

TransDigm Group INC
Form 10-Q
August 10, 2007
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

- x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2007.**
- .. **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)

51-0484716

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

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

(216) 706-2939

44114
(Zip Code)

Edgar Filing: TransDigm Group INC - Form 10-Q

(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 46,919,887 as of July 27, 2007.

Table of Contents

INDEX

	Page
Part I	
FINANCIAL INFORMATION	
Item 1	
Financial Statements	
<u>Condensed Consolidated Balance Sheets – June 30, 2007 and September 30, 2006</u>	1
<u>Condensed Consolidated Statements of Operations – Thirteen and Thirty-Nine Week Periods Ended June 30, 2007 and July 1, 2006</u>	2
<u>Condensed Consolidated Statement of Changes in Stockholders’ Equity – Thirty-Nine Week Period Ended June 30, 2007</u>	3
<u>Condensed Consolidated Statements of Cash Flows – Thirty-Nine Week Periods Ended June 30, 2007 and July 1, 2006</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>	22
Item 3	
<u>Quantitative and Qualitative Disclosure About Market Risk</u>	33
Item 4	
<u>Controls and Procedures</u>	34
Part II	
<u>OTHER INFORMATION</u>	
Item 6	
<u>Exhibits</u>	35
<u>SIGNATURES</u>	36

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

(Amounts in thousands, except share amounts)

	June 30, 2007 (Unaudited)	September 30, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 120,195	\$ 61,217
Trade accounts receivable Net	88,581	65,568
Income taxes receivable	2,385	9,366
Inventories	121,216	89,243
Deferred income taxes	24,707	7,390
Prepaid expenses and other	3,786	1,397
Total current assets	360,870	234,181
PROPERTY, PLANT AND EQUIPMENT Net	87,633	62,851
GOODWILL	1,220,370	877,829
TRADEMARKS AND TRADE NAMES	159,427	125,497
OTHER INTANGIBLE ASSETS Net	176,946	100,462
DEBT ISSUE COSTS Net	23,669	14,872
OTHER	2,546	1,020
TOTAL ASSETS	\$ 2,031,461	\$ 1,416,712
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 24,213	\$ 18,764
Accrued liabilities	49,873	24,675
Total current liabilities	74,086	43,439
LONG-TERM DEBT	1,357,911	925,000
DEFERRED INCOME TAXES	132,349	78,109
OTHER NON-CURRENT LIABILITIES	6,240	7,123
Total liabilities	1,570,586	1,053,671
STOCKHOLDERS' EQUITY:		
Common stock \$.01 par value; authorized 224,400,000 shares; issued 46,901,077 and 44,664,020 at June 30, 2007 and September 30, 2006, respectively	469	446
Additional paid-in capital	328,882	296,757
Retained earnings	131,637	67,667
Accumulated other comprehensive loss	(113)	(1,829)
Total stockholders' equity	460,875	363,041
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,031,461	\$ 1,416,712

Edgar Filing: TransDigm Group INC - Form 10-Q

See notes to condensed consolidated financial statements.

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THIRTEEN AND THIRTY-NINE WEEK PERIODS ENDED****JUNE 30, 2007 AND JULY 1, 2006****(Amounts in thousands, except per share data)****(Unaudited)**

	Thirteen Week		Thirty-Nine Week	
	Periods Ended		Periods Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
NET SALES	\$ 157,613	\$ 110,856	\$ 424,760	\$ 319,272
COST OF SALES	75,360	53,749	203,802	156,445
GROSS PROFIT	82,253	57,107	220,958	162,827
OPERATING EXPENSES:				
Selling and administrative	17,340	11,543	44,047	37,059
Amortization of intangibles	3,607	1,415	8,617	4,681
Refinancing costs		48,456		48,456
Total operating expenses	20,947	61,414	52,664	90,196
INCOME/(LOSS) FROM OPERATIONS	61,306	(4,307)	168,294	72,631
INTEREST EXPENSE Net	25,924	19,505	66,320	58,686
INCOME/(LOSS) BEFORE INCOME TAXES	35,382	(23,812)	101,974	13,945
INCOME TAX PROVISION/(BENEFIT)	13,261	(10,449)	38,004	4,050
NET INCOME/(LOSS)	\$ 22,121	\$ (13,363)	\$ 63,970	\$ 9,895
Net earnings per share:				
Basic earnings/(loss) per share	\$ 0.48	\$ (0.30)	\$ 1.42	\$ 0.22
Diluted earnings/(loss) per share	\$ 0.45	\$ (0.30)	\$ 1.33	\$ 0.21
Weighted-average shares outstanding:				
Basic	45,800	44,578	45,182	44,344
Diluted	48,832	44,578	48,272	47,285

See notes to condensed consolidated financial statements.

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****FOR THE THIRTY-NINE WEEK PERIOD ENDED JUNE 30, 2007**

(Amounts in thousands, except share data)

(Unaudited)

	Common Stock Number of Shares	Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
BALANCE, OCTOBER 1, 2006	44,664,020	\$ 446	\$ 296,757	\$ 67,667	\$ (1,829)	\$ 363,041
Equity based compensation expense			2,453			2,453
Income tax benefit from exercise of stock options			21,962			21,962
Exercise of stock options	2,227,407	23	7,710			7,733
Issuance of common stock	9,650					
Comprehensive income:						
Net income				63,970		63,970
Interest rate swap					1,688	1,688
Other comprehensive income					28	28
Comprehensive income						65,686
BALANCE, JUNE 30, 2007	46,901,077	\$ 469	\$ 328,882	\$ 131,637	\$ (113)	\$ 460,875

See notes to condensed consolidated financial statements.

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

(Amounts in thousands)

(Unaudited)

	Thirty-Nine Week	
	Periods Ended	
	June 30, 2007	July 1, 2006
OPERATING ACTIVITIES:		
Net income	\$ 63,970	\$ 9,895
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	8,423	7,281
Amortization of intangibles	8,617	4,681
Amortization/write-off of debt issue costs	2,224	26,130
Non-cash equity compensation	2,453	1,446
Premium paid to redeem 8 ³ / ₈ % senior subordinated notes		25,611
Changes in assets/liabilities, net of effects from acquisition of businesses:		
Accounts receivable	(7,381)	995
Inventories	(8,064)	(9,217)
Other assets	(2,682)	(10,128)
Accounts payable	1,474	2,001
Accrued and other liabilities	19,746	(10,834)
Deferred compensation liability	1,339	(28,447)
Interest on unsecured promissory notes		(59,206)
Net cash provided by (used in) operating activities	90,119	(39,792)
INVESTING ACTIVITIES:		
Capital expenditures	(7,145)	(5,567)
Acquisition of businesses	(475,909)	(27,157)
Net cash used in investing activities	(483,054)	(32,724)
FINANCING ACTIVITIES:		
Proceeds from issuance of 7 ³ / ₄ % senior subordinated notes, net of fees	296,795	269,381
Borrowings under senior secured credit facility, net of fees	125,423	641,287
Repayment of amounts borrowed under the former credit facility		(289,849)
Repayment of 8 ³ / ₈ % senior subordinated notes		(425,281)
Repayment of TD Group loan facility		(200,000)
Repayment of unsecured promissory notes		(199,997)
Borrowings under TD Group loan facility, net of fees		193,752
Tax benefit from exercise of stock options	21,962	
Proceeds from exercise of stock options	7,733	1,093
Net cash provided by (used in) financing activities	451,913	(9,614)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58,978	(82,130)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	61,217	104,221

Edgar Filing: TransDigm Group INC - Form 10-Q

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 120,195	\$ 22,091
--	------------	-----------

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for interest	\$ 53,272	\$ 124,995
--	-----------	------------

Cash paid during the period for income taxes	\$ 10,508	\$ 12,741
--	-----------	-----------

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THIRTEEN AND THIRTY-NINE WEEK PERIODS ENDED JUNE 30, 2007 AND JULY 1, 2006

(UNAUDITED)

1. DESCRIPTION OF THE BUSINESS AND MERGER

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 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, and Transicoil (Malaysia) Sendirian Berhad (collectively, with TD Group, 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, gear pumps, mechanical/electromechanical actuators and controls, NiCad batteries/chargers, power conditioning devices, hold open rods and locking devices, engineered connectors, engineered latches, cockpit security devices, lavatory hardware and components, specialized AC/DC electric motors, aircraft audio systems, specialized cockpit displays and specialized valving.

TransDigm Holding Company (TransDigm Holdings) was formerly a wholly-owned subsidiary of TD Group and the direct parent of TransDigm Inc. TransDigm Holdings was merged into TransDigm Inc. on June 26, 2006.

TD Group was incorporated on July 8, 2003 under the name TD Holding Corporation by outside investors to acquire control of 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.

