accident scenes and hospitals all over the Northeast. The helicopters Keystone maintains supply oil rigs with equipment and personnel, shuttle corporate executives to their board meetings, and more.

A legend in rotorcraft service, repair and operations, Keystone has made helicopters one of Chester County's signature industries, up there with horses and mushrooms. But it wasn't long ago that the outfit would have left the area. Now, with new ownership, a new site and major new capi-

The A V I A T O R

tal, the folks guiding at the stick are determined to act as respectful stewards of the Keystone legacy and strengthen that legend.

The Keystone legend began, as many aerospace success stories do, just before the United States entered World War II. In 1939 Keystone founder Peter Wright Sr. was a young pilot fresh out of Pensacola Navy Flight School in Florida. Originally serving as a dive bomber pilot for the U.S. Navy, he joined General Claire Chenault's famous American Volunteer Group, known as the Flying Tigers, at the onset of World War II. After the war, he found work in general aviation, including working as a salesman for helicopter innovator Frank Piasecki, the Delaware County engineer who made the second successful domestic helicopter flight on April 11, 1943, after that of Igor Sikorsky in 1939.

Helicopters proved to be an incurable infection for Wright, who, in 1953, went on to start Keystone Helicopter at Philadelphia International Airport after leasing his first helicopter from Frank Bell, founder of Bell Helicopter. In 1955 Keystone branched out, opening subsidiaries in South America.

The company expanded into flight operations that included space capsule recovery for NASA, heavy lift and search-and-rescue missions, power line patrol, mining and petroleum surveys, executive transportation and program management for the Cold War-era Distant Early Warning system in Greenland, which was designed before the advent of surveillance satellites to alert the United States to Soviet nuclear attack. In 1972 the company moved operations to what was then a rural site in West White-land Township along Route 202 near West Chester. The 1970s also saw Keystone pass from one generation to the next when Peter Wright Jr. joined the company.

But flying helicopters for other people began to get expensive, so Wright decided to add helicopter maintenance to the company's services, becoming one of the first Bell Helicopter service centers in the country. Becoming a center for third-party maintenance created a sustainable base of service that allowed for business growth, as well as higher esteem in the minds of clients, pilots, technicians and passengers.

By 1981 the demand for flight operations had grown, especially in the area of medical transport and evacuation. That year, Keystone struck its first emergency medical service contract with Allentown Sacred Heart Hospital (now Lehigh Valley Hospital) and became one of the first air emergency medical service contractors in the country. Keystone now provides turnkey flight, mainten-

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ance and flight management for 36 helicopters that fly out of 24 locations in the Northeast. "It's a heck of a story," says Steve Townes. Townes is the chairman and CEO of Keystone and the man behind the company's push into the 21st century. "Peter is a classic entrepreneur."

Most would say Townes is no slouch, either. The West Point grad, former Army Ranger and self-described "serial entrepreneur" possesses the visceral experience with aircraft—helicopters, in particular—that comes from rappelling out of one under fire while training government troops in the jungles of Colombia. At the same time, he brings to bear MBA book smarts and hard-earned business savvy. As the founder, president and CEO of the acquisitions and holding company Ranger Aerospace, he was the one who recognized the untapped growth potential of Keystone and, in the aftermath of 9-11, assembled the funding to make its growth possible.

In July 2001, Ranger was fresh off the sale of Aircraft Service International Group, a "tired, old, forgotten, vestigial piece of a big, multibillion dollar conglomerate," Townes says, to the United Kingdom-based BBA Group. Ranger quickly took the company, which provides fixed-base operations services for airports, and turned it into a winner.

Flush with success and fresh cash, Ranger scouted out a new company to buy. At the same time, the younger Wright, who had then been president of Keystone for more than 15 years, was assessing the company's future. "We had grown rather nicely in the past several years and saw a huge opportunity in front of us for the business, but frankly didn't have the capital," Wright says. "We were looking for a way the company could take advantage of the opportunities that were out there." After looking at larger players in the rotorcraft industry, Townes found Keystone. "When we vet a company, we really, really vet it deeply before the investment is made, so I talked to everyone from the Federal Aviation Administration to Sikorsky to Rolls-Royce engines and lots of major customers and so forth," Townes says. "After months and months of due diligence, I came to the unwavering conclusion that Keystone arguably was the best venture platform in the rotorcraft industry in the United States, period, bar none, end of story." He was impressed by its reputation, as well as its record on employee retention.

