

TransDigm Group INC
Form 10-Q
May 08, 2008
[Table of Contents](#)

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 March 29, 2008.

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 001-32833

TransDigm Group Incorporated

(Exact name of registrant as specified in its charter)

Edgar Filing: TransDigm Group INC - Form 10-Q

Delaware

(State or other Jurisdiction of incorporation or organization)

51-0484716

(I.R.S. Employer Identification No.)

1301 East 9th Street, Suite 3710, Cleveland, Ohio
(Address of principal executive offices)

44114
(Zip Code)

(216) 706-2939

(Registrants telephone number, including area code)

(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 NO

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer or non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one).

LARGE ACCELERATED FILER ACCELERATED FILER NON-ACCELERATED FILER

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

The number of shares outstanding of TransDigm Group Incorporated s common stock, par value \$.01 per share, was 47,882,903 as of April 25, 2008.

Table of Contents

INDEX

	Page
Part I	FINANCIAL INFORMATION
Item 1	Financial Statements
	<u>Condensed Consolidated Balance Sheets March 29, 2008 and September 30, 2007</u>
	1
	<u>Condensed Consolidated Statements of Income Twenty-Six Week Periods Ended March 29, 2008 and March 31, 2007</u>
	2
	<u>Condensed Consolidated Statement of Changes in Stockholders Equity Twenty-Six Week Period Ended March 29, 2008</u>
	3
	<u>Condensed Consolidated Statements of Cash Flows Twenty-Six Week Periods Ended March 29, 2008 and March 31, 2007</u>
	4
	<u>Notes to Condensed Consolidated Financial Statements</u>
	5
Item 2	<u>Management s Discussion and Analysis of Financial Condition and Results of Operations</u>
	16
Item 3	<u>Quantitative and Qualitative Disclosure About Market Risk</u>
	23
Item 4	<u>Controls and Procedures</u>
	23
Part II	<u>OTHER INFORMATION</u>
Item 1A	<u>Risk Factors</u>
	24
Item 4	<u>Submission of Matters to a Vote of Security Holders</u>
	24
Item 6	<u>Exhibits</u>
	24
	<u>SIGNATURES</u>
	25

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands, except share amounts)

(Unaudited)

	March 29, 2008	September 30, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 193,987	\$ 105,946
Trade accounts receivable Net	101,415	100,094
Income taxes receivable	371	4,472
Inventories	128,524	126,763
Deferred income taxes	21,624	23,923
Prepaid expenses and other	3,784	4,401
Total current assets	449,705	365,599
PROPERTY, PLANT AND EQUIPMENT - Net	84,857	87,074
GOODWILL	1,248,998	1,247,870
TRADEMARKS AND TRADE NAMES	159,427	159,427
OTHER INTANGIBLE ASSETS - Net	169,363	175,471
DEBT ISSUE COSTS - Net	21,169	23,026
OTHER	2,649	2,586
TOTAL ASSETS	\$ 2,136,168	\$ 2,061,053
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 24,860	\$ 24,753
Accrued liabilities	38,760	42,466
Total current liabilities	63,620	67,219
LONG-TERM DEBT	1,357,465	1,357,854
DEFERRED INCOME TAXES	140,890	140,251
OTHER NON-CURRENT LIABILITIES	18,669	8,178
Total liabilities	1,580,644	1,573,502
STOCKHOLDERS EQUITY:		
Common stock \$.01 par value; authorized 224,400,000 shares; issued 47,790,461 and 47,041,974 at March 29, 2008 and September 30, 2007, respectively	478	470
Additional paid-in capital	348,867	332,522
Retained earnings	213,757	156,312
Accumulated other comprehensive loss	(7,578)	(1,753)

Edgar Filing: TransDigm Group INC - Form 10-Q

Total stockholders' equity	555,524	487,551
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,136,168	\$ 2,061,053

See notes to condensed consolidated financial statements.

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****FOR THE THIRTEEN AND TWENTY-SIX WEEK PERIODS ENDED****MARCH 29, 2008 AND MARCH 31, 2007****(Amounts in thousands, except per share amounts)****(Unaudited)**

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
NET SALES	\$ 175,285	\$ 144,438	\$ 338,421	\$ 267,147
COST OF SALES	81,366	69,367	156,410	128,442
GROSS PROFIT	93,919	75,071	182,011	138,705
OPERATING EXPENSES:				
Selling and administrative	18,360	14,586	36,232	26,707
Amortization of intangibles	2,783	3,368	6,094	5,010
Total operating expenses	21,143	17,954	42,326	31,717
INCOME FROM OPERATIONS	72,776	57,117	139,685	106,988
INTEREST EXPENSE - Net	24,015	22,603	48,522	40,396
INCOME BEFORE INCOME TAXES	48,761	34,514	91,163	66,592
INCOME TAX PROVISION	16,591	13,000	32,025	24,743
NET INCOME	\$ 32,170	\$ 21,514	\$ 59,138	\$ 41,849
Net earnings per share:				
Basic earnings per share	\$ 0.68	\$ 0.48	\$ 1.25	\$ 0.93
Diluted earnings per share	\$ 0.64	\$ 0.45	\$ 1.18	\$ 0.87
Weighted-average shares outstanding:				
Basic	47,605	44,972	47,415	44,872
Diluted	50,037	48,000	49,952	47,897

See notes to condensed consolidated financial statements.

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****FOR THE TWENTY-SIX WEEK PERIOD ENDED MARCH 29, 2008**

(Amounts in thousands, except share amounts)

(Unaudited)

	Common Stock			Retained Earnings	Accumulated	Total
	Number of Shares	Par Value	Additional Paid-In Capital		Other Comprehensive Loss	
BALANCE, OCTOBER 1, 2007	47,041,974	\$ 470	\$ 332,522	\$ 156,312	\$ (1,753)	\$ 487,551
FIN 48 adjustment (Note 8)				(1,693)		(1,693)
Compensation expense recognized for employee stock options			2,211			2,211
Excess tax benefit from exercise of stock options			10,184			10,184
Common stock issued	2,201		83			83
Exercise of employee stock options	746,286	8	3,859			3,867
Restricted stock compensation			8			8
Comprehensive income/(loss):						
Net income				59,138		59,138
Interest rate swap					(5,945)	(5,945)
Other comprehensive income					120	120
Comprehensive income						53,313
BALANCE, MARCH 29, 2008	47,790,461	\$ 478	\$ 348,867	\$ 213,757	\$ (7,578)	\$ 555,524

See notes to condensed consolidated financial statements.

