

TransDigm Group INC
Form 10-Q
February 08, 2012
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 December 31, 2011.

.. **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File Number 001-32833

TransDigm Group Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or other Jurisdiction of incorporation or organization)

41-2101738

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

1301 East 9th Street, Suite 3000, Cleveland, Ohio
(Address of principal executive offices)

(216) 706-2960

44114
(Zip Code)

(Registrants telephone number, including area code)

Edgar Filing: TransDigm Group INC - Form 10-Q

(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

LARGE ACCELERATED FILER ACCELERATED FILER

NON-ACCELERATED FILER SMALLER REPORTING COMPANY

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 50,656,631 as of January 27, 2012.

Table of Contents

INDEX

	Page	
Part I	FINANCIAL INFORMATION	
Item 1	Financial Statements	
	<u>Condensed Consolidated Balance Sheets – December 31, 2011 and September 30, 2011</u>	1
	<u>Condensed Consolidated Statements of Operations – Thirteen Week Periods Ended December 31, 2011 and January 1, 2011</u>	2
	<u>Condensed Consolidated Statement of Changes in Stockholders' Equity – Thirteen Week Period Ended December 31, 2011</u>	3
	<u>Condensed Consolidated Statements of Cash Flows – Thirteen Week Periods Ended December 31, 2011 and January 1, 2011</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>	20
Item 3	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	31
Item 4	<u>Controls and Procedures</u>	31
Part II	<u>OTHER INFORMATION</u>	
Item 1A	<u>Risk Factors</u>	32
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 6	<u>Exhibits</u>	33
	<u>SIGNATURES</u>	34

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

(Amounts in thousands, except share amounts)

(Unaudited)

	December 31, 2011	September 30, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 359,900	\$ 376,183
Trade accounts receivable - Net	174,698	189,293
Inventories	274,173	265,317
Deferred income taxes	25,100	30,844
Prepaid expenses and other	6,170	8,655
Total current assets	840,041	870,292
PROPERTY, PLANT AND EQUIPMENT - Net	149,822	150,800
GOODWILL	2,619,838	2,595,747
TRADEMARKS AND TRADE NAMES	351,656	344,942
OTHER INTANGIBLE ASSETS - Net	518,197	483,424
DEBT ISSUE COSTS - Net	56,426	59,007
OTHER	9,356	9,424
TOTAL ASSETS	\$ 4,545,336	\$ 4,513,636
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 15,500	\$ 15,500
Accounts payable	48,213	62,110
Accrued liabilities	76,775	120,312
Income taxes payable	24,246	8,937
Total current liabilities	164,734	206,859
LONG-TERM DEBT	3,119,000	3,122,875
DEFERRED INCOME TAXES	313,600	310,451
OTHER NON-CURRENT LIABILITIES	60,934	62,502
Total liabilities	3,658,268	3,702,687
STOCKHOLDERS EQUITY:		
Common stock - \$.01 par value; authorized 224,400,000 shares; issued 51,110,987 and 50,829,276 at December 31, 2011 and September 30, 2011, respectively	511	508
Additional paid-in capital	480,898	464,700
Retained earnings	429,365	364,260
Accumulated other comprehensive loss	(7,618)	(3,277)
Treasury stock, at cost - 505,400 shares at December 31, 2011 and 494,100 shares at September 30, 2011	(16,088)	(15,242)

Edgar Filing: TransDigm Group INC - Form 10-Q

Total stockholders' equity	887,068	810,949
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,545,336	\$ 4,513,636

See notes to condensed consolidated financial statements.

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THIRTEEN WEEK PERIODS ENDED****DECEMBER 31, 2011 AND JANUARY 1, 2011****(Amounts in thousands, except per share amounts)****(Unaudited)**

	Thirteen Week Periods Ended	
	December 31, 2011	January 1, 2011
NET SALES	\$ 352,473	\$ 233,552
COST OF SALES	152,918	106,406
GROSS PROFIT	199,555	127,146
SELLING AND ADMINISTRATIVE EXPENSES	41,850	30,520
AMORTIZATION OF INTANGIBLE ASSETS	12,439	4,277
INCOME FROM OPERATIONS	145,266	92,349
INTEREST EXPENSE Net	49,061	32,556
REFINANCING COSTS		70,730
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	96,205	(10,937)
INCOME TAX PROVISION (BENEFIT)	31,100	(3,784)
INCOME (LOSS) FROM CONTINUING OPERATIONS	65,105	(7,153)
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX		(205)
NET INCOME (LOSS)	\$ 65,105	\$ (7,358)
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	\$ 61,806	\$ (10,169)
Net earnings (loss) per share see Note 5:		
Net earnings (loss) per share from continuing operations basic and diluted	\$ 1.15	\$ (0.19)
Net loss per share from discontinued operations basic and diluted		
Net earnings (loss) per share	\$ 1.15	\$ (0.19)

Edgar Filing: TransDigm Group INC - Form 10-Q

Weighted-average shares outstanding:		
Basic and diluted	53,882	53,328
See notes to condensed consolidated financial statements.		

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 31, 2011**

(Amounts in thousands, except share amounts)

(Unaudited)

	Common Stock			Retained Earnings	Accumulated	Treasury Stock		Total
	Number of Shares	Par Value	Additional Paid-In Capital		Other Comprehensive Loss	Number of Shares	Value	
BALANCE, OCTOBER 1, 2011	50,829,276	\$ 508	\$ 464,700	\$ 364,260	\$ (3,277)	(494,100)	\$ (15,242)	\$ 810,949
Compensation expense recognized for employee stock options			3,648					3,648
Excess tax benefits related to share-based payment arrangements			9,050					9,050
Exercise of employee stock options	281,711	3	3,500					3,503
Treasury stock purchased						(11,300)	(846)	(846)
Comprehensive income (loss):								
Net income				65,105				65,105
Interest rate swaps, net of tax					(700)			(700)
Foreign currency translation adjustments					(3,641)			(3,641)
Comprehensive income								60,764
BALANCE, DECEMBER 31, 2011	51,110,987	\$ 511	\$ 480,898	\$ 429,365	\$ (7,618)	(505,400)	\$ (16,088)	\$ 887,068

See notes to condensed consolidated financial statements.

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

(Amounts in thousands)

(Unaudited)

	Thirteen Week Periods Ended	
	December 31, 2011	January 1, 2011
OPERATING ACTIVITIES:		
Net income (loss)	\$ 65,105	\$ (7,358)
Net loss from discontinued operations		205
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	5,314	4,339
Amortization of intangible assets	12,468	4,277
Amortization of debt issue costs	2,616	2,082
Refinancing costs		70,730
Non-cash equity compensation	3,648	1,857
Excess tax benefits related to share-based payment arrangements	(9,050)	(4,163)
Deferred income taxes	(4,700)	2,218
Changes in assets/liabilities, net of effects from acquisitions of businesses:		
Trade accounts receivable	20,150	19,294
Inventories	(543)	3,793
Income taxes receivable/payable	35,800	(5,052)
Other assets	2,648	59
Accounts payable	(15,436)	(11,949)
Accrued and other liabilities	(50,321)	(18,184)
Net cash provided by operating activities	67,699	62,148
INVESTING ACTIVITIES:		
Capital expenditures	(4,703)	(2,987)
Acquisition of businesses, net of cash acquired	(83,812)	(1,362,201)
Net cash used in investing activities	(88,515)	(1,365,188)
FINANCING ACTIVITIES:		
Excess tax benefits related to share-based payment arrangements	9,050	4,163
Proceeds from exercise of stock options	3,503	2,980
Dividends paid	(3,299)	(2,810)
Treasury stock purchased	(846)	
Proceeds from new senior secured credit facility - net		1,505,007
Repayment on new senior secured credit facility	(3,875)	
Proceeds from senior subordinated notes due 2018 - net		1,583,165
Repurchase of senior subordinated notes due 2014		(1,009,269)
Repayment of existing senior secured credit facility		(780,000)
Net cash provided by financing activities	4,533	1,303,236

Edgar Filing: TransDigm Group INC - Form 10-Q

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,283)	196
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	376,183	234,112
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 359,900	\$ 234,308

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for interest	\$ 77,938	\$ 34,641
Cash paid during the period for income taxes	\$ 11,393	\$ 10

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THIRTEEN WEEK PERIODS ENDED DECEMBER 31, 2011 AND JANUARY 1, 2011

(UNAUDITED)

1. DESCRIPTION OF THE BUSINESS

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

Major product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, NiCad batteries and chargers, engineered latching and locking devices, rods and locking devices, engineered connectors and elastomers, cockpit security components and systems, specialized cockpit displays, aircraft audio systems, specialized lavatory components, engineered interior surfaces and lighting and control technology.

