

TransDigm Group INC
Form 10-Q
August 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended June 30, 2018

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)

Delaware

(State or other jurisdiction of incorporation or organization)

41-2101738

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

1301 East 9th Street, Suite 3000, Cleveland, Ohio 44114

(Address of principal executive offices) (Zip Code)

(216) 706-2960

(Registrant's 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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

LARGE ACCELERATED FILER ACCELERATED FILER
NON-ACCELERATED FILER SMALLER REPORTING COMPANY
EMERGING GROWTH COMPANY

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 52,628,694 as of July 31, 2018.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share amounts)

(Unaudited)

	June 30, 2018	September 30, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,853,373	\$ 650,561
Trade accounts receivable - Net	658,168	636,127
Inventories - Net	815,251	730,681
Assets held-for-sale	—	77,500
Prepaid expenses and other	58,610	38,683
Total current assets	3,385,402	2,133,552
PROPERTY, PLANT AND EQUIPMENT - NET	380,475	324,924
GOODWILL	6,209,247	5,745,338
OTHER INTANGIBLE ASSETS - NET	1,715,074	1,717,862
OTHER	114,279	53,985
TOTAL ASSETS	\$ 11,804,477	\$ 9,975,661
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 75,793	\$ 69,454
Short-term borrowings - trade receivable securitization facility	299,956	299,587
Accounts payable	155,937	148,761
Accrued liabilities	285,484	335,888
Liabilities held-for-sale	—	17,304
Total current liabilities	817,170	870,994
LONG-TERM DEBT	12,516,010	11,393,620
DEFERRED INCOME TAXES	357,680	500,949
OTHER NON-CURRENT LIABILITIES	212,097	161,302
Total liabilities	13,902,957	12,926,865
STOCKHOLDERS' DEFICIT:		
Common stock - \$.01 par value; authorized 224,400,000 shares; issued 56,717,525 and 56,093,659 at June 30, 2018 and September 30, 2017, respectively	567	561
Additional paid-in capital	1,171,549	1,095,319
Accumulated deficit	(2,471,575)	(3,187,220)
Accumulated other comprehensive loss	(23,717)	(85,143)
Treasury stock, at cost; 4,161,326 and 4,159,207 shares at June 30, 2018 and September 30, 2017, respectively	(775,304)	(774,721)
Total stockholders' deficit	(2,098,480)	(2,951,204)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 11,804,477	\$ 9,975,661

See notes to condensed consolidated financial statements.

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TRANSDIGM GROUP INCORPORATED
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 FOR THE THIRTEEN AND THIRTY-NINE WEEK PERIODS ENDED
 JUNE 30, 2018 AND JULY 1, 2017

(Amounts in thousands, except per share amounts)

(Unaudited)

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
NET SALES	\$ 980,662	\$ 897,655	\$2,761,692	\$2,580,401
COST OF SALES	411,142	377,959	1,181,448	1,127,013
GROSS PROFIT	569,520	519,696	1,580,244	1,453,388
SELLING AND ADMINISTRATIVE EXPENSES	113,019	108,104	327,073	310,677
AMORTIZATION OF INTANGIBLE ASSETS	19,224	23,259	53,793	70,822
INCOME FROM OPERATIONS	437,277	388,333	1,199,378	1,071,889
INTEREST EXPENSE - NET	167,577	152,141	489,776	445,986
REFINANCING COSTS	4,159	345	5,910	35,936
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	265,541	235,847	703,692	589,967
INCOME TAX PROVISION	48,150	66,015	(27,550)	) 145,573
INCOME FROM CONTINUING OPERATIONS	217,391	169,832	731,242	444,394
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	(145)	) (779)	) (2,943)	) (965)
NET INCOME	\$ 217,246	\$ 169,053	\$728,299	\$443,429
NET INCOME APPLICABLE TO COMMON STOCK	\$ 217,246	\$ 169,053	\$672,151	\$347,458
Net earnings per share:				
Net earnings per share from continuing operations - basic and diluted	\$ 3.91	\$ 3.09	\$12.14	\$6.25
Net loss per share from discontinued operations - basic and diluted	—	(0.01)	) (0.05)	) (0.02)
Net earnings per share	\$ 3.91	\$ 3.08	\$12.09	\$6.23
Cash dividends paid per common share	\$ —	\$ —	\$—	\$24.00
Weighted-average shares outstanding:				
Basic and diluted	55,597	54,890	55,598	55,773

See notes to condensed consolidated financial statements.