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

(Unaudited)

	Twenty-Six Week Periods Ended	
	March 29, 2008	March 31, 2007
OPERATING ACTIVITIES:		
Net income	\$ 59,138	\$ 41,849
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,400	5,418
Amortization of intangibles	6,094	5,010
Amortization of debt issue costs and note premium	1,472	1,306
Non-cash equity compensation	2,219	1,459
Deferred income taxes	2,938	2,904
Changes in assets/liabilities, net of effects from acquisition of businesses:		
Trade accounts receivable	(1,321)	(8,486)
Inventories	(1,761)	(6,332)
Income taxes receivable/payable	14,285	12,760
Excess tax benefit from exercise of stock options	(10,184)	(2,859)
Other assets	278	(2,891)
Accounts payable	107	1,817
Accrued and other liabilities	(1,492)	3,445
Net cash provided by operating activities	78,173	55,400
INVESTING ACTIVITIES:		
Capital expenditures	(4,183)	(4,205)
Acquisition of businesses		(475,705)
Net cash used in investing activities	(4,183)	(479,910)
FINANCING ACTIVITIES:		
Proceeds from issuance of senior subordinated notes, net of fees		297,029
Borrowings under senior secured credit facility, net of fees		125,482
Excess tax benefit from exercise of stock options	10,184	2,859
Proceeds from exercise of stock options	3,867	2,718
Net cash provided by financing activities	14,051	428,088
NET INCREASE IN CASH AND CASH EQUIVALENTS	88,041	3,578
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	105,946	61,217
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 193,987	\$ 64,795
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		

Edgar Filing: TransDigm Group INC - Form 10-Q

Cash paid during the period for interest	\$ 50,697	\$ 38,329
Cash paid during the period for income taxes	\$ 13,602	\$ 7,670

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THIRTEEN AND TWENTY-SIX WEEK PERIODS ENDED MARCH 29, 2008 AND MARCH 31, 2007

(UNAUDITED)

1. DESCRIPTION OF THE BUSINESS AND MERGER

Description of the Business TransDigm Group Incorporated (TD Group), through its wholly-owned subsidiary, TransDigm Inc., believes it is a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly all commercial and military aircraft in service today. TransDigm Inc. (which includes the Adel Wiggins Group), along with TransDigm Inc.'s direct and indirect wholly-owned operating subsidiaries, AeroControlex Group, Inc., MarathonNorco Aerospace, Inc., Adams Rite Aerospace, Inc., Champion Aerospace LLC, Avionic Instruments LLC, Skurka Aerospace Inc., CDA InterCorp LLC, Avtech Corporation, Transicoil LLC, Transicoil (Malaysia) Sendirian Berhad, and Bruce Aerospace, Inc. (collectively, with TD Group and TransDigm Inc., the Company or TransDigm) offers a broad range of proprietary aerospace components. Major product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include ignition systems and components, mechanical/electromechanical actuators and controls, gear pumps, engineered connectors, specialized valving, power conditioning devices, engineered latches and cockpit security devices, specialized AC/DC electric motors, lavatory hardware and components, hold open rods and locking devices, aircraft audio systems, NiCad batteries/chargers, and specialized fluorescent lighting and cockpit displays.

TD Group was incorporated on July 8, 2003 under the name TD Holding Corporation by outside investors to acquire control of TransDigm Holding Company (TransDigm Holdings) through the Merger described below and had no operations prior to the Merger. TD Group has no significant assets or operations other than its 100% ownership of TransDigm Inc.

Merger On July 22, 2003, an entity formed by Warburg Pincus Private Equity VIII, L.P. (Warburg Pincus) merged with and into TransDigm Holdings, with TransDigm Holdings continuing as the surviving corporation as a wholly-owned subsidiary of a newly formed corporation controlled by Warburg Pincus, TD Group (the Merger).

Separate Financial Statements Separate financial statements of TransDigm Inc. are not presented since TransDigm Inc.'s 3⁷% senior subordinated notes are fully and unconditionally guaranteed on a senior subordinated basis by TD Group and all existing domestic subsidiaries of TransDigm Inc. and since TD Group has no significant operations or assets separate from its investment in TransDigm Inc.

2. UNAUDITED INTERIM FINANCIAL INFORMATION

The financial information included herein is unaudited; however, the information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the Company's financial position and results of operations and cash flows for the interim periods presented. These financial statements and notes should be read in conjunction with the financial statements and related notes for the year ended September 30, 2007 included in its Form 10-K dated November 21, 2007. The September 30, 2007 condensed consolidated balance sheet was derived from the TD Group's audited financial statements. The results of operations for the twenty-six week period ended March 29, 2008 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made to prior period financial statements to conform to the current year classifications.

3. NEW ACCOUNTING STANDARDS

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (FAS 161). FAS 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FAS 161 is effective for fiscal years beginning after November 15,

Edgar Filing: TransDigm Group INC - Form 10-Q

2008, with early adoption permitted. The Company is currently evaluating the impact of the provisions of FAS 161 on its consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141(R)), which replaces SFAS 141. SFAS 141(R) requires assets and liabilities acquired in a business combination, contingent consideration, and certain acquired contingencies to be measured at their fair values as of the date of acquisition. SFAS 141(R) also requires that acquisition-related costs and restructuring costs be recognized separately from the business combination. SFAS

Table of Contents

141(R) is effective for fiscal years beginning after December 15, 2008. The Company has not determined the impact of SFAS 141(R) on its consolidated financial position or results of operations.

In July 2006, the FASB issued Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes the minimum accounting and disclosure requirements of uncertain tax positions. FIN 48 also provides guidance on the derecognition, measurement, classification, interest and penalties, and transition of uncertain tax positions. The Company adopted FIN 48 on October 1, 2007. See Note 8.

4. ACQUISITIONS

Bruce On August 10, 2007, pursuant to an asset purchase agreement among TransDigm Inc., Bruce Industries, Inc. and the shareholders of Bruce Industries, Inc., Bruce Aerospace, Inc. (Bruce), a newly formed wholly-owned subsidiary of TransDigm Inc., acquired certain assets and assumed certain liabilities of Bruce Industries, Inc. for \$35.5 million in cash, net of a purchase price adjustment of \$0.2 million received in February 2008. Additionally, in accordance with the purchase agreement, the Company recorded a contingent liability based upon earnings before income taxes, depreciation and amortization related to the sale of certain part numbers for a period of three years following the closing. Bruce designs and manufactures specialized fluorescent lighting used in the aerospace industry. The proprietary nature, established positions, and aftermarket content fit well with TransDigm's overall direction.

The Company accounted for the acquisition of Bruce as a purchase and included the results of operations of Bruce in its consolidated financial statements from the date of acquisition. The Company is in the process of obtaining a third-party valuation of certain intangible assets of Bruce; thus, the values attributed to acquired assets in the consolidated financial statements are subject to adjustment. The Company expects that the \$25.6 million of goodwill recognized for the acquisition will be deductible for tax purposes.

ATI On February 7, 2007, TransDigm Inc. acquired all of the outstanding capital stock of Aviation Technologies, Inc. (ATI) for \$430.1 million in cash. ATI consists of two primary operating units that service the commercial and military aerospace markets Avtech Corporation (Avtech) and Transicoil LLC (which, together with Transicoil (Malaysia) Sendirian Berhad is referred to as ADS/Transicoil). Avtech is a leading supplier of flight deck and passenger audio systems, cabin lighting, and power control products and related components. ADS/Transicoil is a leading supplier of displays, clocks, brushless motors and related components and instruments. Through Avtech and ADS/Transicoil, ATI manufactures proprietary products for the aerospace industry with broad platform positions and high aftermarket content, all of which fit well with TransDigm's overall direction.