Separate Financial Statements Separate financial statements of TransDigm Inc. are not presented because TransDigm Inc.'s ~~3~~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 because TD Group has no significant operations or assets separate from its investment in TransDigm Inc.

2. UNAUDITED INTERIM FINANCIAL INFORMATION

The financial information included herein is unaudited; however, the information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the Company's financial position and results of operations and cash flows for the interim periods presented. These financial statements and notes should be read in conjunction with the financial statements and related notes for the year ended September 30, 2011 included in TD Group's Form 10-K dated November 18, 2011. As disclosed therein, the Company's annual consolidated financial statements were prepared in conformity with generally accepted accounting principles in the United States ("GAAP"). The September 30, 2011 condensed consolidated balance sheet was derived from TD Group's audited financial statements. The results of operations for the thirteen week period ended December 31, 2011 are not necessarily indicative of the results to be expected for the full year.

3. ACQUISITIONS

Harco Laboratories, Incorporated On December 9, 2011, TransDigm Inc. acquired all of the outstanding stock of Harco Laboratories, Incorporated ("Harco"), for approximately \$82.8 million in cash, subject to adjustments based on the level of working capital as of the closing date of the acquisition. Harco designs and manufactures highly engineered thermocouples, sensors, engine cable assemblies and related products for commercial aircraft. These products fit well with TransDigm's overall business direction. The Company expects that the approximately \$54 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

Schneller Holdings On August 31, 2011, TransDigm Inc. acquired all of the outstanding equity interests in Schneller Holdings LLC ("Schneller") for approximately \$288.6 million in cash, which includes a purchase price adjustment of \$1.0 million paid in the first quarter of fiscal 2012. Schneller designs and manufactures proprietary, highly engineered laminates, thermoplastics, and non-textile flooring for use primarily on side walls, lavatories, galleys, bulkheads and cabin floors for commercial aircraft. These products fit well with TransDigm's overall business

Edgar Filing: TransDigm Group INC - Form 10-Q

direction. The Company expects that the approximately \$167 million of goodwill recognized for the acquisition will be deductible for tax purposes.

-5-

Table of Contents

Talley Actuation On December 31, 2010, AeroControlex Group, Inc., a wholly owned subsidiary of TransDigm Inc., acquired the actuation business of Telair International Inc. (Talley Actuation), a wholly-owned subsidiary of Teleflex Incorporated, for approximately \$93.6 million in cash, which includes a purchase price adjustment of \$0.3 million received in the third quarter of fiscal 2011. Talley Actuation manufactures proprietary, highly engineered electro-mechanical products and other components for commercial and military aircraft. These products fit well with TransDigm's overall business direction. The Company expects that the approximately \$70 million of goodwill recognized for the acquisition will be deductible for tax purposes.

McKechnie Aerospace Holdings, Inc. On December 6, 2010, TransDigm Inc. acquired all of the outstanding stock of McKechnie Aerospace Holdings Inc. (McKechnie Aerospace), for approximately \$1.27 billion in cash, which includes a purchase price adjustment of \$0.3 million paid in the third quarter of fiscal 2011. McKechnie Aerospace, through its subsidiaries, is a leading global designer, producer and supplier of aerospace components, assemblies and subsystems for commercial aircraft, regional/business jets, military fixed wing and rotorcraft. Some of the businesses acquired as part of McKechnie Aerospace have been divested. See Note 13 to the Condensed Consolidated Financial Statements. The remaining products fit well with TransDigm's overall business direction.

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

Assets acquired:	
Current assets, excluding cash acquired	\$ 109,289
Property, plant and equipment	48,901
Intangible assets	433,000
Goodwill	864,934
Total assets acquired	 \$ 1,456,124
 Liabilities assumed:	
Current liabilities	\$ 40,004
Deferred tax liabilities	118,591
Other noncurrent liabilities	31,837
Total liabilities assumed	 \$ 190,432
Net assets acquired	 \$ 1,265,692

The Company expects that the approximately \$865 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

Table of Contents

The results of operations of McKechnie Aerospace are included in the Company's consolidated financial statements from the date of the transaction. Had the McKechnie acquisition and related financing transactions occurred at the beginning of the thirteen week period ended January 1, 2011, unaudited pro forma consolidated results for the thirteen week period ended January 1, 2011 would have been as follows (in thousands, except per share data):

	Thirteen Week Period Ended January 1, 2011
Net sales	\$ 274,917
Net loss applicable to common stock from continuing operations	\$ (23,322)
Net loss per share from continuing operations:	
Basic and diluted	\$ (0.44)

The unaudited pro forma consolidated results are based on the Company's historical financial statements and those of McKechnie Aerospace and do not necessarily indicate the results of operations that would have resulted had the acquisition actually been completed at the beginning of the applicable period presented. The pro forma financial information assumes that the companies were combined as of October 1, 2010. The pro forma results for the thirteen week period ended January 1, 2011 reflect the business combination accounting effects from the acquisition including amortization charges from the acquired intangible assets, inventory purchase accounting adjustments charged to cost of sales as the inventory is sold and increased interest expense associated with debt incurred to fund the acquisition. The unaudited pro forma consolidated results do not give effect to the synergies of the acquisition and are not indicative of the results of operations in future periods.

The Company accounted for the acquisitions of Harco, Schneller, Talley Actuation and McKechnie Aerospace (collectively, the Acquisitions) using the acquisition method and included the results of operations of the Acquisitions in its consolidated financial statements from the effective date of each acquisition. The Company is in the process of obtaining a third-party valuation of certain tangible and intangible assets of Harco and Schneller and, therefore, the values attributed to those acquired assets in the consolidated financial statements are subject to adjustment. Pro forma net sales and results of operations for the acquisitions of Harco, Schneller and Talley Actuation had they occurred at the beginning of the thirteen week period ended January 1, 2011, are not significant and, accordingly, are not provided.

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

Table of Contents**4. RECENT ACCOUNTING PRONOUNCEMENT**

In May 2011, the Financial Accounting Standard Board (FASB) issued authoritative accounting guidance included in Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. This guidance amends the requirements for measuring fair value and disclosing information about fair value measurements. This authoritative guidance was adopted during the first quarter of fiscal 2012. The adoption did not have a material impact on the Company's financial condition or results of operations.