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TRANSDIGM GROUP INCORPORATED
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE THIRTEEN AND THIRTY-NINE WEEK PERIODS ENDED
 JUNE 30, 2018 AND JULY 1, 2017

(Amounts in thousands)

(Unaudited)

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net income	\$ 217,246	\$ 169,053	\$728,299	\$443,429
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(32,543)	24,525	(4,355)	4,523
Interest rate swap and cap agreements	2,307	(8,386)	65,781	32,568
Other comprehensive (loss) income, net of tax	(30,236)	16,139	61,426	37,091
TOTAL COMPREHENSIVE INCOME	\$ 187,010	\$ 185,192	\$789,725	\$480,520

See notes to condensed consolidated financial statements.

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TRANSDIGM GROUP INCORPORATED
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
 FOR THE THIRTY-NINE WEEK PERIOD ENDED JUNE 30, 2018

(Amounts in thousands, except share amounts)

(Unaudited)

	Common Stock			Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock		Total
	Number of Shares	Par Value	Additional Paid-In Capital			Number of Shares	Value	
BALANCE, OCTOBER 1, 2017	56,093,659	\$ 561	\$ 1,095,319	\$(3,187,220)	\$(85,143)	(4,159,207)	\$(774,721)	\$(2,951,204)
Unvested dividend equivalents and other	—	—	—	(12,654)	—	—	—	(12,654)
Compensation expense recognized for employee stock options and restricted stock	—	—	35,460	—	—	—	—	35,460
Exercise of employee stock options, restricted stock activity and other, net	623,361	6	40,621	—	—	(2,119)	(583)	40,044
Common stock issued	505	—	149	—	—	—	—	149
Net income	—	—	—	728,299	—	—	—	728,299
Foreign currency translation adjustments	—	—	—	—	(4,355)	—	—	(4,355)
Interest rate swaps and caps, net of tax	—	—	—	—	65,781	—	—	65,781
BALANCE, JUNE 30, 2018	56,717,525	\$ 567	\$ 1,171,549	\$(2,471,575)	\$(23,717)	(4,161,326)	\$(775,304)	\$(2,098,480)

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Thirty-Nine Week Periods Ended	
	June 30, 2018	July 1, 2017
OPERATING ACTIVITIES:		
Net income	\$728,299	\$443,429
Net loss from discontinued operations	2,943	965
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	41,248	37,581
Amortization of intangible assets and product certification costs	54,286	71,495
Amortization of debt issuance costs, original issue discount and premium	16,179	15,530
Refinancing costs	5,910	35,936
Non-cash equity compensation	36,411	32,707
Deferred income taxes	(166,783	) 270
Changes in assets/liabilities, net of effects from acquisitions of businesses:		
Trade accounts receivable	(861	) (21,195)
Inventories	(21,992	) (325)
Income taxes receivable/payable	6,730	(12,782)
Other assets	(2,500	) (4,104)
Accounts payable	724	(12,342)
Accrued interest	6,670	741
Accrued and other liabilities	(16,354	) (32,690)
Net cash provided by operating activities	690,910	555,216
INVESTING ACTIVITIES:		
Capital expenditures	(50,097	) (55,671)
Payments made in connection with acquisitions	(582,262	) (135,507)
Proceeds (payments made) in connection with the sale (purchase) of discontinued operations	57,686	(79,695)
Net cash used in investing activities	(574,673	) (270,873)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	40,621	18,046
Special dividend and dividend equivalent payments	(56,148	) (1,376,034
Treasury stock purchased	—	(389,821)
Proceeds from term loans, net	12,779,772	1,132,755
Repayments on term loans	(12,155,198)	(48,453)
Proceeds from senior subordinated notes due 2026, net	490,411	—
Cash tender and redemption of senior subordinated notes due 2021, including premium	—	(528,847)
Proceeds from additional senior subordinated notes due 2025, net	—	300,517
Other	(9,904	) (10,777)
Net cash provided by (used in) financing activities	1,089,554	(902,614)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2,979	) 1,833
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,202,812	(616,438)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	650,561	1,586,994
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$1,853,373	\$970,556
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		