TD Group's Public Offerings On May 25, 2007, certain of TD Group's stockholders, including certain members of our management, sold an aggregate of 11,500,000 shares of TD Group's common stock in an underwritten public offering at a public offering price of \$35.25 per share. As a result of this offering, as of May 25, 2007, TD Group is no longer a controlled company for the purposes of the NYSE listing requirements. TD Group did not receive any proceeds from the sale of shares by the selling stockholders.

On March 20, 2006, certain of TD Group's stockholders and certain members of our management sold an aggregate of 12,597,756 shares of TD Group's common stock in an underwritten initial public offering, or the initial public offering, at a price of \$21.00 per share. TD Group did not offer any shares of common stock for sale in the initial public offering and it did not receive any of the proceeds from the sale of shares by the selling stockholders. TD Group's common stock is listed on The New York Stock Exchange, or the NYSE, under the trading symbol "TDG."

On March 14, 2006, TD Group effected a 149.60 for 1.00 stock split and, in conjunction therewith, amended and restated its certificate of incorporation to increase the number of authorized shares of common stock and preferred stock.

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 7/4% 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

Edgar Filing: TransDigm Group INC - Form 10-Q

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, 2006

-5-

Table of Contents

included in its Form 10-K dated November 28, 2006. The September 30, 2006 condensed consolidated balance sheet was derived from the TD Group's audited financial statements. The results of operations for the thirty-nine week period ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year.

3. NEW ACCOUNTING STANDARDS

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company anticipates that the adoption of this pronouncement will not have a material impact on its consolidated financial position or results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 requires companies to evaluate the materiality of identified unadjusted errors on each financial statement and related financial statement disclosure using both the rollover approach and the iron curtain approach. The requirements of SAB 108 are effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company adopted SAB 108 during its first quarter of fiscal year 2007. The adoption of SAB 108 did not have a material impact on the Company's consolidated financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). This statement requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under SFAS 158, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in Accumulated Other Comprehensive Income, net of tax effects, until they are amortized as a component of net periodic benefit cost. In addition, the measurement date, the date at which plan assets and the benefit obligation are measured, is required to be the company's fiscal year end. Presently, the Company uses a September 30 measurement date for its defined benefit pension plans. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The Company's adoption of this pronouncement will not have a material impact on its consolidated financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The Company has not determined the impact, if any, that SFAS 157 will have 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. FIN 48 is effective for fiscal periods beginning after December 15, 2006. The Company is currently analyzing the expected impact of adoption of FIN 48 on its consolidated financial position and results of operations.

4. ACQUISITIONS

ATI On February 7, 2007, TransDigm Inc. acquired all of the outstanding capital stock of Aviation Technologies, Inc. (ATI) for \$430.3 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.

Table of Contents

The purchase price consideration and costs associated with the acquisition of \$430.3 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 \$296.8 (net of fees of \$6.2 million) and the use of \$8.1 million of our available cash balances.

The Company accounted for the acquisition of ATI as a purchase and included the results of operations of ATI in its consolidated financial statements from the date of acquisition. The Company obtained a preliminary third-party valuation of certain tangible and intangible assets of ATI; thus, the values attributed to acquired assets in the consolidated financial statements are subject to adjustment. The Company expects that substantially all of the \$307.5 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

The following table summarizes the estimated fair value of the assets acquired and the liabilities assumed at the date of the acquisition of ATI (in thousands).

Assets:	
Current assets	\$ 34,481
Deferred income taxes	10,963
Property, plant and equipment	23,995
Goodwill	307,511
Other intangible assets	110,580
Total assets	487,530
Liabilities:	
Current liabilities	11,224
Deferred income taxes	45,967
Total liabilities	57,191
Net assets acquired	\$ 430,339

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 Week		Thirty-Nine Week	
	Periods Ended		Periods Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Net sales	\$ 157,613	\$ 137,111	\$ 462,475	\$ 391,704
Operating income/(loss)	61,306	(244)	148,666	84,210
Net income/ (loss)	22,121	(16,089)	43,449	1,556
Diluted earnings/(loss) per share	\$ 0.45	\$ (0.36)	\$ 0.90	\$ 0.03

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 thirty-nine week period ended June 30, 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 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.

Table of Contents

CDA On October 3, 2006, TransDigm Inc. acquired all of the outstanding capital stock of CDA InterCorp (CDA) for \$45.6 million in cash. CDA designs and manufactures specialized controllable drive actuators, motors, transducers, and gearing. The products are consistent with TransDigm's recent acquisition of similar product lines. The Company expects that the \$33.9 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

Sweeney On June 12, 2006, TransDigm Inc. acquired all of the outstanding capital stock of Sweeney Engineering Corp. (Sweeney) for \$25.4 million in cash. Sweeney was subsequently merged into AeroControlex's existing business in Painesville, Ohio. Sweeney designed and manufactured specialized aerospace valving used primarily in fuel, environmental control, and de-icing applications. The products are used on defense and commercial aircraft applications. Sweeney's product characteristics and market position fit well with TransDigm's overall direction. The Company expects that the \$21.9 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

The Company accounted for the acquisitions of CDA and Sweeney as purchases and included the results of operations of CDA and Sweeney in its consolidated financial statements from the date of each acquisition. The Company obtained a preliminary third-party valuation of certain tangible and intangible assets of CDA; thus, the values attributed to acquired assets in the consolidated financial statements are subject to adjustment. Pro forma net sales and results of operations for CDA and Sweeney, had they occurred at the beginning of the periods ended June 30, 2007 and July 1, 2006, respectively, are not significant and, accordingly, are not provided.

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):

	June 30, 2007	September 30, 2006
Work-in-progress and finished goods	\$ 65,996	\$ 51,077
Raw materials and purchased component parts	67,840	46,060
Total	133,836	97,137
Reserve for excess and obsolete inventory	(12,620)	(7,894)
Inventories net	\$ 121,216	\$ 89,243

Table of Contents**6. INTANGIBLE ASSETS**

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

	Gross Carrying Amount	June 30, 2007 Accumulated Amortization	Net
Unpatented technology	\$ 166,026	\$ 17,274	\$ 148,752
License agreement	9,373	2,078	7,295
Trade secrets	18,462	2,218	16,244
Patented technology	1,573	700	873
Order backlog	14,570	12,135	2,435
Other	1,803	456	1,347
Total	\$ 211,807	\$ 34,861	\$ 176,946

	Gross Carrying Amount	September 30, 2006 Accumulated Amortization	Net
Unpatented technology	\$ 92,196	\$ 12,696	\$ 79,500
License agreement	9,373	1,679	7,694
Trade secrets	11,772	1,696	10,076
Patented technology	1,522	568	954
Order backlog	10,040	9,320	720
Other	1,803	285	1,518
Total	\$ 126,706	\$ 26,244	\$ 100,462

The total carrying amount of identifiable intangible assets not subject to amortization consists of \$159.4 million and \$125.5 million of trademarks and trade names at June 30, 2007 and September 30, 2006, respectively.

The aggregate amortization expense on identifiable intangible assets for the thirteen and thirty-nine week periods ended June 30, 2007 and July 1, 2006 was approximately \$3.6 million, \$8.6 million, \$1.4 million, and \$4.7 million, respectively. The estimated amortization expense for fiscal 2007 is \$12.3 million and for each of the five succeeding years 2008 through 2012 is \$10.4 million, \$9.2 million, \$9.2 million, \$9.2 million and \$9.1 million, respectively.

Intangible assets acquired during the thirty-nine week period ended June 30, 2007 were as follows (in thousands):

	Cost	Amortization Period
Intangible assets not subject to amortization:		
Goodwill	\$ 341,364	none
Trademarks and trade names	33,930	none
	375,294	
Intangible assets subject to amortization:		
Unpatented technology	73,830	22.5 years
Trade secrets	6,690	22 years
Order backlog	4,530	1 year

Edgar Filing: TransDigm Group INC - Form 10-Q

	85,050	21.3 years
Total	\$ 460,344	

Table of Contents

The following is a summary of the changes in the carrying value of goodwill from September 30, 2006 through June 30, 2007 (in thousands):

Balance, September 30, 2006	\$ 877,829
Goodwill acquired during the year	341,364
Other	1,177
Balance, June 30, 2007	\$ 1,220,370

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 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):

	Thirty-Nine Week	
	Periods Ended	
	June 30, 2007	July 1, 2006
Liability balance at beginning of period	\$ 2,472	\$ 2,789
Accruals for warranties issued	914	1,055
Warranty costs incurred	(941)	(1,439)
Acquisitions	1,593	
Liability balance at end of period	\$ 4,038	\$ 2,405

8. DEBT

Summary The Company's long-term debt at June 30, 2007 and September 30, 2006 consisted of the following (in thousands):

	June 30, 2007	September 30, 2006
Term loans	\$ 780,000	\$ 650,000
7 ³ / ₄ % senior subordinated notes due 2014	575,000	275,000
Premium on 7 ³ / ₄ % senior subordinated notes due 2014	2,911	
Total debt	\$ 1,357,911	\$ 925,000

Revolving Credit Facility and Term Loans In connection with the acquisition of ATI, TransDigm entered into an amendment to our senior secured credit facility which provided for, among other things, an additional term loan of \$130 million. TransDigm used the proceeds from the additional term loan together with the proceeds from the issuance and sale of the New Notes (defined below) and a portion of the Company's available cash balances to fund the acquisition of ATI and to pay related transaction expenses. The interest rate on the term loans at June 30, 2007 was 7.36%. Also, see Note 4.