5. EARNINGS (LOSS) PER SHARE

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

	Thirteen Week Periods Ended	
	December 31, 2011	January 1, 2011
Numerator for earnings (loss) per share:		
Net income (loss) from continuing operations	\$ 65,105	\$ (7,153)
Less dividends paid on participating securities	(3,299)	(2,811)
	61,806	(9,964)
Net loss from discontinued operations		(205)
Net income (loss) applicable to common stock - basic and diluted	\$ 61,806	\$ (10,169)
Denominator for basic and diluted earnings (loss) per share under the two-class method:		
Weighted average common shares outstanding	50,431	49,500
Vested options deemed participating securities	3,451	3,828
Total shares for basic and diluted earnings (loss) per share	53,882	53,328
Net earnings (loss) per share from continuing operations - basic and diluted	\$ 1.15	\$ (0.19)
Net loss per share from discontinued operations - basic and diluted		
Net earnings (loss) per share	\$ 1.15	\$ (0.19)

Table of Contents**6. 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 for all locations except CEF Industries LLC, which determines the cost of inventories using the last-in, first-out (LIFO) method. Approximately 5% of the inventory was valued under the LIFO method at December 31, 2011.

Inventories consist of the following (in thousands):

	December 31, 2011	September 30, 2011
Raw materials and purchased component parts	\$ 165,475	\$ 160,402
Work-in-progress	92,950	85,612
Finished goods	42,104	43,192
Total	300,529	289,206
Reserve for excess and obsolete inventory and LIFO	(26,356)	(23,889)
Inventories - net	\$ 274,173	\$ 265,317

7. INTANGIBLE ASSETS

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

	December 31, 2011			September 30, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Technology	\$ 562,279	\$ 82,107	\$ 480,172	\$ 546,726	\$ 75,426	\$ 471,300
Order backlog	24,700	20,378	4,322	24,799	17,895	6,904
Other	40,130	6,427	33,703	10,973	5,753	5,220
Total	\$ 627,109	\$ 108,912	\$ 518,197	\$ 582,498	\$ 99,074	\$ 483,424

Intangible assets acquired during the thirteen week period ended December 31, 2011 were as follows (in thousands):

	Cost	Amortization Period
Intangible assets not subject to amortization:		
Goodwill	\$ 53,653	
Trademarks and trade names	6,000	
	59,653	
Intangible assets subject to amortization:		
Technology	15,000	20 years
Order backlog	2,400	1 year
	17,400	17.4 years

Edgar Filing: TransDigm Group INC - Form 10-Q

Total	\$ 77,053
-------	-----------

The aggregate amortization expense on identifiable intangible assets for the thirteen week periods ended December 31, 2011 and January 1, 2011 was approximately \$12.5 million and \$4.3 million, respectively. The estimated amortization expense for fiscal 2012 is \$38.0 million and for each of the five succeeding years 2013 through 2017 is \$28.2 million, \$27.8 million, \$27.8 million, \$27.8 million and \$27.8 million, respectively.

-9-

Table of Contents

The following is a summary of changes in the carrying value of goodwill from September 30, 2011 through December 31, 2011 (in thousands):

Balance, September 30, 2011	\$ 2,595,747
Goodwill acquired during the year	53,653
Purchase price allocation adjustments	(27,144)
Other	(2,418)
Balance, December 31, 2011	\$ 2,619,838

8. PRODUCT WARRANTY

The Company provides limited warranties in connection with the sale of its products. The warranty period for products sold, which varies among the Company's operations, is typically less than two years but can be in the range from 90 days to six 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):

	Thirteen Week Periods Ended	
	December 31, 2011	January 1, 2011
Liability balance at beginning of period	\$ 8,722	\$ 8,345
Accruals for warranties issued	498	222
Warranty costs incurred	(825)	(560)
Acquisitions	45	91
Liability balance at end of period	\$ 8,440	\$ 8,098

9. INCOME TAXES

At the end of each reporting period, TD Group makes an estimate of its annual effective income tax rate. The estimate used in the year-to-date period may change in subsequent periods. During the thirteen week periods ended December 31, 2011 and January 1, 2011, the effective income tax rate was 32.3% and 34.6%, respectively. The lower effective tax rate for the thirteen week period ended December 31, 2011 was primarily due to a non-recurring adjustment (benefit of \$2.6 million) to state income tax expense due to changes in state tax laws.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions as well as foreign jurisdictions located in Belgium, Malaysia, Mexico, France, Singapore and the United Kingdom. The Company is subject to U.S. federal examination for the 2008, 2009 and 2010 years.

At December 31, 2011 and September 30, 2011, TD Group had \$7.7 million and \$7.6 million in unrecognized tax benefits, the recognition of which would have an effect of approximately \$7.0 million on the effective tax rate at December 31, 2011 and September 30, 2011, respectively. The Company does not believe that the tax positions that comprise the unrecognized tax benefit amount will change significantly over the next 12 months. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense.

Table of Contents**10. FAIR VALUE MEASUREMENTS**

The following tables present our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following summarizes the carrying amounts and fair values of financial instruments (in thousands):

	Level	December 31, 2011		September 30, 2011	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	1	\$ 359,900	\$ 359,900	\$ 376,183	\$ 376,183
Liabilities:					
Interest rate swaps ⁽¹⁾	2	6,600	6,600	5,600	5,600
Foreign currency exchange contracts	2				
<i>Long-term debt:</i>					
Term loans	2	1,534,500	1,525,000	1,538,375	1,496,000
7 ³ / ₄ % Senior Subordinated Notes due 2018	1	1,600,000	1,696,000	1,600,000	1,616,000

(1) Included in Other non-current liabilities on the Condensed Consolidated Balance Sheet.

Interest rate swaps were measured at fair value using quoted market prices for the swap interest rate indexes over the term of the swap discounted to present value versus the fixed rate of the contract. Foreign exchange contracts were measured at fair value using the quoted currency exchange rate versus the fixed rate of the contract. The estimated fair value of the Company's term loans was based on information provided by the agent under the Company's senior secured credit facility. The estimated fair values of the Company's 3³/₄% senior subordinated notes due 2018 were based upon quoted market prices.

11. DERIVATIVES AND HEDGING ACTIVITIES

The Company is exposed to, among other things, the impact of changes in interest and foreign currency exchange rates in the normal course of business. The Company's risk management program is designed to manage the exposure and volatility arising from these risks, and utilizes derivative financial instruments to offset a portion of these risks. The Company uses derivative financial instruments only to the extent necessary to hedge identified business risks, and does not enter into such transactions for trading purposes. The Company generally does not require collateral or other security with counterparties to these financial instruments and is therefore subject to credit risk in the event of nonperformance; however, the Company monitors credit risk and currently does not anticipate nonperformance by other parties.

Interest rate swap agreements are used to manage interest rate risk associated with floating-rate borrowings under our New Senior Secured Credit Facility. The interest rate swap agreements utilized by the Company effectively modify the Company's exposure to interest rate risk by converting a portion of the Company's floating-rate debt to a fixed rate basis through the expiration date of the interest rate swap agreements, thereby reducing the impact of interest rate changes on future interest expense. These agreements involve the receipt of floating rate amounts in exchange for fixed rate interest payments over the term of the agreements without an exchange of the underlying principal amount. These derivative instruments qualify as effective cash flow hedges under GAAP. For these hedges, the effective portion of the gain or loss from the financial instruments is initially reported as a component of accumulated other comprehensive income (loss) in stockholders' equity and subsequently reclassified into earnings in the same line as the hedged item in the same period or periods during which the hedged item affects earnings.

Table of Contents

At December 31, 2011, three forward-starting interest rate swap agreements were in place to swap variable rates on the New Senior Secured Credit Facility for a fixed rate based on an aggregate notional amount of \$353 million. Beginning December 31, 2012, these interest rate swap agreements will effectively convert the variable interest rate on the aggregate notional amount of the New Senior Secured Credit Facility to a fixed rate of 5.17% (2.17% plus the 3% margin percentage) through June 30, 2015.