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Cash paid during the period for interest	\$469,667	\$434,295
Cash paid during the period for income taxes	\$123,597	\$157,899
See notes to condensed consolidated financial statements.		

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TRANSDIGM GROUP INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THIRTY-NINE WEEK PERIODS ENDED JUNE 30, 2018 AND JULY 1, 2017
(UNAUDITED)

1. DESCRIPTION OF THE BUSINESS

Description of the Business – TransDigm Group Incorporated (“TD Group”), through its wholly-owned subsidiary, TransDigm Inc., is a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly every commercial and military aircraft in service today. TransDigm Inc., along with TransDigm Inc.’s direct and indirect wholly-owned operating subsidiaries (collectively, with TD Group, the “Company” or “TransDigm”), offers a broad range of proprietary aerospace components. TD Group has no significant assets or operations other than its 100% ownership of TransDigm Inc. TD Group’s common stock is listed on the New York Stock Exchange, or the NYSE, under the trading symbol “TDG.”

Major product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, NiCad batteries and chargers, engineered latching and locking devices, rods and locking devices, engineered connectors and elastomers, databus and power controls, cockpit security components and systems, specialized cockpit displays, aircraft audio systems, specialized lavatory components, seat belts and safety restraints, engineered interior surfaces and related components, lighting and control technology, military personnel parachutes, high performance hoists, winches and lifting devices, and cargo loading, handling and delivery systems.

2. UNAUDITED INTERIM FINANCIAL INFORMATION

The financial information included herein is unaudited; however, the information reflects all adjustments (consisting 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, 2017 included in TD Group’s Form 10-K filed on November 13, 2017. As disclosed therein, the Company’s annual consolidated financial statements were prepared in conformity with generally accepted accounting principles in the United States (“GAAP”). The September 30, 2017 condensed consolidated balance sheet was derived from TD Group’s audited financial statements. The results of operations for the thirty-nine week period ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year.

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation related to the designation of Schroth as discontinued operations beginning in the fourth quarter of fiscal 2017 (refer to Note 14, "Discontinued Operations," for further information) and an organizational realignment effective October 1, 2017 of certain businesses comprising the Power & Control and the Non-Aviation segments.

3. ACQUISITIONS AND DIVESTITURES

During the thirty-nine week period ended June 30, 2018, the Company completed the acquisitions of Extant Components Group Holdings, Inc. ("Extant") and the Kirkhill elastomers business ("Kirkhill") from Esterline Technologies. During the fiscal year ended September 30, 2017, the Company completed the acquisitions of three separate aerospace product lines (collectively, the "Third Quarter 2017 Acquisitions"). The Company accounted for the acquisitions using the acquisition method and included the results of operations of the acquisitions in its condensed consolidated financial statements from the effective date of each acquisition. As of June 30, 2018, the one-year measurement period is open for Extant and Kirkhill; therefore, the assets acquired and liabilities assumed related to these acquisitions are subject to adjustment until the end of their respective one-year measurement periods. The Company is in the process of obtaining a third-party valuation of certain intangible assets and tangible assets and liabilities of Kirkhill and Extant. Pro forma net sales and results of operations for the acquisitions had they occurred at the beginning of the applicable thirty-nine week period ended June 30, 2018 or July 1, 2017 are not material and, accordingly, are not provided.