The purchase price consideration and costs associated with the acquisition of \$430.1 million were funded through additional borrowings under our senior secured credit facility of \$125.4 million (net of fees of \$4.6 million), the proceeds from the issuance by TransDigm Inc. of additional senior subordinated notes of \$296.5 million (net of fees of \$6.5 million) and the use of \$8.2 million of our available cash balances. The Company expects that substantially all of the \$310.0 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

The following table summarizes the unaudited, consolidated pro forma results of operations of the Company, as if the acquisition of ATI had occurred at the beginning of the periods ended (in thousands, except per share data):

	Thirteen Weeks Ended March 31, 2007	Twenty-Six Weeks Ended March 31, 2007
Net sales	\$ 153,845	\$ 304,862
Operating income	30,914	84,934
Net income	1,116	18,743
Diluted earnings per share	\$ 0.02	\$ 0.39

These pro forma results of operations include the effects of the: (i) inventory purchase accounting adjustments that will be charged to cost of sales as the inventory that was on hand as of the date of the acquisition is sold, (ii) additional amortization expense that will be recognized from the identifiable intangible assets recorded in accounting for the acquisition, (iii) a reduction in depreciation expense that resulted from the write-down of the carrying value of certain real property to fair value in accounting for the acquisition, and (iv) additional interest expense that resulted from the Company's increased indebtedness resulting from the acquisition. The pro forma results of operations for the periods ended March 31, 2007 includes approximately \$25.8 million of additional compensation expense recognized with respect to stock options of ATI that were cancelled upon the closing of the acquisition. This pro forma information is not

Table of Contents

necessarily indicative of the results that actually would have been obtained if the transactions had occurred as of the beginning of the periods presented and is not intended to be a projection of future results.

CDA On October 3, 2006, TransDigm Inc. acquired all of the outstanding capital stock of CDA InterCorp (CDA) for \$45.7 million in cash, which includes a purchase price adjustment of \$0.3 million paid in March 2007. CDA designs and manufacturers specialized controllable drive actuators, motors, transducers, and gearing. The products are consistent with TransDigm's recent acquisition of similar product lines. Goodwill of \$34.3 million recognized in accounting for the acquisition will not be deductible for tax purposes.

5. INVENTORIES

Inventories are stated at the lower of cost or market. Cost of inventories is determined by the average cost and the first-in, first-out (FIFO) methods. Inventories consist of the following (in thousands):

	March 29, 2008	September 30, 2007
Work-in-progress and finished goods	\$ 75,084	\$ 68,287
Raw materials and purchased component parts	68,289	72,943
Total	143,373	141,230
Reserve for excess and obsolete inventory	(14,849)	(14,467)
Inventories - net	\$ 128,524	\$ 126,763

6. INTANGIBLE ASSETS

Intangible assets subject to amortization consist of the following (in thousands):

	March 29, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net
Unpatented technology	\$ 168,003	\$ 23,011	\$ 144,992
License agreement	9,373	2,476	6,897
Trade secrets	18,462	2,848	15,614
Patented technology	1,590	836	754
Order backlog	14,977	14,843	134
Other	1,600	628	972
Total	\$ 214,005	\$ 44,642	\$ 169,363

	September 30, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net
Unpatented technology	\$ 168,003	\$ 19,178	\$ 148,825
License agreement	9,373	2,211	7,162
Trade secrets	18,462	2,429	16,033
Patented technology	1,604	746	858
Order backlog	14,977	13,471	1,506
Other	1,600	513	1,087

Edgar Filing: TransDigm Group INC - Form 10-Q

Total	\$ 214,019	\$ 38,548	\$ 175,471
-------	------------	-----------	------------

The total carrying amount of identifiable intangible assets not subject to amortization consists of \$159.4 million of trademarks and trade names at March 29, 2008 and September 30, 2007.

-7-

Table of Contents

The aggregate amortization expense on identifiable intangible assets for the twenty-six week periods ended March 29, 2008 and March 31, 2007 was approximately \$6.1 million and \$5.0 million, respectively. The estimated amortization expense for fiscal 2008 is \$11.0 million and for each of the five succeeding years 2009 through 2013 is \$9.3 million, \$9.3 million, \$9.3 million, \$9.1 million and \$9.1 million, respectively.

7. PRODUCT WARRANTY

The Company provides limited warranties in connection with the sale of its products. The warranty period for products sold varies among the Company's operations, ranging generally from 90 days to five years. A provision for the estimated cost to repair or replace the products is recorded at the time of sale and periodically adjusted to reflect actual experience.

The following table presents a reconciliation of changes in the product warranty liability for the periods indicated below (in thousands):

	Twenty-Six Week Periods Ended	
	March 29, 2008	March 31, 2007
Liability balance at beginning of period	\$ 4,624	\$ 2,472
Accruals for warranties issued	930	639
Warranty costs incurred	(796)	(705)
Acquisitions		1,593
Liability balance at end of period	\$ 4,758	\$ 3,999

8. INCOME TAXES

At the end of each reporting period, the Company makes an estimate of its annual effective income tax rate. The estimate used in the year-to-date period may change in subsequent periods. The Company recorded an income tax provision of \$16.6 million in the thirteen week period ended March 29, 2008 compared to \$13.0 million in the prior year period. The effective tax rate for the thirteen week period ended March 29, 2008 was 34.0% compared to 37.7% for the comparable period in the prior year. The lower effective tax rate was primarily due to the favorable resolution of a prior year state tax refund claim of \$0.9 million that reduced the effective tax rate for the quarter ended March 29, 2008 by approximately two percentage points. Also contributing to the lower effective tax rate was a reduction in state and local taxes.

The Company recorded an income tax provision of \$32.0 million in the twenty-six week period ended March 29, 2008 compared to \$24.7 million in the prior year period. The effective tax rate for the twenty-six week period ended March 29, 2008 was 35.1% compared to 37.2% for the comparable period in the prior year. The lower effective tax rate was due to a reduction in state and local taxes and the favorable resolution of a prior year state tax refund claim of \$0.9 million.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction as well as in various state jurisdictions. Effective October 1, 2007, the Company adopted the provisions of FIN 48. In accordance with FIN 48, the Company recognized a cumulative-effect adjustment of \$1.7 million increasing its liability for unrecognized tax benefits, interest, and penalties and reducing the October 1, 2007 balance of retained earnings.

At October 1, 2007, the Company had \$3.2 million in unrecognized tax benefits, the recognition of which would have an effect of \$2.4 million on the effective tax rate. The Company does not believe that the tax positions that comprise the unrecognized tax benefit amount will change significantly over the next 12 months.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. At October 1, 2007, the Company had accrued \$0.7 million for the potential payment of interest and penalties.

As of March 29, 2008, the Company is subject to a U.S. Federal income tax examination for fiscal years 2004 through 2006. In addition, the Company is subject to state and local income tax examinations for fiscal years 2003 through 2006.

Edgar Filing: TransDigm Group INC - Form 10-Q

There were no significant changes to any of these amounts during the twenty-six week period ended March 29, 2008.