Foreign currency exchange contracts are used to manage the impact of changes in foreign exchange rates on our consolidated results of operations and future foreign currency-denominated cash flows. These contracts effectively reduce exposure to currency movements affecting foreign currency-denominated expenditures by fixing the foreign currency exchange rate over the term of the agreement. These derivative instruments qualify as effective cash flow hedges under GAAP. For these hedges, changes in the fair value of the hedge are initially recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity and are subsequently reclassified into earnings in the same period the forecasted transaction affects earnings.

As of December 31, 2011, the Company had outstanding foreign currency exchange contracts totaling \$2.2 million in the form of forward contracts with varying maturity dates ranging from January 2012 to September 2012. The fair value of these contracts approximated their carrying value as of December 31, 2011.

12. COMPREHENSIVE INCOME

Comprehensive income (loss), which primarily includes adjustments for changes in the fair values of the interest rate swap agreements on a net of tax basis and foreign currency translation adjustments, was approximately \$60.8 million and (\$5.7) million for the thirteen week periods ended December 31, 2011 and January 1, 2011, respectively.

13. DISCONTINUED OPERATIONS

On March 9, 2011, the Company completed the divestiture of its fastener business for approximately \$239.6 million in cash, subject to adjustments based on the level of working capital as of the closing date. This business, which was acquired as part of the McKechnie Aerospace acquisition, is made up of Valley-Todeco, Inc. and Linread Ltd. The business designs and manufactures fasteners, fastening systems and bearings for commercial, military and general aviation aircraft.

On April 7, 2011, the Company completed the divestiture of Aero Quality Sales (AQS) to Satair A/S for approximately \$31.8 million in cash, which includes a \$1.8 million working capital adjustment received in the third quarter of fiscal 2011. AQS, which was acquired as part of the McKechnie Aerospace acquisition, is a distributor and service center of aircraft batteries and battery support equipment. The Company's Chairman and Chief Executive Officer, W. Nicholas Howley, was a director of Satair A/S from 2006 through October 2011.

The sales of the fastener business and AQS have been accounted for as discontinued operations and accordingly the condensed consolidated statements of income have classified the operating results to reflect discontinued operations presentation. The following is the summarized operating results for the fastener business and AQS from the date of acquisition (December 6, 2010) through January 1, 2011 (in thousands).

	Thirteen Week Period Ended January 1, 2011
Net sales	\$ 6,490
Loss from discontinued operations before income taxes	\$ (71)
Income tax provision	(134)
Loss from discontinued operations	\$ (205)

Table of Contents

14. SUBSEQUENT EVENT

On January 20, 2012, TransDigm entered into a definitive agreement to purchase AmSafe Global Holdings, Inc. (AmSafe), a privately-owned, world leading supplier of innovative, highly engineered and proprietary safety and restraint equipment used primarily in the global aerospace industry, for a total purchase price of approximately \$750 million in cash. TransDigm expects to finance the acquisition through a combination of new senior bank debt and cash.

The acquisition, subject to review under the Hart-Scott-Rodino Act and other customary closing conditions, is expected to close before the end of the second quarter of fiscal 2012.

15. SUPPLEMENTAL GUARANTOR INFORMATION

TransDigm's 7/4% senior subordinated notes due 2018 are jointly and severally guaranteed, on a senior subordinated basis, by TD Group and TransDigm Inc.'s Domestic Restricted Subsidiaries, as defined in the indenture. The following supplemental condensed consolidating financial information presents, in separate columns, the balance sheets of the Company as of December 31, 2011 and September 30, 2011 and its statements of income and cash flows for the thirteen week periods ended December 31, 2011 and January 1, 2011 for (i) TransDigm Group on a parent only basis with its investment in subsidiaries recorded under the equity method, (ii) TransDigm Inc. including its directly owned operations and non-operating entities, (iii) the Subsidiary Guarantors on a combined basis, (iv) Non-Guarantor Subsidiaries after December 14, 2010 and (v) the Company on a consolidated basis.

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2011

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 8,133	\$ 343,941	\$ (1,266)	\$ 9,092	\$	\$ 359,900
Trade accounts receivable - Net		10,876	158,143	6,429	(750)	174,698
Inventories		22,472	241,751	9,934	16	274,173
Deferred income taxes		25,100				25,100
Prepaid expenses and other		788	4,739	643		6,170
Total current assets	8,133	403,177	403,367	26,098	(734)	840,041
INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES	878,935	3,930,487	1,855,083	(7,643)	(6,656,862)	
PROPERTY, PLANT AND EQUIPMENT - Net		15,767	128,876	5,179		149,822
GOODWILL		78,793	2,507,493	33,552		2,619,838
TRADEMARKS AND TRADE NAMES		19,376	320,579	11,701		351,656
OTHER INTANGIBLE ASSETS - Net		8,610	495,723	13,864		518,197
DEBT ISSUE COSTS - Net		56,426				56,426
OTHER		2,437	6,919			9,356
TOTAL ASSETS	\$ 887,068	\$ 4,515,073	\$ 5,718,040	\$ 82,751	\$ (6,657,596)	\$ 4,545,336
LIABILITIES AND STOCKHOLDERS EQUITY						
CURRENT LIABILITIES:						
Current portion of long-term debt	\$	\$ 15,500	\$	\$	\$	\$ 15,500
Accounts payable		6,298	37,753	4,912	(750)	48,213
Accrued liabilities		15,181	59,288	2,306		76,775
Income taxes payable		23,745		501		24,246
Total current liabilities		60,724	97,041	7,719	(750)	164,734
LONG-TERM DEBT		3,119,000				3,119,000
DEFERRED INCOME TAXES		313,600				313,600
OTHER NON-CURRENT LIABILITIES		24,812	36,122			60,934
Total liabilities		3,518,136	133,163	7,719	(750)	3,658,268
STOCKHOLDERS EQUITY	887,068	996,937	5,584,877	75,032	(6,656,846)	887,068
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 887,068	\$ 4,515,073	\$ 5,718,040	\$ 82,751	\$ (6,657,596)	\$ 4,545,336

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2011

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 5,695	\$ 360,074	\$ 2,115	\$ 8,299	\$	\$ 376,183
Trade accounts receivable - Net		11,183	170,420	8,484	(794)	189,293
Inventories		23,311	233,726	8,264	16	265,317
Deferred income taxes		23,248	7,596			30,844
Prepaid expenses and other		2,571	5,451	633		8,655
Total current assets	5,695	420,387	419,308	25,680	(778)	870,292
INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES	805,254	3,746,531	1,557,736	(8,494)	(6,101,027)	
PROPERTY, PLANT AND EQUIPMENT - Net		15,903	129,566	5,331		150,800
GOODWILL		81,736	2,478,780	35,231		2,595,747
TRADEMARKS AND TRADE NAMES		19,376	313,280	12,286		344,942
OTHER INTANGIBLE ASSETS - Net		8,760	459,615	15,049		483,424
DEBT ISSUE COSTS - Net		59,007				59,007
OTHER		2,415	7,010	(1)		9,424
TOTAL ASSETS	\$ 810,949	\$ 4,354,115	\$ 5,365,295	\$ 85,082	\$ (6,101,805)	\$ 4,513,636
LIABILITIES AND STOCKHOLDERS EQUITY						
CURRENT LIABILITIES:						
Current portion of long-term debt	\$	\$ 15,500	\$	\$	\$	\$ 15,500
Accounts payable		8,071	49,944	4,889	(794)	62,110
Accrued liabilities		52,525	65,178	2,609		120,312
Income taxes payable		5,561	3,155	221		8,937
Total current liabilities		81,657	118,277	7,719	(794)	206,859
LONG-TERM DEBT		3,122,875				3,122,875
DEFERRED INCOME TAXES		199,610	110,841			310,451
OTHER NON-CURRENT LIABILITIES		26,717	35,785			62,502
Total liabilities		3,430,859	264,903	7,719	(794)	3,702,687
STOCKHOLDERS EQUITY	810,949	923,256	5,100,392	77,363	(6,101,011)	810,949
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 810,949	\$ 4,354,115	\$ 5,365,295	\$ 85,082	\$ (6,101,805)	\$ 4,513,636