The acquisitions strengthen and expand the Company's position to design, produce and supply highly engineered proprietary aerospace components in niche markets with significant aftermarket content and provide opportunities to create value through the application of our three core value-driven operating strategies (obtaining profitable new business, improving our cost structure, and providing highly engineered value-added products to customers). The purchase price paid for each acquisition reflects the current earnings before interest, taxes, depreciation and amortization (EBITDA) and cash flows, as well as the future EBITDA and cash flows expected to be generated by the business, which are driven in most cases by the recurring aftermarket consumption over the life of a particular aircraft, estimated to be approximately 25 to 30 years.

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Extant – On April 24, 2018, the Company acquired all of the outstanding stock of Extant for a total purchase price of approximately \$532.5 million in cash, which is net of a \$0.2 million working capital settlement received in the third quarter of fiscal 2018. Extant provides a broad range of proprietary aftermarket products and repair and overhaul services to the aerospace and defense end markets. Extant owns or exclusively licenses in excess of 2,500 assemblies and sub-assemblies on over 70 active platforms. Extant is included in TransDigm's Power and Control segment. Prior to the Company's acquisition of Extant, Extant was owned by an equity fund sponsored by Warburg Pincus LLC. Michael Graff, a director of TransDigm, is a managing director of Warburg Pincus LLC and was chairman of the board of Extant. Robert Henderson, Vice Chairman of TransDigm, was also on the board of Extant and owned less than 2% of Extant on a fully diluted basis. In addition, Mr. Graff, Mr. W. Nicholas Howley, TransDigm's Executive Chairman, and Messrs. Douglas Peacock and David Barr, directors of TransDigm, each had minority interests of less than 1% in the Warburg Pincus LLC fund that owned Extant.

The total purchase price of Extant was allocated to the underlying assets acquired and liabilities assumed based upon management's estimated fair values at the date of acquisition. To the extent the purchase price exceeded the estimated fair value of the net identifiable tangible and intangible assets acquired, such excess was allocated to goodwill. The following table summarizes the purchase price allocation of the estimated fair values of the assets acquired and liabilities assumed at the transaction date (in thousands).

Assets acquired:

Current assets, excluding cash acquired	\$58,021
Property, plant, and equipment	4,124
Intangible assets	36,000
Goodwill	460,707
Other	86
Total assets acquired	558,938

Liabilities assumed:

Current liabilities	9,213
Other noncurrent liabilities	17,226
Total liabilities assumed	26,439
Net assets acquired	\$532,499

The Company expects that approximately \$44 million of goodwill recognized for the acquisition will be deductible for tax purposes over 15 years and approximately \$417 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

Kirkhill – On March 15, 2018, the Company acquired the assets and certain liabilities of the Kirkhill elastomers business from Esterline Technologies for a total purchase price of approximately \$49.3 million, which is net of a \$0.6 million working capital settlement received in the third quarter of fiscal 2018. Kirkhill's products are primarily proprietary, sole source with significant aftermarket content and used in a broad variety of most major commercial transport and military platforms. Kirkhill is included in TransDigm's Airframe segment. The Company expects that no goodwill recognized for the acquisition will be deductible for tax purposes.

Third Quarter 2017 Acquisitions – The Third Quarter 2017 Acquisitions were acquired for an aggregate purchase price of approximately \$106.7 million in cash, which includes working capital settlements totaling \$1.0 million paid in the third and fourth quarters of fiscal 2017 and an earn-out of \$0.4 million paid in the second quarter of fiscal 2018. All three product lines consist primarily of proprietary, sole source products with significant aftermarket content. The products include highly engineered aerospace controls, quick disconnect couplings, and communication electronics. Each product line acquired was consolidated into an existing TransDigm reporting unit within TransDigm's Power & Control segment. Approximately \$66 million of goodwill recognized for the acquisitions is deductible for tax purposes over 15 years and approximately \$9 million of goodwill recognized for the acquisitions is not deductible for tax purposes.