Ranger began assembling investors and set the date for settlement on the buyout as September 30, 2001. Everything was on track until the morning of 9-11. "On September 11, this investment completely fell apart," Townes says. "Nothing was going to get

done in the aviation industry anywhere." Ranger immediately went into what Townes calls a "high-speed scramble" to save the deal.

"It's tragic but ironic that it fell apart because of September 11," he says. "But it was re-engineered, if you will, within just a couple of months of frenetic scrambling, and it was all cobbled together, kind of piecemeal, with a bunch of local guys, and they think it's one of the coolest investments in their portfolio."

Those local guys included Meridian Venture Partners of Radnor. Because Keystone was a local business with a local story, their investment has only grown cooler, Townes says. Ranger quickly added rotor maintenance company Composite Technologies Inc. of Dallas, Texas, to the fold, boosting Keystone's access to parts and technology and expanding its reach into the South and Southwest.

The acquisition was a natural fit, but the numbers really tell the story. Employment at Keystone has gone from 230 people to 625, with that number expected to rise to as many as 750 this year. Keystone was doing a little less than \$40 million in business the year before Ranger bought it. The projection for 2005 has tripled to \$120 million. A good internal rate of return for most venture capital investments is considered about 24 percent. Keystone's internal rate of return since Ranger's purchase has averaged between 35 percent and 38 percent.

"I can tell you from a venture capital perspective that is a good investment," Townes says. "But I can also say, in the aviation industry, there aren't too many good venture capital investments. So achieving what I'll call venture capital quality return in an aviation context is, quite frankly, no mean feat. This is bragging rights at Aronimink."

Both Townes and his colleagues at Keystone say that impressive performance comes with the wisdom to know when not to mess with a good thing.

David Ford, president and CEO of Keystone, an employee of the company since 1996, notes that at the time of the buyout, Keystone was in need of little more than a financial nudge.

"It was not a turnaround," Ford says. "It was a successful business that just needed some capital to take it to the next level." The Wright family "established the core culture of company, as far as an absolute obsession with quality and safety, and sort of a family culture, as far as everyone feeling a part of the company. That was their thumbprint on the company. I think it was critical that we not lose that sense of family and what I'll call the Keystone culture that the Wright family worked to establish here."

Peter Wright Jr., meanwhile, believes Townes and Ranger

have preserved the things he, his father and his brother Timothy, who recently retired as Keystone's vice president of sales and customer service, thought were important.

"I actually don't think the culture of the company has changed that much," Wright says. "The company still seems to function as a small business three years after being purchased."

Townes takes that culture seriously, stressing often that he is only a steward, maintaining and improving the company until it moves on to new owners. He has made sure that every move builds on Keystone's heritage, improves the company and allows for growth.

Townes also continues the Wright tradition of placing emphasis on the holy trinity of Keystone's operating philosophy—quality, safety and complying with FAA regulations—the top three items on the agenda of every company meeting. As Townes is fond of saying, there's no way to pull over to the side of the road if the engine goes out at 7,000 feet. If covering quality, safety and compliance means he doesn't get around to cash flow, revenue or profits, he believes the important part of his job has already been done.

"From rotor blades to engines to avionics and all the other critical component parts—including the entire airplane—when any one of our people who has the authority to do so signs off on that work and declares that aircraft airworthy and ready for delivery, that's a very, very sobering moment," Townes says. "It has to absolutely be right, and that's why we start our meetings that way."

It's an emphasis he makes sure to communicate clearly to all upper-level employees and an emphasis he expects to be carried down to the rank-and-file. "You can miss a budget on my watch, but you cut a corner or pencil-whip an inspection out there in that shop and I'll burn you to the ground," he says.

His business acumen, paired with his distance from what he calls the "financial weenie" stereotype, paved the way toward respect in a shop filled with pilots, engineers and technicians, many of whom came to Keystone from the military.

"It was more important that there was, if you will, street cred with the employees," he says. "I believe I was viewed as a pretty well experienced aviation entrepreneur that had a pretty identifiable track record of successful things. And when I showed up I said, 'This is what I'm going to do and how we're going to do it. This is the sort of timetable to expect.' And we—Ranger and its investors—have followed through on that agenda in spaces."

So am I a steward?
Yeah, I'm a steward. I am the respectful caretaker and grower of this business."