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF INCOME
FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 31, 2011

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET SALES	\$	\$ 27,518	\$ 316,538	\$ 9,892	\$ (1,475)	\$ 352,473
COST OF SALES		11,876	134,629	7,888	(1,475)	152,918
GROSS PROFIT		15,642	181,909	2,004		199,555
SELLING AND ADMINISTRATIVE EXPENSES		14,846	26,301	703		41,850
AMORTIZATION OF INTANGIBLE ASSETS		156	11,794	489		12,439
INCOME FROM OPERATIONS		640	143,814	812		145,266
INTEREST EXPENSE - Net		48,546	124	391		49,061
EQUITY IN INCOME OF SUBSIDIARIES	(65,105)	(94,784)			159,889	
INCOME BEFORE INCOME TAXES	65,105	46,878	143,690	421	(159,889)	96,205
INCOME TAX PROVISION (BENEFIT)		(18,227)	48,883	444		31,100
NET INCOME (LOSS)	\$ 65,105	\$ 65,105	\$ 94,807	\$ (23)	\$ (159,889)	\$ 65,105

-16-

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THIRTEEN WEEK PERIOD ENDED JANUARY 1, 2011

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET SALES	\$	\$ 17,332	\$ 214,992	\$ 2,403	\$ (1,175)	\$ 233,552
COST OF SALES		10,359	95,655	1,274	(882)	106,406
GROSS PROFIT		6,973	119,337	1,129	(293)	127,146
SELLING AND ADMINISTRATIVE EXPENSES		9,696	20,567	257		30,520
AMORTIZATION OF INTANGIBLE ASSETS		156	4,196	(75)		4,277
INCOME (LOSS) FROM OPERATIONS		(2,879)	94,574	947	(293)	92,349
INTEREST EXPENSE - Net		32,036	524	(4)		32,556
REFINANCING COSTS		70,730				70,730
EQUITY IN INCOME OF SUBSIDIARIES	7,358	(61,758)			54,400	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(7,358)	(43,887)	94,050	951	(54,693)	(10,937)
INCOME TAX PROVISION (BENEFIT)		(36,529)	32,471	274		(3,784)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(7,358)	(7,358)	61,579	677	(54,693)	(7,153)
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX			(63)	(142)		(205)
NET INCOME (LOSS)	\$ (7,358)	\$ (7,358)	\$ 61,516	\$ 535	\$ (54,693)	\$ (7,358)

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 31, 2011**

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$	\$ (52,200)	\$ 115,490	\$ 763	\$ 3,646	\$ 67,699
INVESTING ACTIVITIES:						
Capital expenditures		(367)	(4,314)	(22)		(4,703)
Acquisition of businesses, net of cash acquired		(83,812)				(83,812)
Net cash used in investing activities		(84,179)	(4,314)	(22)		(88,515)
FINANCING ACTIVITIES:						
Intercompany activities	(5,970)	124,121	(114,557)	52	(3,646)	
Excess tax benefits related to share-based payment arrangements	9,050					9,050
Proceeds from exercise of stock options	3,503					3,503
Dividends paid	(3,299)					(3,299)
Treasury stock purchased	(846)					(846)
Repayment on new senior secured credit facility		(3,875)				(3,875)
Net cash provided by (used in) financing activities	2,438	120,246	(114,557)	52	(3,646)	4,533
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,438	(16,133)	(3,381)	793		(16,283)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,695	360,074	2,115	8,299		376,183
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 8,133	\$ 343,941	\$ (1,266)	\$ 9,092	\$	\$ 359,900

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE THIRTEEN WEEK PERIOD ENDED JANUARY 1, 2011

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET CASH PROVIDED BY (USED IN)						
OPERATING ACTIVITIES	\$	\$ 19,403	\$ 43,952	\$ (2,001)	\$ 794	\$ 62,148
INVESTING ACTIVITIES:						
Capital expenditures		(688)	(2,280)	(19)		(2,987)
Acquisition of businesses, net of cash acquired		(1,362,201)				(1,362,201)
Net cash used in investing activities		(1,362,889)	(2,280)	(19)		(1,365,188)
FINANCING ACTIVITIES:						
Intercompany activities	(6,061)	7,570	(30,312)	29,597	(794)	
Excess tax benefits related to share-based payment arrangements	4,163					4,163
Proceeds from exercise of stock options	2,980					2,980
Dividends paid	(2,810)					(2,810)
Proceeds from new senior secured credit facility - net		1,505,007				1,505,007
Proceeds from 2018 senior subordinated notes - net		1,583,165				1,583,165
Repurchase of 2014 senior subordinated notes		(1,009,269)				(1,009,269)
Repayment of previous senior secured credit facility		(780,000)				(780,000)
Net cash provided by (used in) financing activities	(1,728)	1,306,473	(30,312)	29,597	(794)	1,303,236
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,728)	(37,013)	11,360	27,577		196
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,884	226,200	3,028			234,112
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 3,156	\$ 189,187	\$ 14,388	\$ 27,577	\$	\$ 234,308

* * * * *

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: the sensitivity of our business to the number of flight hours that our customers' planes spend aloft and our customers' profitability, both of which are affected by general economic conditions; future terrorist attacks; our reliance on certain customers; the U.S. defense budget and risks associated with being a government supplier; failure to maintain government or industry approvals; failure to complete or successfully integrate acquisitions; our substantial indebtedness; potential environmental liabilities; and other factors. Please refer to the other information included in this Quarterly Report on Form 10-Q and to the Annual Report on Form 10-K for additional information regarding the foregoing factors that may affect our business.

Overview

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

For the first quarter of fiscal 2012, we generated net sales of \$352.5 million and net income of \$65.1 million. EBITDA As Defined was \$174.1 million, or 49.4% of net sales. See below for certain information regarding EBITDA and EBITDA As Defined, including reconciliations of EBITDA and EBITDA As Defined to net income and net cash provided by operating activities.

Table of Contents

Certain Acquisitions and Divestitures

Harco Laboratories Acquisition

On December 9, 2011, TransDigm Inc. acquired all of the outstanding stock of Harco Laboratories, Incorporated (Harco), for approximately \$82.8 million in cash, subject to adjustments based on the level of working capital as of the closing date of the acquisition. Harco designs and manufactures highly engineered thermocouples, sensors, engine cable assemblies and related products for commercial aircraft. These products fit well with TransDigm's overall business direction. The Company is in the process of obtaining information to value certain tangible and intangible assets of Harco, and therefore the condensed consolidated financial statements at December 31, 2011 reflect a preliminary purchase price allocation for the business.

Schneller Holdings Acquisition

On August 31, 2011, TransDigm Inc. acquired all of the outstanding equity interests in Schneller Holdings LLC (Schneller) for approximately \$288.6 million in cash, which includes a purchase price adjustment of \$1.0 million paid in the first quarter of fiscal 2012. Schneller designs and manufactures proprietary, highly engineered laminates, thermoplastics, and non-textile flooring for use primarily on side walls, lavatories, galleys, bulkheads and cabin floors for commercial aircraft. These products fit well with TransDigm's overall business direction. The Company is in the process of obtaining information to value certain tangible and intangible assets of Schneller, and therefore the condensed consolidated financial statements at December 31, 2011 reflect a preliminary purchase price allocation for the business.