Schroth – On February 22, 2017, the Company acquired all of the outstanding stock of Schroth Safety Products GmbH and certain aviation and defense assets and liabilities from subsidiaries of Takata Corporation (collectively, "Schroth"), for a total purchase price of approximately \$89.7 million, which consisted primarily of \$79.7 million paid

in cash during fiscal 2017 and an approximately \$9.0 million indemnity holdback, of which \$8.5 million was paid in April 2018.

In connection with the settlement of a Department of Justice investigation into the competitive effects of the acquisition, during the fourth quarter of 2017, the Company committed to dispose of the Schroth business. Therefore, Schroth was classified as held-for-sale beginning in the fourth quarter of 2017. The results of operations of Schroth are reflected as discontinued operations in the accompanying condensed consolidated financial statements.

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On January 26, 2018, the Company completed the sale of Schroth in a management buyout to a private equity fund and certain members of Schroth management for approximately \$61.4 million, which includes a working capital adjustment of \$0.3 million that was settled in July 2018. Further disclosure related to Schroth's discontinued operations is included in Note 14.

4. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, which created a new topic in the Accounting Standards Codification ("ASC") 606, "Revenue From Contracts With Customers." In addition to superseding and replacing nearly all existing U.S. GAAP revenue recognition guidance, including industry-specific guidance, ASC 606 establishes a new control-based revenue recognition model. The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The guidance is effective for the Company for annual reporting periods, including interim periods therein, beginning October 1, 2018, which will be the Company's date of adoption. The Company will use the modified retrospective method. The Company is continuing to evaluate the impact of the standard. For each reporting unit, we have evaluated a representative sample of contracts and other agreements with our customers and evaluated the provisions contained within these contracts and agreements in consideration of the five step model specified within ASC 606. We are in the process of documenting the impact of the standard on our current accounting policies and practices in order to identify material differences, if any, that would result from applying the new requirements to our revenue contracts. We continue to make progress on our assessment of ASC 606 and are also in the process of evaluating the impact on changes to our business processes, systems, and controls to support recognition and disclosure requirements under ASC 606.

In February 2016, the FASB issued ASU 2016-02, "Leases (ASC 842)," which will require that a lessee recognize assets and liabilities on the balance sheet for all leases with a lease term of more than twelve months, with the result being the recognition of a right of use asset and a lease liability. Additionally, in July 2018, the FASB issued ASU 2018-10, "Codification Improvements to ASC 842, Leases" which provides narrow amendments to clarify how to apply certain aspects of the new leases standard. The new leases standard guidance is effective for the Company for annual reporting periods, including interim periods therein, beginning October 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13)," which changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019 and early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments," which clarifies existing guidance related to accounting for cash receipts and cash payments and classification on the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted. The Company elected to early adopt this standard in the fourth quarter of fiscal 2017. The adoption of this standard did not have a material impact on its consolidated statement of cash flows.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment," to eliminate Step 2 from the goodwill impairment test in order to simplify the subsequent measurement of goodwill. The guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this standard is not expected to have a material impact on its consolidated financial statements and disclosures.

In March 2017, the FASB issued ASU 2017-07, "Compensation—Retirement Benefits (ASC 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," that will change how employers that sponsor defined benefit and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Under the new guidance, employers will present the service cost component of the net

periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Employers will present the other components separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented. Employers will have to disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The standard is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within the fiscal year. Early adoption is permitted, including adoption in any interim period for which financial statements have not yet been issued. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