Table of Contents

In addition, pursuant to the terms of the amendment, and effective as of the closing date of the acquisition of ATI, the revolving credit facility was increased by \$50 million, resulting in an aggregate revolving credit facility of \$200 million, of which approximately \$198.4 million was available as of June 30, 2007.

Senior Subordinated Notes On February 7, 2007, TransDigm Inc. issued and sold \$300 million aggregate principal amount of its 7³/₄% senior subordinated notes due 2014 (the New Notes). The Company received \$3.0 million of premium in connection with the issuance of the New Notes due to the fact that such New Notes were issued at 101% of the principal amount thereof. The terms of the New Notes are substantially identical to the terms of the 7³/₄% senior subordinated notes due 2014 that were issued and sold by TransDigm on June 23, 2006.

9. 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 \$13.3 million in the thirteen week period ended June 30, 2007 compared to an income tax benefit of \$10.4 million in the prior year period. The effective tax rate for the thirteen week period ended June 30, 2007 was 37.5% compared to 43.9% for the comparable period in the prior year. The higher effective tax rate for the thirteen week period ended July 1, 2006 was primarily due to the adoption of a change in Texas law enacted in May 2006 resulting in a write-off of net deferred tax liabilities and an income tax benefit of \$1.5 million, or 6.5% of the loss before income taxes, recorded in the third quarter of fiscal 2006.

The Company recorded an income tax provision of \$38.0 million in the thirty-nine week period ended June 30, 2007 compared to \$4.1 million in the prior year period. The effective tax rate for the thirty-nine week period ended June 30, 2007 was 37.3% compared to 29.0% for the comparable period in the prior year. The higher effective tax rate for the thirty-nine week period ended June 30, 2007 was due to the adoption of a change in Texas law enacted in May 2006 resulting in a write-off of net deferred tax liabilities and an income tax benefit of \$1.5 million, or 11.1% of the income before income taxes, recorded in the third quarter of fiscal 2006. Excluding the prior year impact of the change in Texas law, the effective tax rate decreased due to lower state and local taxes as a percentage of income before income taxes and an increase in the research and development tax credit.

10. EARNINGS PER SHARE CALCULATION

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

	Thirteen Week		Thirty-Nine Week	
	Periods Ended		Periods Ended	
(in thousands, except per share data)	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Basic Earnings Per Share Computation:				
Net income/(loss)	\$ 22,121	\$ (13,363)	\$ 63,970	\$ 9,895
Weighted-average shares outstanding	45,800	44,578	45,182	44,344
Basic earnings/(loss) per share	\$ 0.48	\$ (0.30)	\$ 1.42	\$ 0.22
Diluted Earnings Per Share Computation:				
Net income/(loss)	\$ 22,121	\$ (13,363)	\$ 63,970	\$ 9,895
Weighted-average shares outstanding	45,800	44,578	45,182	44,344
Effect of dilutive options outstanding ⁽¹⁾	3,032		3,090	2,941
Total weighted-average shares outstanding	48,832	44,578	48,272	47,285

Edgar Filing: TransDigm Group INC - Form 10-Q

Diluted earnings/(loss) per share	\$ 0.45	\$ (0.30)	\$ 1.33	\$ 0.21
-----------------------------------	---------	-----------	---------	---------

-
- ⁽¹⁾ There were no stock options outstanding at June 30, 2007 that were excluded from the diluted earnings per share computation for the thirteen and thirty-nine weeks ended June 30, 2007. Equity awards totaling 5.7 million outstanding at July 1, 2006 were excluded from the diluted earnings per share computation for the thirteen and thirty-nine week periods ended July 1, 2006 due to the anti-dilutive effect of such equity awards.

Table of Contents**11. COMMON STOCK AND STOCK COMPENSATION PLANS**

The Company's stock compensation plans are designed to assist us in attracting, retaining, motivating and rewarding key employees, directors or consultants, and promoting the creation of long-term value for stockholders by closely aligning the interests of these individuals with those of the Company's stockholders. The Company's stock compensation plans provide for the granting of stock options, restricted stock and other stock-based incentives.

Prior to December 20, 2006, the Company used the minimum value method of accounting for stock-based compensation as provided for in Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). The minimum value method does not require the use of a volatility factor in measuring the value of a stock-based compensation grant. Concurrent with the initial filing of the Company's Registration Statement on Form S-1 on December 20, 2006, on a prospective basis, the Company converted to the fair value method also provided for in SFAS 123.

Effective October 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R), which replaces SFAS 123 utilizing the modified prospective method. SFAS 123R requires stock-based compensation to be measured using the fair value method of accounting. The Company records compensation expense for service-based awards under the straight-line method. Expense related to performance-based awards is recorded in the service period corresponding to the performance target. SFAS 123R also requires the tax benefits associated with these share-based payments to be classified as financing activities in statements of cash flows, rather than as operating activities as required under SFAS 123. The tax benefit of \$1.8 million associated with share-based payments was recorded in operating activities in the thirty-nine week period ended July 1, 2006. The adoption of SFAS 123R did not have a significant impact on the Company's financial condition or results of operations. The Company estimates that forfeitures of unvested awards will be insignificant and accordingly does not adjust stock-based compensation expense for projected forfeitures.

The following table shows the expense recognized by the Company for stock-based compensation (in thousands):

	Thirteen Week		Thirty-Nine Week	
	Periods Ended		Periods Ended	
	June 30,	July 1,	June 30,	July 1,
	2007	2006	2007	2006
Stock option compensation expense:				
Time vested stock options	\$ 104	\$ 73	\$ 326	\$ 176
Performance vested stock options	879	239	2,106	1,270
Restricted stock award amortization	11	5	21	5
	\$ 994	\$ 317	\$ 2,453	\$ 1,451

As of June 30, 2007, there was \$4.2 million of total unrecognized compensation cost related to nonvested awards expected to vest, that will be recognized over a weighted-average period of 1.2 years.

2006 Stock Incentive Plan

In conjunction with the consummation of the initial public offering, a 2006 stock incentive plan was adopted by TD Group. TD Group has reserved 2,619,668 shares of its common stock for issuance to key employees, directors or consultants under the plan. Awards under the plan may be in the form of options, restricted stock or other stock-based awards. Options granted under the plan will expire no later than the tenth anniversary of the applicable date of grant of the options, and will have an exercise price of not less than the fair market value of our common stock on the date of grant. Restricted stock granted under the plan vests over three years.

Table of Contents

The following table summarizes activity for restricted stock awards for the thirty-nine week period ended June 30, 2007:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at September 30, 2006	2,370	\$ 25.34
Granted	1,820	38.44
Vested	(792)	25.34
Outstanding at June 30, 2007	3,398	\$ 32.20

During the thirty-nine weeks ended June 30, 2007, 5,460 shares of commons stock were issued with a weighted-average grant date fair value of \$27.43.

At June 30, 2007, 2,610,018 remaining shares were available for award under TD Group s 2006 stock incentive plan.

2003 Stock Option Plan

Certain executives and key employees of the Company were granted stock options under TD Group s 2003 stock option plan. Upon the closing of the Merger, certain employees rolled over certain then-existing options to purchase shares of common stock of TransDigm Holdings. These employees were granted rollover options to purchase an aggregate of 3,870,152 shares of common stock of TD Group (after giving effect to the 149.60 for 1.00 stock split effected on March 14, 2006). All rollover options granted were fully vested on the date of grant. In addition to shares of common stock reserved for issuance upon the exercise of rollover options, an aggregate of 5,469,301 shares of TD Group s common stock are reserved for issuance upon the exercise of new management options. In general, approximately 20% of all new management options vest based on employment service or a change in control. These time vested options have a graded vesting schedule of up to four years. Approximately 80% of all new management options vest (i) based upon the satisfaction of specified performance criteria, which is annual and cumulative EBITDA As Defined targets through 2008, or (ii) upon the occurrence of a change in control if the Investor Group (defined as Warburg Pincus and the other investors who invested in TD Group in connection with the Merger) receives a minimum specified rate of return. Unless terminated earlier, the options expire ten years from the date of grant.

TD Group has reserved a total of 9,339,453 shares of its common stock for issuance to the Company s employees under the plan, 9,228,454 of which had been issued as of June 30, 2007.