-8-

Table of Contents**9. EARNINGS PER SHARE CALCULATION**

The following table sets forth the computation of basic and diluted earnings per share:

(in thousands, except per share data)	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
Basic Earnings Per Share Computation:				
Net income	\$ 32,170	\$ 21,514	\$ 59,138	\$ 41,849
Weighted-average shares outstanding	47,605	44,972	47,415	44,872
Basic earnings per share	\$ 0.68	\$ 0.48	\$ 1.25	\$ 0.93
Diluted Earnings Per Share Computation:				
Net income	\$ 32,170	\$ 21,514	\$ 59,138	\$ 41,849
Weighted-average shares outstanding	47,605	44,972	47,415	44,872
Effect of dilutive options outstanding	2,432	3,028	2,537	3,025
Total weighted-average shares outstanding	50,037	48,000	49,952	47,897
Diluted earnings per share	\$ 0.64	\$ 0.45	\$ 1.18	\$ 0.87

Stock options outstanding at March 29, 2008 and March 31, 2007 that were excluded from the diluted earnings per share computation for the thirteen and twenty-six week periods ended March 29, 2008 and March 31, 2007, due to the anti-dilutive effect of such options, were immaterial.

10. SUBSEQUENT EVENT

On May 7, 2008, TransDigm Inc. acquired all of the outstanding capital stock of CEF Industries, Inc. (CEF) for approximately \$83 million in cash. The transaction was funded through the use of the Company's existing cash balances. CEF is a designer and manufacturer of specialized and highly engineered actuators, compressors, pumps and related components for the aerospace market, all of which fit well with TransDigm's overall business direction.

11. SUPPLEMENTAL GUARANTOR INFORMATION

TransDigm's 7/4 % senior subordinated notes are jointly and severally guaranteed, on a senior subordinated basis, by TD Group and TransDigm Inc.'s Domestic Restricted Subsidiaries, as defined therein. The following supplemental consolidating condensed financial information presents the balance sheets of the Company as of March 29, 2008 and September 30, 2007 and its statements of operations and cash flows for the twenty-six week periods ended March 29, 2008 and March 31, 2007.

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEET

AS OF MARCH 29, 2008

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 15,368	\$ 182,843	\$ (4,224)	\$	\$ 193,987
Trade accounts receivable - Net		11,731	89,948	(264)	101,415
Inventories		18,595	110,217	(288)	128,524
Income taxes receivable		371			371
Deferred income taxes		21,624			21,624
Prepaid expenses and other		1,187	2,597		3,784
Total current assets	15,368	236,351	198,538	(552)	449,705
INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES	539,354	1,848,359	314,241	(2,701,954)	
PROPERTY, PLANT AND EQUIPMENT - Net		14,066	70,791		84,857
GOODWILL		43,568	1,205,430		1,248,998
TRADEMARKS AND TRADE NAMES		19,376	140,051		159,427
OTHER INTANGIBLE ASSETS - Net		10,834	158,529		169,363
DEBT ISSUE COSTS - Net		21,169			21,169
OTHER		2,297	352		2,649
TOTAL ASSETS	\$ 554,722	\$ 2,196,020	\$ 2,087,932	\$ (2,702,506)	\$ 2,136,168
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$	\$ 6,362	\$ 18,762	\$ (264)	\$ 24,860
Accrued liabilities		16,376	22,384		38,760
Total current liabilities		22,738	41,146	(264)	63,620
LONG-TERM DEBT		1,357,465			1,357,465
DEFERRED INCOME TAXES	(5,606)	146,496			140,890
OTHER NON-CURRENT LIABILITIES	4,804	11,965	1,900		18,669
Total liabilities	(802)	1,538,664	43,046	(264)	1,580,644
STOCKHOLDERS EQUITY	555,524	657,356	2,044,886	(2,702,242)	555,524
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 554,722	\$ 2,196,020	\$ 2,087,932	\$ (2,702,506)	\$ 2,136,168

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2007

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 11,117	\$ 97,780	\$ (2,951)	\$	\$ 105,946
Trade accounts receivable - Net		12,644	87,450		100,094
Income taxes receivable		4,053	419		4,472
Inventories		17,098	109,665		126,763
Deferred income taxes		11,967	11,956		23,923
Prepaid expenses and other		2,582	1,819		4,401
Total current assets	11,117	146,124	208,358		365,599
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY BALANCES	474,743	1,871,789	198,198	(2,544,730)	
PROPERTY, PLANT AND EQUIPMENT - Net		14,758	72,316		87,074
GOODWILL		11,514	1,236,356		1,247,870
TRADEMARKS AND TRADE NAMES		19,376	140,051		159,427
OTHER INTANGIBLE ASSETS - Net		11,156	164,315		175,471
DEBT ISSUE COSTS - Net		23,026			23,026
OTHER		2,306	280		2,586
TOTAL ASSETS	\$ 485,860	\$ 2,100,049	\$ 2,019,874	\$ (2,544,730)	\$ 2,061,053
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$	\$ 7,417	\$ 17,336	\$	\$ 24,753
Accrued liabilities		16,995	25,471		42,466
Total current liabilities		24,412	42,807		67,219
LONG-TERM DEBT		1,357,854			1,357,854
DEFERRED INCOME TAXES	(5,606)	121,522	24,335		140,251
OTHER NON-CURRENT LIABILITIES	3,915	3,516	747		8,178
Total liabilities	(1,691)	1,507,304	67,889		1,573,502
STOCKHOLDERS EQUITY	487,551	592,745	1,951,985	(2,544,730)	487,551
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 485,860	\$ 2,100,049	\$ 2,019,874	\$ (2,544,730)	\$ 2,061,053

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF INCOME
FOR THE TWENTY-SIX WEEK PERIOD ENDED MARCH 29, 2008

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
NET SALES	\$	\$ 35,417	\$ 304,030	\$ (1,026)	\$ 338,421
COST OF SALES		21,823	135,325	(738)	156,410
GROSS PROFIT		13,594	168,705	(288)	182,011
OPERATING EXPENSES:					
Selling and administrative		12,192	24,040		36,232
Amortization of intangibles		312	5,782		6,094
Total operating expenses		12,504	29,822		42,326
INCOME FROM OPERATIONS		1,090	138,883	(288)	139,685
OTHER INCOME (EXPENSES):					
Interest expense - net			(33,489)		(48,522)
Equity in income of subsidiaries	59,138	80,091		(139,229)	
INCOME BEFORE INCOME TAXES	59,138	47,692	123,850	(139,517)	91,163
INCOME TAX PROVISION (BENEFIT)		(11,446)	43,471		32,025
NET INCOME	\$ 59,138	\$ 59,138	\$ 80,379	\$ (139,517)	\$ 59,138

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF INCOME
FOR THE TWENTY-SIX WEEK PERIOD ENDED MARCH 31, 2007

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
NET SALES	\$	\$ 30,744	\$ 236,403	\$	\$ 267,147
COST OF SALES		17,817	110,625		128,442
GROSS PROFIT		12,927	125,778		138,705
OPERATING EXPENSES:					
Selling and administrative		10,365	16,342		26,707
Amortization of intangibles		312	4,698		5,010
Total operating expenses		10,677	21,040		31,717
INCOME FROM OPERATIONS		2,250	104,738		106,988
OTHER INCOME (EXPENSES):					
Interest expense - net		(34,066)	(6,330)		(40,396)
Equity in income of subsidiaries	41,849	61,801		(103,650)	
INCOME BEFORE INCOME TAXES	41,849	29,985	98,408	(103,650)	66,592
INCOME TAX PROVISION (BENEFIT)		(11,864)	36,607		24,743
NET INCOME	\$ 41,849	\$ 41,849	\$ 61,801	\$ (103,650)	\$ 41,849

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE TWENTY-SIX WEEK PERIOD ENDED MARCH 29, 2008