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In May 2017, the FASB issued ASU 2017-09, "Compensation—Stock Compensation (ASC 718): Scope of Modification Accounting," which provides clarity on which changes to the terms or conditions of share-based payment awards require an entity to apply the modification accounting provisions required in ASC 718. The standard is effective for all entities for annual periods beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (ASC 815): Targeted Improvements to Accounting for Hedging Activities," which amends the FASB's hedge accounting model to enable entities to better portray their risk management activities in financial statements. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. ASU 2017-12 is effective for the Company for annual reporting periods, including interim periods therein, beginning October 1, 2018, with early adoption permitted. As early adoption is permissible, the Company adopted the pronouncement beginning October 1, 2017. Changes were applied prospectively in accordance with the standard and prior periods were not adjusted. The adoption of this standard did not have a material impact on our consolidated financial statements and disclosures.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (ASC 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which gives entities the option to reclassify tax effects stranded in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act (the "Act") into retained earnings. The guidance allows entities to reclassify from accumulated other comprehensive income to retained earnings stranded tax effects resulting from the Act's new federal corporate income tax rate. The guidance also allows entities to elect to reclassify other stranded tax effects that relate to the Act but do not directly relate to the change in the federal tax rate (e.g., state taxes, changing from a worldwide tax system to a territorial system). Tax effects that are stranded in accumulated other comprehensive income for other reasons (e.g., prior changes in tax law, a change in valuation allowance) may not be reclassified. The standard is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within the fiscal year. Early adoption is permitted, including adoption in any interim period for which financial statements have not yet been issued. Entities have the option to apply the guidance retrospectively or in the period of adoption. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, "Income Taxes (ASC 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118." The ASU adds various SEC paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which was effective immediately. The SEC issued SAB 118 to address concerns about reporting entities' ability to timely comply with the accounting requirements to recognize all of the effects of the Tax Cuts and Jobs Act in the period of enactment. SAB 118 allows disclosure that timely determination of some or all of the income tax effects from the Tax Cuts and Jobs Act are incomplete by the due date of the financial statements and if possible to provide a reasonable estimate. We have accounted for the tax effects of the Tax Cuts and Jobs Act under the guidance of SAB 118, on a provisional basis. Our accounting for certain income tax effects is incomplete, but we have determined reasonable estimates for those effects and have recorded provisional amounts in our condensed consolidated financial statements. Refer to Note 9, "Income Taxes," for further information.

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5. EARNINGS PER SHARE (TWO-CLASS METHOD)

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Numerator for earnings per share:				
Net income from continuing operations	\$ 217,391	\$ 169,832	\$731,242	\$444,394
Less dividends paid on participating securities	—	—	(56,148)	(95,971)
	\$ 217,391	\$ 169,832	\$675,094	\$348,423
Net loss from discontinued operations	(145)	(779)	(2,943)	(965)
Net income applicable to common stock - basic and diluted	\$ 217,246	\$ 169,053	\$672,151	\$347,458
Denominator for basic and diluted earnings per share under the two-class method:				
Weighted average common shares outstanding	52,470	51,932	52,241	52,718
Vested options deemed participating securities	3,127	2,958	3,357	3,055
Total shares for basic and diluted earnings per share	55,597	54,890	55,598	55,773
Net earnings per share from continuing operations - basic and diluted				
	\$ 3.91	\$ 3.09	\$12.14	\$6.25
Net loss per share from discontinued operations - basic and diluted				
	—	(0.01)	(0.05)	(0.02)
Net earnings per share	\$ 3.91	\$ 3.08	\$12.09	\$6.23

6. INVENTORIES

Inventories are stated at the lower of cost or market. Cost of inventories is generally determined by the average cost and the first-in, first-out (FIFO) methods and includes material, labor and overhead related to the manufacturing process.