Talley Actuation Acquisition

On December 31, 2010, AeroControlex Group, Inc., a wholly owned subsidiary of TransDigm Inc., acquired the actuation business of Telair International Inc. (Talley Actuation), a wholly-owned subsidiary of Teleflex Incorporated, for approximately \$93.6 million in cash, which includes a purchase price adjustment of \$0.3 million received in the third quarter of fiscal 2011. Talley Actuation manufactures proprietary, highly engineered electro-mechanical products and other components for commercial and military aircraft. These products fit well with TransDigm's overall business direction.

McKechnie Aerospace Holdings, Inc. Acquisition

On December 6, 2010, TransDigm Inc. acquired all of the outstanding stock of McKechnie Aerospace Holdings Inc. (McKechnie Aerospace), for approximately \$1.27 billion in cash, which includes a purchase price adjustment of \$0.3 million paid in the third quarter of fiscal 2011. McKechnie Aerospace, through its subsidiaries, is a leading global designer, producer and supplier of aerospace components, assemblies and subsystems for commercial aircraft, regional/business jets, military fixed wing and rotorcraft. Some of the businesses acquired as part of McKechnie Aerospace have since been divested (see below). The remaining products fit well with TransDigm's overall business direction.

Aero Quality Sales Divestiture

On April 7, 2011, the Company completed the divestiture of Aero Quality Sales (AQS) to Satair A/S for approximately \$31.8 million in cash, which includes a \$1.8 million working capital adjustment received in the third quarter of fiscal 2011. AQS, which was acquired as part of the McKechnie Aerospace acquisition, is a distributor and service center of aircraft batteries and battery support equipment. The Company's Chairman and Chief Executive Officer, W. Nicholas Howley was a director of Satair A/S from 2006 through October 2011. Mr. Howley disclosed his relationship with Satair A/S to the Company's board of directors and abstained from the related vote.

Table of Contents

Fastener Business Divestiture

On March 9, 2011, the Company completed the divestiture of its fastener business for approximately \$239.6 million in cash, subject to adjustments based on the level of working capital as of the closing date. This business, which was acquired as part of the McKechnie Aerospace acquisition, is made up of Valley-Todeco, Inc. and Linread Ltd. The business designs and manufactures fasteners, fastening systems and bearings for commercial, military and general aviation aircraft.

Recent Development

On January 20, 2012, TransDigm entered into a definitive agreement to purchase AmSafe Global Holdings, Inc. (AmSafe), a privately-owned, world leading supplier of innovative, highly engineered and proprietary safety and restraint equipment used primarily in the global aerospace industry, for a total purchase price of approximately \$750 million in cash. TransDigm expects to finance the acquisition through a combination of new senior bank debt and cash.

The acquisition, subject to review under the Hart-Scott-Rodino Act and other customary closing conditions, is expected to close before the end of the second quarter of fiscal 2012.

Non-GAAP Financial Measures

We present below certain financial information based on our EBITDA and EBITDA As Defined. References to EBITDA mean earnings before interest, taxes, depreciation and amortization, and references to EBITDA As Defined mean EBITDA plus, as applicable for each relevant period, certain adjustments as set forth in the reconciliations of net income to EBITDA and EBITDA As Defined and the reconciliations of net cash provided by operating activities to EBITDA and EBITDA As Defined presented below.

Neither EBITDA nor EBITDA As Defined is a measurement of financial performance under accounting principles generally accepted in the United States of America (GAAP). We present EBITDA and EBITDA As Defined because we believe they are useful indicators for evaluating operating performance and liquidity.

Our management believes that EBITDA and EBITDA As Defined are useful as indicators of liquidity because securities analysts, investors, rating agencies and others use EBITDA to evaluate a company's ability to incur and service debt. In addition, 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 financial covenant that measures the ratio of the amount of our secured indebtedness to the amount of our Consolidated EBITDA defined in the same manner as we define EBITDA As Defined herein. 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 (and such an event of default could, in turn, result in an event of default under the indentures governing our 7³/₄% senior subordinated notes).

In addition to the above, our management uses EBITDA As Defined to review and assess the performance of the management team in connection with employee incentive programs and to prepare its annual budget and financial projections. Moreover, our management uses EBITDA As Defined to evaluate acquisitions.

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 any of them in isolation, or as a substitute for analysis of our results of operations as reported in accordance with GAAP. Some of these limitations are:

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

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

Edgar Filing: TransDigm Group INC - Form 10-Q

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

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

-22-

Table of Contents

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

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

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

	Thirteen Week Periods Ended	
	December 31, 2011	January 1, 2011
Net income (loss)	\$ 65,105	\$ (7,358)
Less loss from discontinued operations		(205)
Income (loss) from continuing operations	65,105	(7,153)
Adjustments:		
Depreciation and amortization expense	17,782	8,616
Interest expense, net	49,061	32,556
Income tax provision (benefit)	31,100	(3,784)
EBITDA, excluding discontinued operations	163,048	30,235
Adjustments:		
Inventory purchase accounting adjustments ⁽¹⁾	3,151	2,106
Acquisition integration costs ⁽²⁾	2,552	3,839
Acquisition transaction-related expenses ⁽³⁾	1,749	1,801
Stock option expense ⁽⁴⁾	3,648	1,857
Refinancing costs ⁽⁵⁾		70,730
EBITDA As Defined	\$ 174,148	\$ 110,568

- (1) Represents accounting adjustments to inventory associated with acquisitions of businesses and product lines that were charged to cost of sales when the inventory was sold.
- (2) Represents costs incurred to integrate acquired businesses and product lines into TD Group's operations, facility relocation costs and other acquisition-related costs.
- (3) Represents transaction-related costs comprising deal fees; legal, financial and tax due diligence expenses; and valuation costs that are required to be expensed as incurred.
- (4) Represents the compensation expense recognized by TD Group under our stock option plans.
- (5) Represents costs incurred in connection with the refinancing in December 2010, including the premium paid to redeem our 7³/₄% senior subordinated notes due 2014, the write off of debt issue costs and unamortized note premium and discount and settlement of the interest rate swap agreement and other expenses.

Table of Contents

The following table sets forth a reconciliation of net cash provided by operating activities to EBITDA and EBITDA As Defined (in thousands):

	Thirteen Week Periods Ended	
	December 31,	January 1,
	2011	2011
Net Cash Provided by Operating Activities	\$ 67,699	\$ 62,148
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions of businesses	7,702	12,059
Interest expense, net ⁽¹⁾	46,445	30,472
Income tax provision - current	35,800	(5,868)
Non-cash equity compensation ⁽²⁾	(3,648)	(1,857)
Excess tax benefit from exercise of stock options	9,050	4,163
Refinancing costs ⁽³⁾		(70,730)
EBITDA	163,048	30,387
Adjustments:		
Inventory purchase accounting adjustments ⁽⁴⁾	3,151	2,732
Acquisition integration costs ⁽⁵⁾	2,552	3,839
Acquisition transaction-related expenses ⁽⁶⁾	1,749	1,801
Stock option expense ⁽⁷⁾	3,648	1,857
Refinancing costs ⁽³⁾		70,730
EBITDA from discontinued operations		(778)
EBITDA As Defined	\$ 174,148	\$ 110,568

(1) Represents interest expense excluding the amortization of debt issue costs and note premium and discount.

(2) Represents the compensation expense recognized by TD Group under our stock plans.

(3) Represents costs incurred in connection with the refinancing in December 2010, including the premium paid to redeem our 7³/₄% senior subordinated notes due 2014, the write off of debt issue costs and unamortized note premium and discount and settlement of the interest rate swap agreement and other expenses.