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
OPERATING ACTIVITIES:					
Net income	\$ 59,138	\$ 59,138	\$ 80,379	\$ (139,517)	\$ 59,138
Adjustments to reconcile net income to net cash provided by (used in) operating activities	(58,257)	(67,405)	5,180	139,517	19,035
Net cash provided by (used in) operating activities	881	(8,267)	85,559		78,173
INVESTING ACTIVITIES:					
Capital expenditures		(319)	(3,864)		(4,183)
Net cash used in investing activities		(319)	(3,864)		(4,183)
FINANCING ACTIVITIES:					
Changes in intercompany activities	(10,681)	93,649	(82,968)		
Excess tax benefit from exercise of stock options	10,184				10,184
Proceeds from exercise of stock options	3,867				3,867
Net cash provided by (used in) financing activities	3,370	93,649	(82,968)		14,051
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,251	85,063	(1,273)		88,041
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,117	97,780	(2,951)		105,946
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 15,368	\$ 182,843	\$ (4,224)	\$	\$ 193,987

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE TWENTY-SIX WEEK PERIOD ENDED MARCH 31, 2007

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
OPERATING ACTIVITIES:					
Net income	\$ 41,849	\$ 41,849	\$ 61,801	\$ (103,650)	\$ 41,849
Adjustments to reconcile net income to net cash provided by (used in) operating activities	(42,515)	(19,035)	(28,549)	103,650	13,551
Net cash provided by (used in) operating activities	(666)	22,814	33,252		55,400
INVESTING ACTIVITIES:					
Capital expenditures		(1,047)	(3,158)		(4,205)
Acquisition of businesses		(475,705)			(475,705)
Net cash used in investing activities		(476,752)	(3,158)		(479,910)
FINANCING ACTIVITIES:					
Changes in intercompany activities	(2,020)	27,289	(25,269)		
Proceeds from issuance of senior subordinated notes, net of fees		297,029			297,029
Borrowings under senior secured credit facility, net of fees		125,482			125,482
Excess tax benefit from exercise of stock options	2,859				2,859
Proceeds from exercise of stock options	2,718				2,718
Net cash provided by (used in) financing activities	3,557	449,800	(25,269)		428,088
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
	2,891	(4,138)	4,825		3,578
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,604	62,561	(2,948)		61,217
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,495	\$ 58,423	\$ 1,877	\$	\$ 64,795

* * * * *

Table of Contents

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

The following discussion of the Company's financial condition and results of operations should be read together with TD Group's consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q. References in this section to

TransDigm, the Company, we, us, our, and similar references refer to TD Group, TransDigm Inc. and TransDigm Inc.'s subsidiaries, unless the context otherwise indicates. The following discussion may contain predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed in this report. These risks could cause our actual results to differ materially from any future performance suggested below.

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, in particular, the statements about the Company's plans, strategies and prospects under this section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations. Although the Company believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, the Company can give no assurance that such plans, intentions or expectations will be achieved. Many of the factors affecting these forward-looking statements are outside the control of the Company. Consequently, such forward-looking statements should be regarded solely as the Company's current plans, estimates and beliefs. The Company does not undertake and specifically declines any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, except as required by applicable law. All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the foregoing cautionary statements.

Important factors that could cause actual results to differ materially from the forward-looking statements made in this Quarterly Report on Form 10-Q include but are not limited to: future terrorist attacks; a decrease in flight hours and our customers' profitability, both of which are affected by general economic conditions; our substantial indebtedness; our reliance on certain customers; the U.S. defense budget and risks associated with being a government supplier; failure to maintain government or industry approvals; the pricing review by the Department of Defense Office of Inspector General to which certain of our divisions and subsidiaries have been subject; failure to complete or successfully integrate acquisitions; future sales of our common stock in the public market caused by the substantial amount of stock held by our affiliates; and other factors. Please refer to the other information included in this Quarterly Report on Form 10-Q and to the Annual Report on Form 10-K for additional information regarding the foregoing factors that may affect our business.

Overview

We believe we are a leading global designer, producer, and supplier of highly engineered aircraft components for use on nearly all commercial and military aircraft in service today. Our business is well diversified due to the broad range of products we offer to our customers. Some of our more significant product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include ignition systems and components, mechanical/electro-mechanical actuators and controls, gear pumps, engineered connectors, specialized valving, power conditioning devices, engineered latches and cockpit security devices, specialized AC/DC electric motors, lavatory hardware and components, hold-open rods and locking devices, aircraft audio systems, NiCad batteries/chargers, and specialized fluorescent lighting and cockpit displays. Each of these product offerings consists of many individual products that are typically customized to meet the needs of a particular aircraft platform or customer.

For the second quarter of fiscal 2008, we generated net sales of \$175.3 million and net income of \$32.2 million. EBITDA As Defined was \$81.0 million, or 46.2% of net sales. See below for certain information regarding EBITDA and EBITDA As Defined, including a reconciliation of EBITDA and EBITDA As Defined to net income.

Certain Acquisitions

CEF Acquisition

On May 7, 2008, TransDigm Inc. acquired all of the outstanding capital stock of CEF Industries, Inc. (CEF) for approximately \$83 million in cash.

Table of Contents

The transaction was funded through the use of the Company's existing cash balances. CEF is a designer and manufacturer of specialized and highly engineered actuators, compressors, pumps and related components for the aerospace market, all of which fit well with TransDigm's overall business direction.

Bruce Acquisition

On August 10, 2007, pursuant to an asset purchase agreement among TransDigm Inc., Bruce Industries and the shareholders of Bruce Industries, Bruce Aerospace, Inc., a newly formed wholly-owned subsidiary of TransDigm Inc., acquired certain assets and assumed certain liabilities of Bruce Industries for approximately \$35.5 million in cash. Bruce designs and manufactures specialized fluorescent lighting used in the aerospace industry. The proprietary nature, established positions, and aftermarket content fit well with our overall business direction.

ATI Acquisition

On February 7, 2007, TransDigm Inc. acquired all of the outstanding stock of Aviation Technologies, Inc. (ATI) for approximately \$430.1 million in cash. ATI consists of two primary operating units that service the commercial and military aerospace markets—Avtech and ADS/Transicoil. Avtech is a leading supplier of flight deck and passenger audio systems, cabin lighting, and power control products and related components. ADS/Transicoil is a leading supplier of displays, clocks, brushless motors and related components and instruments. Through Avtech and ADS/Transicoil, ATI manufactures proprietary products for the aerospace industry with broad platform positions and high aftermarket content, all of which fit well with TransDigm's overall direction.

Mr. W. Nicholas Howley, Chairman and Chief Executive Officer of TD Group, and Mr. Douglas Peacock, a director of TD Group, each indirectly owned less than one-half of 1% of ATI's outstanding equity on a fully diluted basis. In addition, prior to the acquisition, Mr. Howley and Mr. Peacock were directors of ATI commencing in 2003, and Mr. Peacock served as ATI's Chairman from 2003 through February 2007.