In addition to the stock options issued under the plan covering the Company s employees, members of the Company s board of directors have also been granted stock options of TD Group.

The fair value of the Company s employee stock options was estimated at the date of grant using a Black-Sholes-Merton option-pricing model with the following weighted average assumptions for all options granted during the thirty-nine week periods ended:

	June 30, 2007	July 1, 2006
Risk-free interest rate	4.41% to 4.49%	4.21% to 5.09%
Expected life of options	4 years	4 years
Expected dividend yield of stock		
Expected volatility of stock	30%	0% to 30%

The risk-free interest rate is based upon the three and five-year Treasury Bond rates as of the grant date. The average expected life of stock-based awards is based on vesting schedules and contractual terms. Expected volatility of stock was calculated using historical and implied volatilities. The Company does not pay dividends; thus, no dividend rate assumption is used.

Table of Contents

The total fair value of shares vested during the thirty-nine weeks ended June 30, 2007 and July 1, 2006 was \$1.7 million and \$1.3 million, respectively.

Time Vested Stock Options The following table summarizes activity, pricing and other information for the Company's time vested stock-based award activity during the thirty-nine week period ended June 30, 2007:

	Number of Options	Weighted-Average Exercise Price Per Option	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2006	1,062,577	\$ 9.10		
Granted	14,000	25.60		
Exercised	(73,319)	9.87		
Forfeited	(15,460)	15.04		
Outstanding at June 30, 2007	987,798	\$ 9.18	6.7 years	\$ 30,898,321
Expected to vest	987,798	\$ 9.18	6.7 years	\$ 30,898,321
Exercisable at June 30, 2007	819,376	\$ 8.60	6.6 years	\$ 26,105,319

Performance Vested Stock Options The following table summarizes the activity, pricing and other information for the Company's performance vested stock-based award activity during the thirty-nine week period ended June 30, 2007:

	Number of Options	Weighted-Average Exercise Price Per Option	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2006	4,250,241	\$ 9.09		
Granted	268,000	31.85		
Exercised	(269,830)	9.42		
Forfeited	(90,283)	18.43		
Outstanding at June 30, 2007	4,158,128	\$ 10.33	6.9 years	\$ 125,284,397
Expected to vest	4,158,128	\$ 10.33	6.9 years	\$ 125,284,397
Exercisable at June 30, 2007	2,541,040	\$ 8.58	6.6 years	\$ 81,008,355

Rollover Option Awards The following table summarizes the activity, pricing and other information for the Company's rollover option award activity during the thirty-nine week period ended June 30, 2007:

	Number of Options	Weighted-Average Exercise Price Per Option	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2006	2,788,321	\$ 2.45		
Granted				
Exercised	(1,884,258)	2.37		
Forfeited				

Edgar Filing: TransDigm Group INC - Form 10-Q

Outstanding at June 30, 2007	904,063	\$	2.62	3.4 years	\$ 34,209,744
Expected to vest	904,063	\$	2.62	3.4 years	\$ 34,209,744
Exercisable at June 30, 2007	904,063	\$	2.62	3.4 years	\$ 34,209,744

The weighted-average grant date fair value of time, performance and rollover options granted during the thirty-nine week periods ended June 30, 2007 and July 1, 2006 were \$9.83 and \$4.53, respectively. The total intrinsic value of time, performance and rollover options exercised during the thirty-nine week periods ended June 30, 2007 and July 1, 2006 were \$68.1 million and \$7.4 million, respectively.

Table of Contents

12. 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 June 30, 2007 and September 30, 2006 and its statements of operations and cash flows for the thirty-nine week periods ended June 30, 2007 and July 1, 2006.

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2007

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 5,504	\$ 116,044	\$ (1,353)	\$	\$ 120,195
Trade accounts receivable Net		10,538	78,043		88,581
Inventories		18,941	102,275		121,216
Income taxes receivable		2,385			2,385
Deferred income taxes		12,463	12,244		24,707
Prepaid expenses and other		1,668	2,118		3,786
Total current assets	5,504	162,039	193,327		360,870
INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES	452,993	1,834,766	163,313	(2,451,072)	
PROPERTY, PLANT AND EQUIPMENT Net		15,996	71,637		87,633
GOODWILL		11,514	1,208,856		1,220,370
TRADEMARKS AND TRADE NAMES		19,376	140,051		159,427
OTHER INTANGIBLE ASSETS Net		11,505	165,441		176,946
DEBT ISSUE COSTS Net		23,669			23,669
OTHER		2,351	195		2,546
TOTAL ASSETS	\$ 458,497	\$ 2,081,216	\$ 1,942,820	\$ (2,451,072)	\$ 2,031,461
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$	\$ 7,179	\$ 17,034	\$	\$ 24,213
Accrued liabilities		30,228	19,645		49,873
Total current liabilities		37,407	36,679		74,086
LONG-TERM DEBT		1,357,911			1,357,911
DEFERRED INCOME TAXES	(5,606)	112,771	25,184		132,349
OTHER NON-CURRENT LIABILITIES	3,228	2,132	880		6,240
Total liabilities	(2,378)	1,510,221	62,743		1,570,586
STOCKHOLDERS' EQUITY	460,875	570,995	1,880,077	(2,451,072)	460,875
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 458,497	\$ 2,081,216	\$ 1,942,820	\$ (2,451,072)	\$ 2,031,461

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2006

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 1,604	\$ 62,561	\$ (2,948)	\$	\$ 61,217
Trade accounts receivable Net		27,770	37,798		65,568
Income taxes receivable		9,366			9,366
Inventories		32,072	57,171		89,243
Deferred income taxes		7,390			7,390
Prepaid expenses and other	(248)	778	867		1,397
Total current assets	1,356	139,937	92,888		234,181
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY BALANCES	358,106	1,338,439	(10,992)	(1,685,553)	
PROPERTY, PLANT AND EQUIPMENT Net		24,895	37,956		62,851
GOODWILL		446,326	431,503		877,829
TRADEMARKS AND TRADE NAMES		52,997	72,500		125,497
OTHER INTANGIBLE ASSETS Net		37,086	63,376		100,462
DEBT ISSUE COSTS Net		14,872			14,872
OTHER		858	162		1,020
TOTAL ASSETS	\$ 359,462	\$ 2,055,410	\$ 687,393	\$ (1,685,553)	\$ 1,416,712
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable	\$	\$ 11,690	\$ 7,074	\$	\$ 18,764
Accrued liabilities	139	16,450	8,086		24,675
Total current liabilities	139	28,140	15,160		43,439
LONG-TERM DEBT		925,000			925,000
DEFERRED INCOME TAXES	(5,606)	83,715			78,109
OTHER NON-CURRENT LIABILITIES	1,888	4,355	880		7,123
Total liabilities	(3,579)	1,041,210	16,040		1,053,671
STOCKHOLDERS' EQUITY	363,041	1,014,200	671,353	(1,685,553)	363,041
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 359,462	\$ 2,055,410	\$ 687,393	\$ (1,685,553)	\$ 1,416,712

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THIRTY-NINE WEEK PERIOD ENDED JUNE 30, 2007

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
NET SALES	\$	\$ 48,692	\$ 376,068	\$	\$ 424,760
COST OF SALES		28,408	175,394		203,802
GROSS PROFIT		20,284	200,674		220,958
OPERATING EXPENSES:					
Selling and administrative		17,169	26,878		44,047
Amortization of intangibles		468	8,149		8,617
Total operating expenses		17,637	35,027		52,664
INCOME FROM OPERATIONS		2,647	165,647		168,294
OTHER INCOME (EXPENSES):					
Interest expense Net		(52,703)	(13,617)		(66,320)
Equity in income of subsidiaries	63,970	95,322		(159,292)	
INCOME BEFORE INCOME TAXES	63,970	45,266	152,030	(159,292)	101,974
INCOME TAX PROVISION(BENEFIT)		(18,704)	56,708		38,004
NET INCOME	\$ 63,970	\$ 63,970	\$ 95,322	\$ (159,292)	\$ 63,970

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THIRTY-NINE WEEK PERIOD ENDED JULY 1, 2006

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
NET SALES	\$	\$ 133,763	\$ 185,509	\$	\$ 319,272
COST OF SALES		59,543	96,902		156,445
GROSS PROFIT		74,220	88,607		162,827
OPERATING EXPENSES:					
Selling and administrative	2,650	19,971	14,438		37,059
Amortization of intangibles		1,630	3,051		4,681
Refinancing costs	5,531	42,925			48,456
Total operating expenses	8,181	64,526	17,489		90,196
INCOME/(LOSS) FROM OPERATIONS	(8,181)	9,694	71,118		72,631
OTHER INCOME (EXPENSES):					
Interest expense Net	(16,564)	(35,852)	(6,270)		(58,686)
Equity in income of subsidiaries	28,085	46,043		(74,128)	
INCOME BEFORE INCOME TAXES	3,340	19,885	64,848	(74,128)	13,945
INCOME TAX PROVISION (BENEFIT)	(6,555)	(8,200)	18,805		4,050
NET INCOME	\$ 9,895	\$ 28,085	\$ 46,043	\$ (74,128)	\$ 9,895