(4) Represents accounting adjustments to inventory associated with acquisitions of businesses and product lines that were charged to cost of sales when the inventory was sold.

(5) Represents costs incurred to integrate acquired businesses and product lines into TD Group's operations, facility relocation costs and other acquisition-related costs.

(6) Represents transaction-related costs comprising deal fees; legal, financial and tax due diligence expenses; and valuation costs that are required to be expensed as incurred.

(7) Represents the compensation expense recognized by TD Group under our stock option plans.

Table of Contents**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, 2011. There have been no other significant changes to our critical accounting policies during the thirteen week period ended December 31, 2011.

Results of Operations

The following table sets forth, for the periods indicated, certain operating data of the Company, including presentation of the amounts as a percentage of net sales (amounts in thousands):

	December 31, 2011	Thirteen Week Periods Ended		
		% of Sales	January 1, 2011	% of Sales
Net sales	\$ 352,473	100.0%	\$ 233,552	100.0%
Cost of sales	152,918	43.4	106,406	45.6
Selling and administrative expenses	41,850	11.9	30,520	13.1
Amortization of intangible assets	12,439	3.5	4,277	1.8
Income from operations	145,266	41.2	92,349	39.5
Interest expense, net	49,061	13.9	32,556	13.9
Refinancing costs			70,730	30.3
Income tax provision (benefit)	31,100	8.8	(3,784)	(1.6)
Income (loss) from continuing operations	65,105	18.5	(7,153)	(3.1)
Loss from discontinued operations, net of tax			(205)	(0.1)
Net income (loss)	\$ 65,105	18.5%	\$ (7,358)	(3.2)%

Changes in Results of Operations**Thirteen week period ended December 31, 2011 compared with the thirteen week period ended January 1, 2011.**

Net Sales. Net sales increased by \$118.9 million, or 50.9%, to \$352.5 million for the quarter ended December 31, 2011, from \$233.6 million for the comparable quarter last year. Sales of \$75.9 million, or 32.5%, resulted from the acquisitions of McKechnie Aerospace, Talley Actuation and Schneller Holdings in fiscal 2011 and Harco in fiscal 2012. Organic sales increased by \$43.0 million or 18.4% from the prior year.

Table of Contents

The organic sales growth was primarily due to an increase of \$16.6 million in commercial OEM sales, and an increase of \$18.2 million in commercial aftermarket sales resulting primarily from higher volumes given an improving market demand for aftermarket products. Defense sales increased by \$5.6 million for the quarter ended December 31, 2011 compared to the quarter ended January 1, 2011 mainly driven by increased aftermarket demand.

Cost of Sales and Gross Profit. Cost of sales increased by \$46.5 million, or 43.7%, to \$152.9 million for the thirteen week period ended December 31, 2011 from \$106.4 million for the comparable period last year. The increase in the dollar amount of cost of sales was primarily due to increased volume associated with the net sales from acquisitions and the organic sales growth discussed above, along with an increase in inventory purchase accounting adjustments and acquisition integration costs.

Gross profit as a percentage of sales increased to 56.6% for the thirteen week period ended December 31, 2011 from 54.4% for the thirteen week period ended January 1, 2011. The dollar amount of gross profit increased by \$72.4 million, or 56.9%, to \$199.5 million for the thirteen week period ended December 31, 2011 from \$127.1 million for the thirteen week period ended January 1, 2011. The increase in the amount of gross profit was primarily due to the following items:

Sales of \$75.9 million from the acquisitions indicated above contributed gross profit of approximately \$37 million for the thirteen week period ended December 31, 2011, which includes the acquisition-related costs (inventory purchase accounting adjustments and acquisition integration costs) incurred in connection with those acquisitions amounting to \$3.8 million. These acquisitions diluted gross profit as a percentage of sales for the thirteen week period ended December 31, 2011 by approximately 2 percentage points.

Organic sales growth described above, favorable product mix, application of our three core value-driven operating strategies (obtaining profitable new business, continually improving our cost structure, and providing highly engineered value-added products to customers), positive leverage on our fixed overhead costs spread over a higher production volume and the impact of a retroactive contract adjustment with one of our key customers (approximately \$5 million) resulted in increased gross profit amounting to approximately \$35 million for the thirteen week period ended December 31, 2011.

Selling and Administrative Expenses. Selling and administrative expenses increased by \$11.4 million to \$41.9 million, or 11.9% of sales, for the thirteen week period ended December 31, 2011 from \$30.5 million, or 13.1% of sales, for the thirteen week period ended January 1, 2011. The percentage of sales decreased due to lower acquisition related costs of approximately \$1.9 million compared to the prior year quarter. The dollar amount increase is primarily due to higher selling and administrative expenses relating to recent acquisitions of approximately \$8.8 million and an increase in non-cash stock compensation expense of approximately \$1.5 million.

Amortization of Intangibles. Amortization of intangibles increased to \$12.4 million for the thirteen week period ended December 31, 2011 from \$4.3 million for the thirteen week period ended January 1, 2011. The net increase of \$8.1 million was primarily due to amortization expense related to the additional identifiable intangible assets recognized in connection with acquisitions during the last twelve months.

Refinancing Costs. Refinancing costs were recorded as a result of the refinancing of TransDigm's entire debt structure in December 2010. The charge of \$70.7 million consisted of the premium of \$40.7 million paid to redeem our 7^{3/4}% senior subordinated notes, the write-off of debt issue costs and unamortized note premium and discount of \$25.7 million, and the settlement of the interest rate swap agreement and other expenses of \$4.3 million.

Interest Expense-net. Interest expense increased \$16.5 million, or 50.7%, to \$49.1 million for the thirteen week period ended December 31, 2011 from \$32.6 million for the thirteen week period ended January 1, 2011. The net increase in interest expense-net was primarily due to an increase in the weighted average level of outstanding borrowings, which was approximately \$3.14 billion for the quarter ended December 31, 2011 and approximately \$2.15 billion for the quarter ended January 1, 2011. The increase in borrowings was due to the debt refinancing transactions and the acquisition financing related to McKechnie

Edgar Filing: TransDigm Group INC - Form 10-Q

Aerospace which occurred in December 2010. The weighted average interest rate on total borrowings outstanding at December 31, 2011 was approximately 5.9%.

Table of Contents

Income Taxes. Income tax expense (benefit) as a percentage of income or loss before income taxes was approximately 32.3% for the quarter ended December 31, 2011 compared to 34.6% for the quarter ended January 1, 2011. The lower effective tax rate for the thirteen week period ended December 31, 2011 was primarily due to a non-recurring adjustment (benefit of \$2.6 million) to state income tax expense due to changes in state tax laws.

Loss from Discontinued Operations. Loss from discontinued operations comprises the net loss from discontinued operations of the fastener business and AQS from the date of acquisition (December 6, 2010) through January 1, 2011.

Net Income (Loss). Net income increased \$72.5 million to \$65.1 million for the quarter ended December 31, 2011, compared to a net loss of \$7.4 million for the quarter ended January 1, 2011 primarily as a result of the factors referred to above.

Earnings (Loss) per Share. The basic and diluted earnings (loss) per share was \$1.15 for the quarter ended December 31, 2011 and (\$0.19) for the quarter ended January 1, 2011. Net income for the quarter ended December 31, 2011 of \$65.1 million was decreased by an allocation of dividends to participating securities of \$3.3 million resulting in net income available to common shareholders of \$61.8 million. For the quarter ended January 1, 2011, basic and diluted loss per share from continuing operations was (\$0.19). Net loss for the quarter ended January 1, 2011 of \$7.4 million was increased by an allocation of dividends to participating securities of \$2.8 million resulting in net loss available to shareholders of \$10.2 million.