EBITDA and EBITDA As Defined

The following table sets forth a reconciliation of net income to EBITDA and EBITDA As Defined (in millions):

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
Net Income	\$ 32.2	\$ 21.5	\$ 59.1	\$ 41.8
Adjustments:				
Depreciation and amortization expense	6.0	6.3	12.5	10.4
Interest expense, net	24.0	22.6	48.5	40.4
Income tax provision	16.6	13.0	32.1	24.8
EBITDA ⁽¹⁾	78.8	63.4	152.2	117.4
Adjustments:				
Acquisition-related costs ⁽²⁾	0.6	3.4	1.3	4.4
Non-cash compensation and deferred compensation costs ⁽³⁾	1.6	1.2	3.3	2.4
Other ⁽⁴⁾		0.3		0.3
EBITDA As Defined ⁽¹⁾	\$ 81.0	\$ 68.3	\$ 156.8	\$ 124.5

⁽¹⁾ EBITDA represents earnings before interest, taxes, depreciation and amortization. EBITDA As Defined represents EBITDA plus, as applicable for the relevant period, inventory purchase accounting adjustments, acquisition integration costs, non-cash compensation and deferred compensation charges, and acquisition earnout costs.

Table of Contents

We present EBITDA because we believe that it is a useful indicator of our operating performance. Our management believes that EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties to measure a company's operating performance without regard to items such as interest expense, income tax expense and depreciation and amortization, which may vary substantially from company to company depending upon, among other things, accounting methods, book value of assets, capital structure and the method by which assets are acquired. We also believe EBITDA is useful to our management and investors as a measure of comparative operating performance between time periods and among companies as it is reflective of changes in pricing decisions, cost controls and other factors that affect operating performance.

Our management uses EBITDA As Defined to review and assess our operating performance and management team in connection with our employee incentive programs, and the preparation of our annual budget and financial projections. Our management also believes that EBITDA As Defined is useful to investors because our revolving credit facility under our senior secured credit facility requires compliance, on a pro forma basis, with a first lien leverage ratio, which is measured based on our Consolidated EBITDA. Our senior secured credit facility defines Consolidated EBITDA in the same manner as we define EBITDA As Defined. This financial covenant is a material term of our senior secured credit facility as the failure to comply with such financial covenant could result in an event of default in respect of the revolving credit facility thereunder (and, in turn, an event of default under our senior secured credit facility could result in an event of default under the indenture governing our 7³/₄% senior subordinated notes).

Although we use EBITDA and EBITDA As Defined as measures to assess the performance of our business and for the other purposes set forth above, the use of EBITDA and EBITDA As Defined as an analytical tool has limitations, and you should not consider either of them in isolation, or as a substitute for analysis of our results of operations as reported in accordance with GAAP. Some of these limitations are:

neither EBITDA nor EBITDA As Defined reflects the significant interest expense, or the cash requirements necessary to service interest payments, on our indebtedness;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and neither EBITDA nor EBITDA As Defined reflects any cash requirements for such replacements;

the omission of the substantial amortization expense associated with our intangible assets further limits the usefulness of EBITDA and EBITDA As Defined;

neither EBITDA nor EBITDA As Defined includes the payment of taxes, which is a necessary element of our operations; and

EBITDA As Defined excludes the cash expense we have incurred to integrate acquired businesses into our operations, which is a necessary element of certain of our acquisitions.

Because of these limitations, EBITDA and EBITDA As Defined should not be considered as measures of discretionary cash available to us to invest in the growth of our business. Management compensates for these limitations by not viewing EBITDA or EBITDA As Defined in isolation, and specifically by using other GAAP measures, such as net income, net sales and operating profit, to measure our operating performance. Neither EBITDA nor EBITDA As Defined is a measurement of financial performance under GAAP and neither should be considered as an alternative to net income or cash flow from operations determined in accordance with GAAP, and our calculation of EBITDA and EBITDA As Defined may not be comparable to the calculation of similarly titled measures reported by other companies.

- (2) Represents costs incurred to integrate acquired businesses into TD Group's operations, purchase accounting adjustments to inventory that were charged to cost of sales when inventory was sold, facility relocation costs and other acquisition-related costs.
- (3) Represents the expenses recognized by the Company under our stock option and deferred compensation plans.

Table of Contents

⁽⁴⁾ Represents the write-down of certain property to its fair value that was reclassified as held for sale in fiscal 2007.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with GAAP, which often requires the judgment of management in the selection and application of certain accounting principles and methods. Management believes that the quality and reasonableness of our most critical policies enable the fair presentation of our financial position and results of operations. However, investors are cautioned that the sensitivity of financial statements to these methods, assumptions and estimates could create materially different results under different conditions or using different assumptions.

A summary of our significant accounting policies and estimates is included in the Annual Report on Form 10-K for the year ended September 30, 2007. There has been no significant change to our critical accounting policies during the twenty-six week period ended March 29, 2008.

Results of Operations

The following table sets forth, for the periods indicated, certain operating data of the Company as a percentage of net sales:

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
Net sales	100%	100%	100%	100%
Cost of sales	46	48	46	48
Selling and administrative expenses	10	10	11	10
Amortization of intangibles	2	2	2	2
Income from operations	42	40	41	40
Interest expense - net	14	16	14	15
Income tax provision	10	9	9	9
Net income	18%	15%	18%	16%

Changes in Results of Operations**Thirteen week period ended March 29, 2008 compared with the thirteen week period ended March 31, 2007.**

Net Sales. Net sales increased by \$30.9 million, or 21.4%, to \$175.3 million for the quarter ended March 29, 2008, from \$144.4 million for the comparable quarter last year. Sales growth excluding acquisitions was \$13.9 million and represented a 9.6% increase over the prior year. The organic sales growth was primarily due to (i) an increase of \$7.4 million in defense sales primarily due to increased demand for aftermarket spare parts across most of our product lines, (ii) an increase of \$4.9 million of commercial OEM sales resulting primarily from an increase in production rates from The Boeing Company and Airbus S.A.S. and related OEM system suppliers, and (iii) an increase of \$1.4 million in commercial aftermarket sales. The remaining \$17.0 million of the increase resulted from the acquisitions of ATI and Bruce during fiscal 2007.

Cost of Sales. Cost of sales increased by \$12.0 million, or 17.3%, to \$81.4 million for the quarter ended March 29, 2008 from \$69.4 million for the comparable quarter last year primarily due to the increase volume associated with the higher net sales of \$30.9 million discussed above. Cost of sales as a percentage of sales decreased to 46.4% for the thirteen week period ended March 29, 2008 from 48.0% for the thirteen week period ended March 31, 2007. The decrease in cost of sales as a percentage of net sales was due primarily to a \$2.5 million charge, or 1.7% of net sales, recorded in the prior year resulting from inventory purchase price accounting charges pertaining to the

Edgar Filing: TransDigm Group INC - Form 10-Q

acquisitions of ATI and CDA. The prior period also included acquisition integration costs of \$0.7 million, or 0.5% of net sales. Total acquisition-related expenses totaled \$0.6 million, or 0.4% of net sales, in the current period ended March 29, 2008.

-19-

Table of Contents

Selling and Administrative Expenses. Selling and administrative expenses increased by \$3.8 million to \$18.4 million, or 10.5% of sales, for the quarter ended March 29, 2008 from \$14.6 million, or 10.1% of sales, for the comparable quarter last year. This increase was primarily due to the higher sales discussed above and an increase in research and development expenses primarily relating to the Boeing 787 and other new programs of \$1.3 million, or 0.5% of net sales.