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE THIRTY-NINE WEEK PERIOD ENDED JUNE 30, 2007

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
OPERATING ACTIVITIES:					
Net income	\$ 63,970	\$ 63,970	\$ 95,322	\$ (159,292)	\$ 63,970
Adjustments to reconcile net income to net cash provided by (used in) operating activities	(64,332)	(50,639)	(18,172)	159,292	26,149
Net cash provided by (used in) operating activities	(362)	13,331	77,150		90,119
INVESTING ACTIVITIES					
Capital expenditures		(2,148)	(4,997)		(7,145)
Acquisition of businesses		(475,909)			(475,909)
Net cash used in investing activities		(478,057)	(4,997)		(483,054)
FINANCING ACTIVITIES:					
Changes in intercompany activities	(25,433)	95,991	(70,558)		
Proceeds from issuance of senior subordinated notes, net of fees		296,795			296,795
Borrowings under senior secured credit facility, net of fees		125,423			125,423
Tax benefit from exercise of stock options	21,962				21,962
Proceeds from exercise of stock options	7,733				7,733
Net cash provided by (used in) financing activities	4,262	518,209	(70,558)		451,913
INCREASE IN CASH AND CASH EQUIVALENTS	3,900	53,483	1,595		58,978
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,604	62,561	(2,948)		61,217
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 5,504	\$ 116,044	\$ (1,353)	\$	\$ 120,195

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE THIRTY-NINE WEEK PERIOD ENDED JULY 1, 2006

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
OPERATING ACTIVITIES:					
Net income	\$ 9,895	\$ 28,085	\$ 46,043	\$ (74,128)	\$ 9,895
Adjustments to reconcile net income to net cash provided by (used in) operating activities	(106,552)	(20,333)	3,070	74,128	(49,687)
Net cash provided by (used in) operating activities	(96,657)	7,752	49,113		(39,792)
INVESTING ACTIVITIES					
Capital expenditures		(2,100)	(3,467)		(5,567)
Acquisition of businesses		(25,882)	(1,275)		(27,157)
Net cash used in investing activities		(27,982)	(4,742)		(32,724)
FINANCING ACTIVITIES:					
Changes in intercompany activities	298,228	(253,930)	(44,298)		
Proceeds from 7 ³ / ₄ % senior subordinated notes net of fees		269,381			269,381
Proceeds from new senior secured credit facilities net of fees		641,287			641,287
Repayment of amounts borrowed under former credit facility		(289,849)			(289,849)
Repayment of 8 ³ / ₈ % senior subordinated notes		(425,281)			(425,281)
Repayment of TD Group loan facility	(200,000)				(200,000)
Proceeds from exercise of stock options	1,093				1,093
Repayment of unsecured promissory notes		(199,997)			(199,997)
Proceeds from TD Group loan facility, net of fees		193,752			193,752
Net cash provided by (used in) financing activities	99,321	(64,637)	(44,298)		(9,614)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,664	(84,867)	73		(82,130)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		106,082	(1,861)		104,221
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,664	\$ 21,215	\$ (1,788)	\$	\$ 22,091

* * * * *

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 may have a material adverse impact on our business.

Our business is sensitive to the number of flight hours that our customers' planes spend aloft, the size and age of the worldwide aircraft fleet, and our customers' profitability. These items are, in turn, affected by general economic conditions.

Our sales to manufacturers of large aircraft are cyclical, and a downturn in sales to these manufacturers may adversely affect us.

We rely heavily on certain customers for much of our sales.

We generally do not have guaranteed future sales of our products. Further, we enter into fixed price contracts with some of our customers, so we bear the risk for cost overruns.

U.S. military spending is dependent upon the U.S. defense budget.

We are subject to certain unique business risks as a result of supplying equipment and services to the U.S. Government. In addition, government contracts contain unfavorable termination provisions and are subject to modification and audit.

Certain of our divisions and subsidiaries have been subject to a pricing review by the DOD Office of Inspector General.

Our business may be adversely affected if we would lose our government or industry approvals or if more stringent government regulations were enacted, or if industry oversight is increased.

Our substantial indebtedness could adversely affect our financial health, harm our ability to react to changes to our business and could prevent us from fulfilling our obligations under our indebtedness, including the notes.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control and any failure to meet our debt service obligations could harm our business, financial condition and results of operations.

Table of Contents

The terms of our senior secured credit facility and the indenture may restrict our current and future operations, particularly our ability to respond to changes or take certain actions.

We are dependent on our highly trained employees and any work stoppage or difficulty hiring similar employees would adversely affect our business.

Our business is dependent on the availability of certain components and raw materials that we buy from suppliers.

We are subject to a number of environmental laws and regulations, and we could incur substantial costs as a result of violations under such environmental laws and regulations.

We intend to pursue future acquisitions. Our business may be adversely affected if we cannot consummate acquisitions on satisfactory terms, or if we cannot effectively integrate acquired operations.

We have recorded a significant amount of intangible assets, which may never generate the returns we expect.

We face significant competition.

We could be adversely affected if one of our components causes an aircraft to crash.

Our stock prices may be volatile, and your investment in our common stock could suffer a decline in value.

Future sales of our common stock in the public market could lower our share price.

Our principal stockholder and its affiliates will be able to influence matters requiring stockholder approval and could discourage the purchase of our outstanding shares at a premium.

Our corporate documents and Delaware law contain certain provisions that could discourage, delay or prevent a change in control of our company.

We do not intend to pay regular dividends on our stock.

Failure to successfully and efficiently integrate ATI into our operations may adversely affect our operations and financial condition. 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

Edgar Filing: TransDigm Group INC - Form 10-Q

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, gear pumps, mechanical/electromechanical actuators and controls, NiCad batteries/chargers, power conditioning devices, hold-open rods and locking devices, engineered connectors, engineered latches and cockpit security devices, lavatory hardware and components, specialized AC/DC electric motors, aircraft audio systems, specialized cockpit displays, and specialized valving. 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 third quarter of fiscal 2007, we generated net sales of \$157.6 million and net income of \$22.1 million. EBITDA As Defined was \$73.6 million, or 46.7% of net sales. Please see below for certain information regarding EBITDA and EBITDA As Defined, including a reconciliation of EBITDA and EBITDA As Defined to net income.

Recent Developments

Public Offering

On May 25, 2007, certain of TD Group's stockholders, including certain members of our management, sold an aggregate of 11,500,000 shares of TD Group's common stock in an underwritten public offering at a public offering price of \$35.25 per share. As a result of this offering, TD Group is no longer a controlled company for the purposes of the NYSE listing requirements. TransDigm Group did not sell any shares in the offering and did not receive any proceeds from the offering.

Table of Contents

ATI Acquisition

On February 7, 2007, pursuant to a definitive agreement and plan of merger among TransDigm Inc., Project Coffee Acquisition Co., a wholly owned subsidiary of TransDigm Inc. (Merger Sub), and Aviation Technologies, Inc. (ATI), Merger Sub was merged into ATI with the result that ATI became a wholly-owned subsidiary of TransDigm Inc., for consideration of approximately \$430.3 million.

ATI, which is based in Seattle, WA, 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 TransDigm, and Mr. Douglas Peacock, a director of TransDigm, 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.

CDA Acquisition

On October 3, 2006, TransDigm Inc. acquired all of the outstanding capital stock of CDA InterCorp (CDA) for an aggregate purchase price of approximately \$45.6 million. CDA designs and manufactures specialized controllable drive actuators, motors, transducers, and gearing. CDA's products are used on a range of defense, space and commercial aircraft applications. The proprietary nature, established positions and aftermarket content of CDA's products fit well with our overall business direction.

Government Pricing Review

Certain parts sold by five of our divisions and subsidiaries to the Department of Defense through various buying agencies of the Defense Logistics Agency have been the subject of a pricing review by the Department of Defense Office of Inspector General. The pricing review examined whether the various buying offices within the Defense Logistics Agency had negotiated "fair and reasonable" prices for certain sole source spare parts purchased from those divisions and subsidiaries during fiscal years 2002 through 2004. On February 28, 2006, the Company received a copy of the Inspector General's final report dated February 23, 2006, and on April 19, 2006, a redacted version of such report was made publicly available. The report recommends, among other things, that Defense Logistics Agency contracting officers reevaluate their procedures for determining the reasonableness of pricing for sole source spare parts purchased from those divisions and subsidiaries and seek to develop Strategic Supplier Alliances with those divisions and subsidiaries.