Inventories consist of the following (in thousands):

	June 30, 2018	September 30, 2017
Raw materials and purchased component parts	\$553,006	\$496,899
Work-in-progress	220,883	187,009
Finished goods	139,395	131,548
Total	913,284	815,456
Reserves for excess and obsolete inventory	(98,033)	(84,775)
Inventories - Net	\$815,251	\$730,681

7. INTANGIBLE ASSETS

Other intangible assets - net in the condensed consolidated balance sheets consist of the following (in thousands):

	June 30, 2018			September 30, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks and trade names	\$746,859	\$ —	\$746,859	\$729,931	\$ —	\$729,931
Technology	1,309,675	399,828	909,847	1,292,719	351,638	941,081
Order backlog	11,000	4,275	6,725	29,000	26,668	2,332
Other	73,226	21,583	51,643	63,599	19,081	44,518
Total	\$2,140,760	\$ 425,686	\$1,715,074	\$2,115,249	\$ 397,387	\$1,717,862

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Intangible assets acquired during the thirty-nine week period ended June 30, 2018 were as follows (in thousands):

	Gross Amount	Amortization Period
Intangible assets not subject to amortization:		
Goodwill	\$460,961	
Trademarks and trade names	17,300	
	478,261	
Intangible assets subject to amortization:		
Technology	20,600	20 years
Order backlog	8,300	1 year
Customer relationships	10,000	20 years
	38,900	15.9 years
Total	\$517,161	

The aggregate amortization expense on identifiable intangible assets for the thirty-nine week periods ended June 30, 2018 and July 1, 2017 was approximately \$53.8 million and \$70.8 million, respectively. The estimated amortization expense is \$73.2 million for fiscal year 2018, \$73.3 million for fiscal year 2019, and \$68.7 million for each of the four succeeding fiscal years 2020 through 2023.

The following is a summary of changes in the carrying value of goodwill by segment from September 30, 2017 through June 30, 2018 (in thousands):

	Power & Control	Airframe	Non- aviation	Total
Balance - September 30, 2017	\$3,269,981	\$2,382,082	\$93,275	\$5,745,338
Goodwill acquired during the year	460,707	254	—	460,961
Purchase price allocation adjustments	5,354	—	—	5,354
Currency translation adjustment	—	(2,401)	—	(2,401)
Other	(192)	187	—	(5)
Balance - June 30, 2018	\$3,735,850	\$2,380,122	\$93,275	\$6,209,247

8. DEBT

The Company's debt consists of the following (in thousands):

	June 30, 2018			
	Gross Amount	Debt Issuance Costs	Original Issue Discount or Premium	Net Amount
Short-term borrowings—trade receivable securitization facility	\$300,000	\$(44)	\$—	\$299,956
Term loans	\$7,619,039	\$(73,105)	\$(21,984)	\$7,523,950
5.50% senior subordinated notes due 2020 (2020 Notes)	550,000	(2,451)	—	547,549
6.00% senior subordinated notes due 2022 (2022 Notes)	1,150,000	(5,861)	—	1,144,139
6.50% senior subordinated notes due 2024 (2024 Notes)	1,200,000	(7,160)	—	1,192,840
6.50% senior subordinated notes due 2025 (2025 Notes)	750,000	(3,637)	3,772	750,135
6.375% senior subordinated notes due 2026 (6.375% 2026 Notes)	950,000	(8,050)	—	941,950
6.875% senior subordinated notes due 2026 (6.875% 2026 Notes)	500,000	(5,038)	(3,722)	491,240
	12,719,039	(105,302)	(21,934)	12,591,803
Less current portion	76,427	(634)	—	75,793
Long-term debt	\$12,642,612	\$(104,668)	\$(21,934)	\$12,516,010

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	September 30, 2017			
	Gross	Debt	Original	Net
	Amount	Issuance	Discount	Amount
		Costs	or	
			Premium	
Short-term borrowings—trade receivable securitization facility	\$300,000	\$(413)	\$—	\$299,587
Term loans	\$6,973,009	\$(64,104)	\$(18,948)	\$6,889,957
5.50% 2020 Notes	550,000	(3,243)	—	546,757
6.00% 2022 Notes	1,150,000	(6,941)	—	1,143,059
6.50% 2024 Notes	1,200,000	(8,042)	—	1,191,958
6.50% 2025 Notes	750,000	(4,033		