Amortization of Intangibles. Amortization of intangibles decreased by \$0.6 million to \$2.8 million for the quarter ended March 29, 2008 from \$3.4 million for the comparable quarter last year due to a decrease in order backlog amortization partially offset by additional amortization from the acquisitions of ATI and Bruce.

Interest Expense-net. Interest expense increased \$1.4 million, or 6.2%, to \$24.0 million for the quarter ended March 29, 2008 from \$22.6 million for the comparable quarter last year as a result of an increase in our outstanding borrowings of approximately \$430 million related to the acquisition of ATI on February 7, 2007, partially offset by higher interest income of \$1.2 million and lower interest rates. The Company's weighted average level of outstanding borrowings was approximately \$1.36 billion for the quarter ended March 29, 2008 compared to approximately \$1.17 billion during the comparable quarter last year while the weighted average interest rate decreased to approximately 7.3% during the quarter ended March 29, 2008 from approximately 7.6% for the comparable quarter last year.

Income Taxes. Income tax expense as a percentage of income before income taxes was approximately 34.0% for the quarter ended March 29, 2008 compared to 37.7% for the quarter ended March 31, 2007. The lower effective tax rate was primarily due to the favorable resolution of a prior year state tax refund claim of \$0.9 million that reduced the effective tax rate for the quarter ended March 29, 2008 by approximately two percentage points. Also contributing to the lower effective tax rate was a reduction in state and local taxes.

Net Income. Net income increased \$10.7 million, or 49.5%, to \$32.2 million for the second quarter of fiscal 2008 compared to \$21.5 million for the second quarter of fiscal 2007, primarily as a result of the factors referred to above.

Twenty-six week period ended March 29, 2008 compared with the twenty-six week period ended March 31, 2007.

Net Sales. Net sales increased by \$71.3 million, or 26.7%, to \$338.4 million for the twenty-six week period ended March 29, 2008, from \$267.1 million for the comparable period last year. Sales growth excluding acquisitions was \$23.0 million and represented an 8.6% increase over the prior year. The organic sales growth was primarily due to (i) an increase of \$12.1 million in defense sales primarily due to increased demand for aftermarket spare parts across most of our product lines, (ii) \$6.0 million of commercial aftermarket sales, and (iii) an increase of \$4.8 million of commercial OEM sales primarily resulting from an increase in production rates. The remaining \$48.3 million of the increase resulted from the acquisitions of ATI and Bruce during fiscal 2007.

Cost of Sales. Cost of sales increased by \$28.0 million, or 21.8%, to \$156.4 million for the twenty-six week period ended March 29, 2008 from \$128.4 million for the comparable period last year. Cost of sales as a percentage of sales decreased to 46.2% for the twenty-six week period ended March 29, 2008 from 48.1% for the twenty-six week period ended March 31, 2007. The absolute dollar increase in cost of sales was primarily due to increased volume associated with the higher net sales of \$71.3 million discussed above, partially offset by a \$2.6 million decrease, or 1.1% of net sales, that resulted from inventory purchase price accounting charges and acquisition integration costs pertaining to the acquisitions of ATI and CDA. The decrease in cost of sales as a percentage of sales was due to the decrease in acquisition-related expenses, the strength of the Company's proprietary products, continued productivity efforts, and to a lesser extent, favorable product mix on the increase in total aftermarket sales. Additionally, this decrease in cost of sales as a percentage of sales was partially offset by the dilutive impact from recent acquisitions.

Selling and Administrative Expenses. Selling and administrative expenses increased by \$9.5 million, or 35.7%, to \$36.2 million, or 10.7% of sales, for the twenty-six week period ended March 29, 2008 from \$26.7 million, or 10.0% of sales, for the comparable period last year. This increase was primarily due to the higher sales discussed above and

Table of Contents

an increase in research and development expenses primarily relating to the Boeing 787 and other new programs of \$4.0 million, or 0.9% of net sales.

Amortization of Intangibles. Amortization of intangibles increased to \$6.1 million for the twenty-six week period ended March 29, 2008 from \$5.0 million for the comparable period last year due to an increase in amortization expense of approximately \$1.1 million on the additional identifiable intangible assets recognized in connection with the acquisitions of ATI and Bruce.

Interest Expense-net. Interest expense increased \$8.1 million, or 20.1%, to \$48.5 million for the twenty-six week period ended March 29, 2008 from \$40.4 million for the comparable period last year primarily the result of an increase in our debt of approximately \$430 million due to the acquisition ATI, partially offset by higher interest income of \$2.6 million and lower interest rates. The Company's weighted average level of outstanding borrowings was approximately \$1.36 billion during the twenty-six weeks ended March 29, 2008 compared to approximately \$1.05 billion during the comparable period last year while the average interest rate decreased to approximately 7.4% during the twenty-six week period ended March 29, 2008 from 7.6% for the comparable period last year.

Income Taxes. Income tax expense as a percentage of income before income taxes was approximately 35.1% for the twenty-six weeks ended March 29, 2008 compared to 37.2% for the twenty-six week period ended March 31, 2007. The lower effective tax rate was due to a reduction in state and local taxes and the favorable resolution of a prior year state tax refund claim of \$0.9 million.

Net Income. Net income increased \$17.3 million, or 41.3%, to \$59.1 million for the twenty-six week period ended March 29, 2008 compared to net income of \$41.8 million for the twenty-six week period ended March 31, 2007, primarily as a result of the factors referred to above.

Backlog

As of March 29, 2008, the Company estimated its sales order backlog at \$378.3 million compared to an estimated \$344.9 million as of March 31, 2007. This increase in backlog is due to the purchase orders acquired in connection with the acquisition of Bruce, discussed above, totaling approximately \$7.0 million and an increase in orders across existing product lines in both the OEM and aftermarket segments. The majority of the purchase orders outstanding as of March 29, 2008 are scheduled for delivery within the next twelve months. Purchase orders may be subject to cancellation by the customer prior to shipment. The level of unfilled purchase orders at any given date during the year will be materially affected by the timing of the Company's receipt of purchase orders and the speed with which those orders are filled. Accordingly, the Company's backlog as of March 29, 2008 may not necessarily represent the actual amount of shipments or sales for any future period.

Foreign Currency Exchange Rate Risk

We manufacture substantially all of our products in the United States; however, as result of our ATI acquisition, some of our products are manufactured in Malaysia. We sell our products in the United States, as well as in foreign countries. Substantially all of our foreign sales are transacted in U.S. dollars and, therefore, we have no material exposure to fluctuations in the rate of exchange between foreign currencies and the U.S. dollar as a result of foreign sales. In addition the amount of components or other raw materials or supplies that we purchase from foreign suppliers, including our Malaysian manufacturing subsidiary, are not material, with substantially all such transactions being made in U.S. dollars. Accordingly, we have no material exposure to currency fluctuations in the rate of exchange between foreign currencies and the U.S. dollar arising from these transactions.

Table of Contents

Liquidity and Capital Resources

Operating Activities. The Company generated \$78.2 million of cash from operating activities during the twenty-six week period ended March 29, 2008 compared to \$55.4 million during the twenty-six week period ended March 31, 2007. The increase of \$22.8 million was primarily due to higher net income and favorable changes in working capital for the twenty-six week period ended March 29, 2008.