We believe that the pricing review is part of a continuing effort by the Inspector General to monitor and evaluate prices paid to defense contractors for sole source spare parts. The report is consistent with reports issued with respect to sole source spare parts supplied by other companies, and, like those other reports, it advocates the negotiation of Strategic Supplier Alliances incorporating prices for parts based on cost, rather than based on prices of comparable commercial parts or other methods. We believe that our pricing of spare parts comports with the regulations applicable to contracts with agencies of the Federal government. Nonetheless, the report recommends that the Defense Logistics Agency request that the applicable divisions and subsidiaries of TransDigm Inc. voluntarily refund, in the aggregate, approximately \$2.6 million for allegedly overpriced parts and negotiate Strategic Supplier Alliances incorporating cost-based prices for future Defense Logistics Agency purchases of sole source spare parts.

The Company's position has been, and continues to be, that our pricing has been fair and reasonable and that there is no legal basis for the amount suggested as a refund by the Inspector General in its report. In response to the report, we offered reasons why we disagree with the Inspector General's overall analysis. The Defense Logistics Agency has requested additional information from the Company and the Company's position on the voluntary refund. The Company has responded to such request.

Table of Contents

In February 2006, the Defense Logistics Agency made a request to initiate discussions regarding future pricing and developing an acquisition strategy that will mutually strengthen TransDigm's business relationship with the Defense Logistics Agency. The parties have discussed and are considering future purchasing approaches but negotiations regarding Strategic Supplier Alliances or any specific approach have not yet commenced, but will likely occur at a later date. As a result of those negotiations, it is possible that the divisions and subsidiaries subject to the pricing review will enter into Strategic Supplier Alliances with the Defense Logistics Agency. It is likely that in connection with any Strategic Supplier Alliance, the Defense Logistics Agency will seek prices for parts based on cost or may seek volume discounts or other favorable pricing and/or the applicable division or subsidiary may agree to cost or pricing justification or appropriate discounts. It is also possible that the Department of Defense may seek alternative sources of supply for such parts.

The entry into Strategic Supplier Alliances or a decision by the Department of Defense to pursue alternative sources of supply for our sole source parts could reduce the amount of revenue we derive from, and the profitability of certain of our supply arrangements with, certain agencies and buying organizations of the U.S. Government. However, we believe not all of the sales to the government would be affected by pricing associated with potential Strategic Supplier Alliance. While management believes that the entry into Strategic Supplier Alliances with the Defense Logistics Agency will not have a material adverse effect on our financial condition, liquidity or capital resources, there is no means to determine the outcome of any future negotiations or discussions at this time.

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 Period Ended June 30, 2007	Thirteen Week Period Ended July 1, 2006	Thirty-Nine Week Period Ended June 30, 2007	Thirty-Nine Week Period Ended July 1, 2006
Net Income/(loss)	\$ 22.1	\$ (13.4)	\$ 64.0	\$ 9.9
Adjustments:				
Depreciation and amortization expense	6.6	3.8	17.0	12.0
Interest expense, net	25.9	19.5	66.3	58.7
Income tax provision/(benefit)	13.3	(10.4)	38.0	4.0
EBITDA ⁽¹⁾	67.9	(0.5)	185.3	84.6
Adjustments:				
Acquisition-related costs ⁽²⁾	2.7	0.2	7.0	0.8
Non-cash compensation and deferred compensation costs ⁽³⁾	1.3	0.8	3.8	(0.5)
Refinancing costs ⁽⁴⁾		48.5		48.5
Non-recurring public equity offering costs ⁽⁵⁾	1.7	0.3	1.7	2.6
One-time special bonus payment ⁽⁶⁾				6.2
Other ⁽⁷⁾			0.3	
EBITDA As Defined ⁽¹⁾	\$ 73.6	\$ 49.3	\$ 198.1	\$ 142.2

- (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, one-time special bonus payments made to members of our management in November 2005, certain acquisition earnout costs, certain other non-cash and non-recurring expenses, and certain costs and expenses incurred in connection with the public equity offerings.

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, 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). In addition, our former senior secured credit facility required compliance, on a pro forma basis, with a leverage ratio, a fixed charge coverage ratio and an interest coverage ratio, all of which were measured based on our Consolidated EBITDA. Our former senior secured credit facility defined Consolidated EBITDA in the same manner as we defined EBITDA As Defined for the periods presented prior to fiscal 2007, and such historical definition was substantially similar to the definition of Consolidated EBITDA under our existing senior secured credit facility, except that for purposes of computing Consolidated EBITDA under our existing senior secured credit facility, we are permitted to add back to net income any and all expenses or charges incurred by us in connection with equity offerings, permitted investments, acquisitions, dispositions, recapitalizations or permitted debt transactions, including all of the expenses or charges related to the refinancing which occurred in June 2006.

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 these non-GAAP financial measures as analytical tools 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:

none of these measures 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 none of these measures reflects any cash requirements for such replacements;

the omission of the substantial amortization expense associated with our intangible assets further limits the usefulness of these measures;

none of these measures 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

Table of Contents

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 (income) recognized by the Company under a stock option plan and deferred compensation plans of TD Group. The amount reflected above for the thirty-nine week period ended July 1, 2006 includes a reversal of previously recorded amounts charged to expense of \$3.8 million resulting from the termination of two deferred compensation plans of TD Group.
- (4) Represents costs associated with refinancing the debt structure of TD Group in June 2006 including the premium paid to redeem the 8³/₈% senior subordinated notes of \$25.6 million and the write-off of debt issue costs of \$22.9 million.
- (5) Represents non-recurring costs and expenses incurred by TD Group related to the initial public offering in March 2006 and the secondary offering in May 2007.
- (6) Represents the one-time special bonuses paid to certain members of management in November 2005.
- (7) Represents the write-down of certain property to its fair value that has been 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, 2006. There has been no significant change to our critical accounting policies during the thirty-nine week period ended June 30, 2007.

Table of Contents**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		Thirty-Nine Week Periods Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Net sales	100%	100%	100%	100%
Cost of Sales	48	49	48	49
Selling and administrative expenses	11	10	10	12
Amortization of intangibles	2	1	2	2
Refinancing costs		44		15
Income/(loss) from operations	39	(4)	40	22
Interest expense net	16	17	16	18
Income tax provision/(benefit)	9	(9)	9	1
Net income/(loss)	14%	(12)%	15%	3%

Changes in Results of Operations**Thirteen-week period ended June 30, 2007 compared with the thirteen-week period ended July 1, 2006.**

Net Sales. Net sales increased by \$46.7 million, or 42.2%, to \$157.6 million for the quarter ended June 30, 2007, from \$110.9 million for the comparable quarter last year. Sales growth excluding acquisitions was \$13.9 million and represented a 12.5% increase over the prior year. The organic sales growth was primarily due to (i) an increase of \$8.7 million of commercial aftermarket sales due to a combination of the strong underlying demand throughout the worldwide commercial aerospace market, the strength of our proprietary products and timing of shipments versus the prior year comparable period, (ii) an increase of \$3.0 million of commercial OEM sales resulting primarily from an increase in business jet sales and (iii) a modest increase in defense sales. The remaining \$32.8 million of the increase resulted from the acquisitions of ATI and CDA during fiscal 2007 and Sweeney and Electra-Motion, Inc. in the third quarter of fiscal 2006.

Cost of Sales. Cost of sales increased by \$21.6 million, or 40.2%, to \$75.3 million for the quarter ended June 30, 2007 from \$53.7 million for the comparable quarter last year. Cost of sales as a percentage of sales decreased to 47.8% for the thirteen week period ended June 30, 2007 from 48.5% for the thirteen week period ended July 1, 2006. The absolute dollar increase in cost of sales was due to increased volume associated with the increase in net sales of \$46.7 million discussed above and a \$2.4 million charge, or 1.5% of net sales, which resulted from inventory purchase price accounting charges pertaining to the acquisition of ATI. Excluding this inventory purchase price accounting charge, cost of sales as a percentage of net sales decreased by approximately two percentage points, which was due to favorable product mix on the increase in commercial aftermarket sales and continued productivity efforts.

Selling and Administrative Expenses. Selling and administrative expenses increased by \$5.8 million, or 50.2%, to \$17.3 million, or 11.0% of sales, for the quarter ended June 30, 2007 from \$11.5 million, or 10.4% of sales, for the comparable quarter last year. This increase was primarily due to the higher sales discussed above and \$1.7 million, or 1.1% of net sales, of non-recurring costs associated with the secondary offering.

Amortization of Intangibles. Amortization of intangibles increased to \$3.6 million for the quarter ended June 30, 2007 from \$1.4 million for the comparable quarter last year. The increase of \$2.2 million was primarily due to the additional identifiable intangible assets

Edgar Filing: TransDigm Group INC - Form 10-Q

recognized in connection with the acquisitions of CDA and ATI, of which \$1.3 million related to order backlog amortization that is amortized over 12 months.