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Part of the improvement aspect of his role included making sure Keystone maintains the highly trained personnel to fly the helicopters and work in the hangars, a task that required some techniques that aren't normally the focus of a leveraged buyout. Those have included less-visible investments like boosts in pay rates, improved healthcare packages, incentive bonus plans and investing in more training.

"It's been a lot of investments in the people factors—leadership factors, benefits, pay—not just capital spending on equipment and helicopters," Townes says.

One of the biggest investments came after Townes realized Keystone had outgrown its West Chester site. What was once countryside now bustles with housing developments, big-box stores and office parks, which makes a growing—and noisy—business a less than satisfactory neighbor. The township told Ranger that if it bought the company, Keystone would have to move.

Townes' first thought was to move to an airport. "I wanted to capture enough dirt to own the flight lanes. I wanted to be in a community that would embrace us and welcome us as a major employer," he says. "I didn't want to be at such a big airport that we would be swamped by the airport itself and have that interrupt our own operations, yet I didn't want to be at some dirt strip out in the middle of nowhere."

Where would that airport be? Keystone considered sites in Trenton, New Jersey; Reading; Wilmington, Delaware; and Coatesville. Trenton and Reading were too far away. Wilmington was a bit of a hike, too, though Delaware came up with a sweetheart deal for moving Keystone into vacant facilities at its airport.

Townes considered moving to Delaware until he realized how far employees would have to travel and how many he'd likely lose as a result. Most workers, meanwhile, already lived on the west side of West Chester, making the commute to Coatesville negligible.

As Keystone considered a site across Route 30 from the airport, Hoppe Gun-care Products moved out of its building at the end of the airport runway. The spot offered ready-built offices and room to grow. The commonwealth, meanwhile,

kicked in \$3 million in tax credits and training incentives to encourage the move.

Townes envisioned at the site what is now referred to as the Heliplex, which will include 80,000 square feet of additional hangar space and eight acres of ramps, all arranged in an L so the buildings will serve as a noise barrier. The complex, once completed, will allow Keystone to centralize its operations and increase service capacity. The site also fits in with a planned 6,000-foot extension of the airport runway.

"In 18 months this will be the largest and best equipped, coolest rotorcraft services center anywhere on the eastern seaboard and, among independent companies, arguably anywhere in the United States," he says.

Ford, Keystone's president, shares Townes' enthusiasm for the site, noting that the ability of Keystone technicians to design an efficient workplace is a big advantage. "The possibilities are almost endless," he says. "We're setting a new standard for the state of the art as far as the facility and the place we do business."

Townes knows development of the Heliplex will be yet another addition to the Keystone legend that will outlive Ranger's ownership. But it's the knowledge that he is the guardian of that legend that makes him focus so much on Keystone's people, products and the reputation over the bottom line.

"We bought a 50-year-old family company," Townes says. "Does a new guy have the right to screw up five decades of heritage? I don't think so. So, yeah, I view myself as a steward for the company and a steward for a lot of other people's capital. I've got my own money invested here, but I've got five institutional venture capital companies that have a lot more invested than I do. I'm a steward for their capital; I'm a steward for 2,475 people right now—right now—that I could reach out and touch, so to speak, that are either on our payroll or directly affected as dependents of our payroll," he says.

"And then I've got a 50-year history back there, with the fine Peter Wright Sr., who is the last of 11 living Flying Tigers from World War II, all of whom would rise up in their graves and kick my ass if I screwed up this company. So am I a steward? Yeah, I'm a steward. I am the respectful caretaker and grower of this business." ♦

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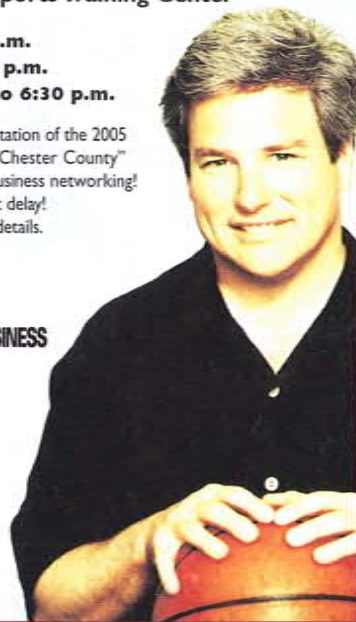
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