Investing Activities. Cash used in investing activities was \$4.2 million during twenty-six week period ended March 29, 2008 consisting of capital expenditures. Cash used in investing activities was \$479.9 million during twenty-six week period ended March 31, 2007 consisting of capital expenditures of \$4.2 million, and the acquisition of ATI and CDA for \$475.7 million.

Financing Activities. Cash provided by financing activities during the twenty-six week period ended March 29, 2008 was \$14.1 million compared to \$428.1 million during the twenty-six week period ended March 31, 2007. Cash provided by financing activities during the twenty-six week period ended March 29, 2008 related to the exercise of stock options. Cash provided by financing activities for the twenty-six week period ended March 31, 2007 consisted of the proceeds received of \$297.0 million, net of fees, from the issuance of additional 7³/₄% senior subordinated notes and additional term loans of \$125.5 million, net of fees, to finance the acquisition of ATI, and the exercise of stock options of \$5.6 million.

Description of Current Senior Secured Credit Facility and Indenture

The senior secured credit facility (Senior Secured Credit Facility) consists of a \$780 million term loan facility, which is fully drawn, and a \$200 million revolving loan facility. At March 29, 2008, \$198.5 million of the revolving credit facility was available. The term loan facility will mature in June 2013 and is not subject to interim scheduled amortization, but is subject to certain prepayment requirements.

TransDigm Inc. entered into a three year interest rate swap in June 2006 with Credit Suisse for an initial notional amount of \$187 million at a fixed rate of 7.6%. The notional amount decreased to \$170 million on September 23, 2007 and will decrease to \$150 million on September 23, 2008. In January 2008, TransDigm Inc. entered into an additional three year interest rate swap with Credit Suisse for a notional amount of \$300 million at a fixed rate of 5.0%. As a result of these interest rate swaps, the interest rates on TransDigm's total debt are approximately 75% fixed and 25% variable.

TransDigm Inc. issued \$575 million aggregate principal amount of 7³/₄% senior subordinated notes (7³/₄% Senior Subordinated Notes) under the indenture dated as of June 23, 2006. Such notes do not require principal payments prior to their maturity in July 2014.

New Accounting Standards

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (FAS 161). FAS 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FAS 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company is currently evaluating the impact of the provisions of FAS 161 on its consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141(R)), which replaces SFAS 141. SFAS 141(R) requires assets and liabilities acquired in a business combination, contingent consideration, and certain acquired contingencies to be measured at their fair values as of the date of acquisition. SFAS 141(R) also requires that acquisition-related costs and restructuring costs be recognized separately from the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Company has not determined the impact of SFAS 141(R) on its consolidated financial position or results of operations.

In July 2006, the FASB issued FIN 48. FIN 48 prescribes the minimum accounting and disclosure requirements of uncertain tax positions. FIN 48 also provides guidance on the derecognition, measurement, classification, interest and penalties, and transition of uncertain tax positions. The Company adopted FIN 48 on October 1, 2007. See Note 8 in Notes to Condensed Consolidated Financial Statements.

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosure About Market Risk

Our main exposure to market risk relates to interest rates. Our financial instruments that are subject to interest rate risk principally include fixed-rate and floating-rate long-term debt. At March 29, 2008, we had borrowings under our Senior Secured Credit Facility of \$780 million that were subject to interest rate risk. Borrowings under our Senior Secured Credit Facility bear interest, at our option, at a rate equal to either an alternate base rate or an adjusted LIBO rate for a one-, two-, three- or six-month (or to the extent available to each lender, nine- or twelve-month) interest period chosen by us, in each case, plus an applicable margin percentage. Accordingly, the Company's cash flows and earnings will be exposed to the market risk of interest rate changes resulting from variable rate borrowings under our Senior Secured Credit Facility. The effect of a hypothetical one percentage point increase in interest rates would increase the annual interest costs under our Senior Secured Credit Facility by approximately \$7.8 million based on the amount of outstanding borrowings at March 29, 2008. The weighted average interest rate on the \$780 million of borrowings under our Senior Secured Credit Facility on March 29, 2008 was 4.7%.

At March 29, 2008, we had an agreement in place to swap variable interest rates on our Senior Secured Credit Facility for fixed interest rates through June 23, 2009 for the notional amount of \$170 million, which will decrease to \$150 million on September 23, 2008 through June 23, 2009. The fair value of the interest rate swap agreement is adjusted at each balance sheet date, with a corresponding adjustment to other comprehensive income. At March 29, 2008, the fair value of the interest rate swap agreement was a liability of \$6.5 million.

At March 29, 2008, we had an agreement in place to swap variable interest rates on our Senior Secured Credit Facility for fixed interest rates through March 23, 2011 for the notional amount of \$300 million. The fair value of the interest rate swap agreement is adjusted at each balance sheet date, with a corresponding adjustment to other comprehensive income. At March 29, 2008, the fair value of the interest rate swap agreement was a liability of \$2.3 million.

Because the interest rates on borrowings under our Senior Secured Credit Facility vary with market conditions, the amount of outstanding borrowings under our Senior Secured Credit Facility approximates the fair value of the indebtedness. The fair value of the \$575 million aggregate principal amount of our 7³/₄% Senior Subordinated Notes is exposed to the market risk of interest rate changes. The estimated fair value of such notes approximated \$572 million at March 29, 2008 based upon quoted market rates.

ITEM 4. CONTROLS AND PROCEDURES

As of March 29, 2008, TD Group carried out an evaluation, under the supervision and with the participation of TD Group's management, including its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of TD Group's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that TD Group's disclosure controls and procedures are effective to ensure that information required to be disclosed by TD Group in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to TD Group's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, TD Group's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures. There have been no significant changes in TD Group's internal controls or other factors that could significantly affect the internal controls subsequent to the date of TD Group's evaluations.

Changes in Internal Control over Financial Reporting

There have been no changes in TD Group's internal control over financial reporting that occurred during the twenty-six week period ending March 29, 2008 that have materially affected, or are reasonably likely to materially affect, TD Group's internal control over financial reporting.

Table of Contents

PART II: OTHER INFORMATION

ITEM 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. There have been no material changes to the risk factors set forth therein.

ITEM 4. Submission of Matters to a Vote of Security Holders

On February 15, 2008, the Company held its annual meeting of stockholders. The sole matter presented to stockholders for vote and the vote on such matter was as follows:

The election of two directors, Messrs. Sean Hennessy and Douglas Peacock, to serve for a three-year term and until their respective successors are duly elected and qualified.

Director	For	Authority Withheld
Sean Hennessy	35,891,116	3,101,820
Douglas Peacock	29,826,054	9,166,882

ITEM 6. Exhibits

- 31.1 Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

TRANSDIGM GROUP INCORPORATED

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

SIGNATURE	TITLE	DATE
/s/ W. Nicholas Howley	Chairman of the Board of Directors and	May 8, 2008
W. Nicholas Howley	Chief Executive Officer (Principal Executive Officer)	
/s/ Gregory Rufus	Chief Financial Officer and	May 8, 2008
Gregory Rufus	Executive Vice President (Principal Financial and Accounting Officer)	

Table of Contents

EXHIBIT INDEX

TO FORM 10-Q FOR THE PERIOD ENDED MARCH 29, 2008

EXHIBIT NO.	DESCRIPTION
31.1	Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.