-28-

Table of Contents

Interest Expense. Interest expense increased \$6.4 million, or 32.9%, to \$25.9 million for the quarter ended June 30, 2007 from \$19.5 million for the comparable quarter last year primarily the result of an increase in our outstanding borrowings of approximately \$430 million related to the acquisition of ATI, partially offset by lower interest rates from the refinancing of our debt structure during June 2006. The Company's weighted average level of outstanding borrowings increased to approximately \$1.4 billion for the quarter ended June 30, 2007 from approximately \$0.9 billion during the comparable quarter last year while the average interest rate decreased to approximately 7.6% during the quarter ended June 30, 2007 from 8.5% for the comparable quarter last year.

Income Taxes. Income tax expense as a percentage of income before income taxes was approximately 37.5% for the quarter ended June 30, 2007 compared to 43.9% for the quarter ended July 1, 2006. The higher effective tax rate for the quarter ended July 1, 2006 was primarily due to the adoption of a change in Texas tax law enacted in May 2006 resulting in a write-off of net deferred tax liabilities and an income tax benefit of \$1.5 million, or 6.5% of the loss before income taxes, recorded in the third quarter of fiscal 2006.

Net Income. Net income increased \$35.5 million to \$22.1 million for the third quarter of fiscal 2007 compared to a net loss of \$13.4 million for the third quarter of fiscal 2006, primarily as a result of the factors referred to above and the refinancing costs of \$48.5 million recorded in the third quarter of fiscal 2006.

Thirty-nine week period ended June 30, 2007 compared with the thirty-nine week period ended July 1, 2006.

Net Sales. Net sales increased by \$105.5 million, or 33.0%, to \$424.8 million for the thirty-nine week period ended June 30, 2007, from \$319.3 million for the comparable period last year. Sales growth excluding acquisitions was \$42.4 million and represented a 13.3% increase over the prior year. The organic sales growth was primarily due to (i) an increase of \$26.8 million of commercial aftermarket sales due to a combination of strong underlying demand in the worldwide commercial aerospace market, the strength of our proprietary products, general success with certain retro fits and upgrades, and (ii) an increase of \$10.8 million of commercial OEM sales primarily resulting from an increase in business jet sales. The remaining \$63.1 million of the increase resulted from the acquisitions of ATI and CDA during fiscal 2007 and Sweeney and Electra-Motion, Inc. in the third quarter of fiscal 2006.

Cost of Sales. Cost of sales increased by \$47.4 million, or 30.3%, to \$203.8 million for the thirty-nine week period ended June 30, 2007 from \$156.4 million for the comparable period last year. Cost of sales as a percentage of sales decreased to 48.0% for the thirty-nine week period ended June 30, 2007 from 49.0% for the thirty-nine week period ended July 1, 2006. The absolute dollar increase in cost of sales was primarily due to increased volume associated with the higher net sales of \$105.5 million discussed above, a \$4.8 million charge, or 1.1% of net sales, that resulted from inventory purchase price accounting charges pertaining to the acquisitions of CDA and ATI and an increase in acquisition integration costs of approximately \$1.1 million, or 0.3% of net sales, relating to recent acquisitions. The decrease in cost of sales as a percentage of sales was primarily due to favorable product mix on the increase in commercial aftermarket sales, and to a lesser extent, favorable fixed cost leverage on greater volume and continued productivity improvements.

Selling and Administrative Expenses. Selling and administrative expenses increased by \$7.0 million, or 18.9%, to \$44.1 million, or 10.4% of sales, for the thirty-nine week period ended June 30, 2007 from \$37.1 million, or 11.6% of sales, for the comparable period last year. The prior year period included non-recurring costs of \$6.2 million for a one-time special bonus and \$2.6 million of costs associated with the initial public offering. These prior year costs were partially offset by a \$3.8 million reversal of charges resulting from the termination of deferred compensation plans in the first quarter of fiscal 2006. The net reduction of prior year non operating activity of approximately \$5.0 million, or 1.5% of net sales, was partially offset by an increase in selling and administrative costs associated with higher sales volume discussed above and \$1.7 million, or 0.4% of net sales, of costs associated with the secondary offering.

Selling and administrative expenses as a percentage of net sales decreased to 10.4% for the thirty-nine week period ended June 30, 2007 compared to 11.6% for the prior year period due to the non-recurring charges recorded in the prior year period discussed above.

Table of Contents

Amortization of Intangibles. Amortization of intangibles increased to \$8.6 million for the thirty-nine week period ended June 30, 2007 from \$4.7 million for the comparable period last year. The increase of \$3.9 million was primarily due to the additional identifiable intangible assets recognized in connection with the acquisitions of CDA and ATI, of which \$2.4 million related to order backlog amortization that is amortized over 12 months.

Interest Expense. Interest expense increased \$7.6 million, or 13.0%, to \$66.3 million for the thirty-nine week period ended June 30, 2007 from \$58.7 million for the comparable period last year primarily the result of an increase in our outstanding borrowings of approximately \$430 million related to the acquisition of ATI, partially offset by lower interest rates from the refinancing of our debt structure during June 2006. The Company's weighted average level of outstanding borrowings increased to approximately \$1.15 billion during the thirty-nine weeks ended June 30, 2007 from approximately \$0.9 billion during the comparable period last year while the average interest rate decreased to approximately 7.6% during the thirty-nine week period ended June 30, 2007 from 8.5% for the comparable period last year.

Income Taxes. Income tax expense as a percentage of income before income taxes was approximately 37.3% for the thirty-nine weeks ended June 30, 2007 compared to 29.0% for the thirty-nine week period ended July 1, 2006. The higher effective tax rate was primarily due to the adoption of a change in Texas tax law enacted in May 2006 resulting in a write-off of net deferred tax liabilities and an income tax benefit of \$1.5 million, or 11.1% of the income before income taxes, recorded in the third quarter of fiscal 2006. Excluding the prior year impact of the change in Texas law, the effective tax rate decreased due to lower state and local taxes as a percentage of income before income taxes and an increase in the research and development tax credit.

Net Income. Net income increased \$54.1 million, or 546.5%, to \$64.0 million for the thirty-nine week period ended June 30, 2007 compared to net income of \$9.9 million for the thirty-nine week period ended July 1, 2006, primarily as a result of the factors referred to above and the refinancing costs of \$48.5 million recorded in the thirty-nine week period ended July 1, 2006.

Backlog

As of June 30, 2007, the Company estimated its sales order backlog at \$339.1 million compared to an estimated \$259.1 million as of July 1, 2006. This increase in backlog is due to the purchase orders acquired in connection with the acquisitions of ATI and CDA, discussed above, totaling approximately \$53.5 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 June 30, 2007 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 June 30, 2007 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 a 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.

Inflation

Many of the Company's raw materials and operating expenses are sensitive to the effects of inflation, which could result in changing operating costs. The effects of inflation on the Company's businesses during the thirty-nine week periods ended June 30, 2007 and July 1, 2006 were not significant.

Table of Contents

Liquidity and Capital Resources

Operating Activities. The Company generated \$90.1 million of cash from operating activities during the thirty-nine week period ended June 30, 2007 compared to a use of \$39.8 million during the thirty-nine week period ended July 1, 2006. The increase of \$129.9 million was primarily due to (i) higher net income in the thirty-nine week period ended June 30, 2007, (ii) a decrease in interest payments of \$71.7 million primarily due to the \$62.7 million of interest paid in fiscal 2006 relating to the 12% senior unsecured promissory notes, (iii) the absence in 2007 of the distributions to participants in our deferred compensation plans totaling approximately \$26.0 million in November 2005 (in connection with the distributions under the deferred compensation plans, our Board of Directors approved the termination of the plans during the first quarter of fiscal 2006), and (iv) the absence in 2007 of the payment in November 2005 of a one-time special bonus to certain members of management of \$6.2 million.

Investing Activities. Cash used in investing activities was \$483.1 million during fiscal 2007 consisting of the acquisitions of ATI for \$430.3 million and CDA for \$45.6 million discussed above and capital expenditures of \$7.1 million. Cash used in investing activities was \$32.7 million during fiscal 2006 consisting of capital expenditures for \$5.6 million and the acquisitions of Sweeney and Electra-Motion for \$27.2 million.

Financing Activities. Cash provided by financing activities during the thirty-nine week period ended June 30, 2007 was \$451.9 million compared to cash used in financing activities of \$9.6 million during the thirty-nine week period ended July 1, 2006. The cash provided by financing activities during fiscal 2007 consisted primarily of the proceeds received of \$296.8 million, net of fees, from the issuance of additional 7³/₄% senior subordinated notes and additional term loans of \$125.4 million, net of fees, to finance the acquisition of ATI and \$29.7 million related to the exercise of stock options. The cash used in financing activities during fiscal 2006 of \$9.6 million was primarily due to (i) the use of \$3.0 million associated with the refinancing (see Refinancing below) and (ii) the repayment of the unsecured promissory notes of \$200.0 million. The cash used in these financing activities in fiscal 2006 was partially offset by the proceeds from the TD Group loan facility of \$193.8 million.

Refinancing

In June 2006, TransDigm refinanced its entire debt structure. In connection with the refinancing, TransDigm Inc. obtained a new senior secured credit facility. The new senior secured credit facility consisted of a \$650 million term loan facility, which was fully drawn at closing, and a \$150 million revolving loan facility. In addition, under the terms of that senior secured credit facility, TransDigm Inc. had the right to request (but no lender was committed to provide) additional term loans of up to \$250 million, subject to the satisfaction of customary conditions, including pro forma compliance with the financial covenant contained in the senior secured credit facility after giving effect to any such incremental term loan borrowings.

In connection with the acquisition of ATI, TransDigm Inc. entered into an amendment of that senior secured credit facility, which provides for, among other things, (i) an additional term loan of \$130 million, (ii) a \$50 million increase in the revolving credit facility (bringing the total available revolver to \$200 million), and (iii) a \$50 million increase in the uncommitted incremental loan facility to \$300 million. At June 30, 2007, \$198.4 million of the revolving credit facility was available.

The term loan facility, including the additional borrowings in February 2007, will mature in July 2013 and will not be subject to interim scheduled amortization, but will be subject to certain prepayments requirements. Subject to exceptions, commencing 90 days after the end of fiscal year 2008, TransDigm Inc. will be obligated to make mandatory prepayments of the term loans based on certain percentages of excess cash flows. In addition, subject to exceptions (including in respect of reinvestment in productive assets), TransDigm Inc. will be required to offer to prepay the term loans with the net proceeds of certain asset sales. The revolving loan facility will mature and the commitments thereunder will terminate in July 2012.

The senior secured credit facility is guaranteed by TD Group and all of TransDigm Inc.'s current and future domestic restricted subsidiaries, and is secured by a first priority security interest in substantially all of the existing and future property and assets of

Table of Contents

TransDigm Inc. and all of TransDigm Inc.'s existing and future domestic restricted subsidiaries, and a first priority pledge of the capital stock of TransDigm Inc. and TransDigm Inc.'s domestic subsidiaries.

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 7.63%. The notional amount will decrease to \$170 million on September 23, 2007 and to \$150 million on September 23, 2008.

In connection with the refinancing, TransDigm Inc. also issued \$275 million aggregate principal amount of 7³/₄% senior subordinated notes. In connection with the acquisition of ATI, TransDigm Inc. issued an additional \$300 million aggregate principal amount of 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. The notes are fully and unconditionally guaranteed, jointly and severally and on an unsecured senior subordinated basis, by TransDigm Group and all of our existing domestic subsidiaries.

Upon the closing of the refinancing in June 2006, the entire term loan facility, together with the net proceeds from the \$275 million from the 7³/₄% senior subordinated notes and a portion of our existing cash balances, was drawn to fund (i) the repayment of the entire \$288.4 million of principal amount outstanding under the former senior secured credit facility, (ii) the repayment of the entire \$200 million of principal amount outstanding under the TD Group's former loan facility, (iii) the purchase of substantially all of the \$400 million of aggregate principal amount of our 8³/₈% senior subordinated notes that were tendered in connection with our tender offer for such notes, (iv) the payment of accrued and unpaid interest on all such indebtedness, and (v) the payment of premiums and transaction expenses associated therewith.

Upon the closing of the ATI acquisition, the additional term loan of \$130 million, together with the net proceeds from the \$300 million from the additional 7³/₄% senior subordinated notes and a portion of our cash balances, was drawn to fund the approximately \$430 million purchase price of ATI.

Contractual Obligations

The following is a summary of the contractual cash obligations as of June 30, 2007 (in millions):

	2007 ⁽¹⁾	2008	2009	2010	2011	2012 and thereafter	Total
Senior secured credit facility ⁽²⁾	\$	\$	\$	\$	\$	\$ 780.0	\$ 780.0
7 ³ / ₄ % senior subordinated notes due 2014						575.0	575.0
Scheduled interest payments ⁽³⁾	37.4	103.1	103.1	102.6	102.6	224.4	673.2
Operating leases	0.7	2.9	2.8	2.3	1.9	3.7	14.3
TD Group Deferred Compensation Plan			5.9				5.9
Total Contractual Cash Obligations	\$ 38.1	\$ 106.0	\$ 111.8	\$ 104.9	\$ 104.5	\$ 1,583.1	\$ 2,048.4

(1) The contractual cash obligations are measured from June 30, 2007.

(2) Our senior secured credit facility will mature on June 23, 2013 (in the case of the term loan facility) and June 23, 2012 (in the case of the revolving credit facility), and will not be subject to interim scheduled amortization. However, under the amended terms of our senior secured credit facility, commencing 90 days after the end of fiscal 2008 and each fiscal year thereafter, TransDigm Inc. is required to prepay outstanding term loans in a principal amount equal to 50% of Excess Cash Flow (as defined); provided that the amount of the prepayment will be reduced to 25% of Excess Cash Flow if the Consolidated Leverage Ratio (as defined) at the end of the applicable fiscal year is less than 5.00 to 1.00, but greater than 4.50 to 1.00, and TransDigm Inc. will not be required to prepay any of the term loan if the Consolidated Leverage Ratio as of the end of the applicable fiscal year is equal to or less than 4.50 to 1.00 or if the term loan achieves certain minimum credit ratings at the end of such fiscal year.

(3) Assumes that the variable interest rate on our borrowings under our senior secured credit facility remains constant at 7.36%.

Table of Contents

New Accounting Standards

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company anticipates that the adoption of this pronouncement will not have a material impact on its consolidated financial position or results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 requires companies to evaluate the materiality of identified unadjusted errors on each financial statement and related financial statement disclosure using both the rollover approach and the iron curtain approach. The requirements of SAB 108 are effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company adopted SAB 108 during its first quarter of fiscal year 2007. The adoption of SAB 108 did not have a material impact on the Company's consolidated financial condition or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). This statement requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under SFAS 158, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in Accumulated Other Comprehensive Income, net of tax effects, until they are amortized as a component of net periodic benefit cost. In addition, the measurement date, the date at which plan assets and the benefit obligation are measured, is required to be the company's fiscal year end. Presently, the Company uses a September 30 measurement date for its defined benefit pension plans. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The Company's adoption of this pronouncement will not have a material impact on its consolidated financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The Company has not determined the impact, if any, that SFAS 157 will have 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. FIN 48 is effective for fiscal periods beginning after December 15, 2006. The Company is currently analyzing the expected impact of adoption of FIN 48 on its consolidated financial position and results of operations.

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 June 30, 2007, 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 its option, at a rate equal to either an alternate base rate or an adjusted LIBO rate for a one, two, three or six-month interest period chosen by the Company, in each case, plus an applicable margin percentage that varies based on the consolidated leverage ratio of TransDigm Inc. as of the relevant date of determination. 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

Table of Contents

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 June 30, 2007. The weighted average interest rate on the \$780 million of borrowings under our senior secured credit facility on June 30, 2007 was 7.36%.

At June 30, 2007, 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 \$187 million, which will decrease to \$170 million on September 23, 2007 and 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 June 30, 2007, the fair value of the interest rate swap agreement was a liability of \$1.2 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 \$580 million at June 30, 2007 based upon quoted market rates.

ITEM 4. CONTROLS AND PROCEDURES

As of June 30, 2007, 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.

Internal Control Over Financial Reporting

There have been no changes in TD Group's internal control over financial reporting that occurred during the thirty-nine week period ending June 30, 2007 that have materially affected, or are reasonably likely to materially affect, TD Group's internal control over financial reporting.

Sarbanes-Oxley Act Section 404 Compliance

Section 404 of the Sarbanes-Oxley Act requires the Company's management to report on, and its independent auditors to attest to, the Company's internal control over financial reporting as of September 30, 2007. The Company is actively pursuing its compliance efforts and utilizing outside assistance for documenting, testing and evaluating the effectiveness of its internal control over financial reporting in order to be in full compliance with all requirements of Section 404 as of September 30, 2007.

Table of Contents

PART II: OTHER INFORMATION

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 W. Nicholas Howley	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	August 10, 2007
/s/ Gregory Rufus Gregory Rufus	Chief Financial Officer and Executive Vice President (Principal Financial and Accounting Officer)	August 10, 2007

Table of Contents

EXHIBIT INDEX

TO FORM 10-Q FOR THE PERIOD ENDED JUNE 30, 2007

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.