Backlog

As of December 31, 2011, the Company estimated its sales order backlog at \$777 million compared to an estimated sales order backlog of \$646 million as of January 1, 2011 (excluding businesses sold during fiscal 2011 and accounted for as discontinued operations). The increase in backlog is primarily due to the acquisitions of Schneller Holdings and Harco discussed above, totaling approximately \$38 million and an increase in orders across existing product lines in both the OEM and aftermarket. The majority of the purchase orders outstanding as of December 31, 2011 are scheduled for delivery within the next twelve months. Purchase orders may be subject to cancellation or deferral 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 December 31, 2011 may not necessarily represent the actual amount of shipments or sales for any future period.

Foreign Operations

Although we manufacture substantially all of our products in the United States, we manufacture some products in Belgium, Malaysia and Mexico. We sell our products in the United States, as well as in foreign countries. A number of risks inherent in international operations could have a material adverse effect on our results of operations, including currency fluctuations, difficulties in staffing and managing multi-national operations, general economic and political uncertainties and potential for social unrest in countries in which we operate, limitations on our ability to enforce legal rights and remedies, restrictions on the repatriation of funds, change in trade policies, tariff regulation, difficulties in obtaining export and import licenses and the risk of government financed competition.

There can be no assurance that foreign governments will not adopt regulations or take other action that would have a direct or indirect adverse impact on the business or market opportunities of the Company within such governments' countries. Furthermore, there can be no assurance that the political, cultural and economic climate outside the United States will be favorable to our operations and growth strategy.

Liquidity and Capital Resources

Operating Activities. The Company generated \$67.7 million of cash from operating activities during the thirteen week period ended December 31, 2011 compared to \$62.1 million during the thirteen week period ended January 1, 2011. The net increase of \$5.6 million was due primarily to an increase in income from operations and favorable working capital

Table of Contents

management, partially offset by higher interest payments due to the Company's current debt structure and higher income tax payments.

Investing Activities. Cash used in investing activities was \$88.5 million during the thirteen week period ended December 31, 2011 consisting primarily of the acquisition of Harco and capital expenditures of \$4.7 million. Cash used in investing activities was \$1,365.2 million during the thirteen week period ended January 1, 2011 consisting primarily of the acquisitions of McKechnie Aerospace and Talley Actuation and capital expenditures of \$3.0 million.

Financing Activities. Cash provided by financing activities during the thirteen week period ended December 31, 2011 was \$4.5 million, which comprised \$3.9 million repayment on our New Senior Secured Credit Facility, \$3.3 million of dividends and Dividend Equivalent Payments, \$0.8 million of treasury stock purchased and \$12.5 million of cash for tax benefits related to share-based payment arrangements and from the exercise of stock options. Cash provided by financing activities during the thirteen week period ended January 1, 2011 was \$1,303.2 million, which comprised \$1,298.9 million of net proceeds from the refinancing of our entire debt structure, \$2.8 million of dividends and dividend equivalent payments, and \$7.1 million of cash for tax benefits related to share-based payment arrangements and from the exercise of stock options.

Description of New Senior Secured Credit Facility and Indentures

In December 2010, TransDigm entered into a senior secured credit facility, which consisted of a \$1.55 billion term loan facility and a \$245 million revolving credit facility (collectively, the Existing Senior Secured Credit Facility). The proceeds of the term loan were used to pay the purchase price of and related transaction expenses associated with the acquisition of McKechnie Aerospace and repay a portion of the amounts outstanding under the previous senior secured credit facility.

On February 14, 2011, TransDigm Inc. entered into a new senior secured credit facility which provides for \$1.55 billion term loan facility (the New Senior Secured Credit Facility), which was fully drawn on February 14, 2011. The New Senior Secured Credit Facility replaced the term loan under the Existing Senior Secured Credit Facility and modified certain terms of the original agreement including extending the maturity date of the term loan and modifying the interest rate provisions.

On March 25, 2011, TransDigm entered into Amendment No. 1 (the Amendment) to the Existing Senior Secured Credit Facility. The Amendment provides for a modification to certain terms of the permitted indebtedness covenant contained in the Existing Senior Secured Credit Facility to modify the requirements for incurring certain additional senior indebtedness.

Under the Existing Senior Secured Credit Facility, the revolving credit facility matures in December 2015. At December 31, 2011, the Company had \$8.9 million letters of credit outstanding and \$236.1 million of borrowings available under the Existing Senior Secured Credit Facility.

Under the New Senior Secured Credit Facility, the term loan matures in February 2017. The term loan under the New Senior Secured Credit Facility requires quarterly principal payments that began on March 31, 2011.

The interest rates per annum applicable to the term loan under the New Senior Secured Credit Facility will be, at TransDigm's option, equal to either an alternate base rate or an adjusted LIBO rate for one, two, three or six-month (or to the extent agreed to by each relevant lender, nine or twelve-month) interest periods chosen by TransDigm, in each case plus an applicable margin percentage. The applicable interest rate on the term loan at December 31, 2011 was 4.0%.

On June 27, 2011, the Company entered into three forward-starting interest rate swap agreements beginning December 31, 2012 to hedge the variable interest rates on the New Senior Secured Credit Facility for a fixed rate based on an aggregate notional amount of \$353 million through June 30, 2015. These forward-starting interest rate swap

Table of Contents

agreements will effectively convert the variable interest rate on the aggregate notional amount of the New Senior Secured Credit Facility to a fixed rate of 5.17% over the term of the interest rate swap agreements.

All of the indebtedness outstanding under the credit facilities is guaranteed by TD Group and all of TransDigm's current and future domestic restricted subsidiaries (other than immaterial subsidiaries), and is secured by a first priority security interest in substantially all of the existing and future property and assets, including inventory, equipment, general intangibles, intellectual property, investment property and other personal property (but excluding leasehold interests and certain other assets) of TransDigm and all of TransDigm's existing and future domestic restricted subsidiaries (other than immaterial subsidiaries), and a first priority pledge of the capital stock of TransDigm and its domestic subsidiaries and 65% of the voting capital stock of certain of TransDigm's foreign subsidiaries.

The credit facilities contain certain covenants that limit the ability of TD Group, TransDigm and TransDigm's restricted subsidiaries to, among other things, incur or guarantee additional indebtedness or issue preferred stock, pay distributions on, redeem or repurchase capital stock or redeem or repurchase subordinated debt, make investments, sell assets, enter into agreements that restrict distributions or other payments from restricted subsidiaries to TransDigm, incur or suffer to exist liens securing indebtedness, consolidate, merge or transfer all or substantially all of their assets, and engage in transactions with affiliates. At December 31, 2011, TransDigm was in compliance with all of the covenants contained in the credit facilities.

Table of Contents

The term loan under the New Senior Secured Credit Facility requires mandatory prepayments of principal based on certain percentages of Excess Cash Flow (as therein defined), commencing 90 days after the end of each fiscal year, commencing with the fiscal year ending September 30, 2012, subject to certain exceptions. In addition, subject to certain exceptions (including, with respect to asset sales, the reinvestment in productive assets), TransDigm will be required to prepay the loans outstanding under the term loan facility at 100% of the principal amount thereof, plus accrued and unpaid interest, with the net cash proceeds of certain asset sales and issuance or incurrence of certain indebtedness. In addition, if, prior to February 14, 2012, the principal amount of the term loans are (i) prepaid substantially concurrently with the incurrence by TD Group, TransDigm or any its subsidiaries of new bank loans that have an effective yield lower than the yield in effect on the term loans so prepaid or (ii) received by a lender due to a mandatory assignment following the failure of such lender to consent to an amendment of the New Senior Secured Credit Facility that has the effect of reducing the effective interest rate with respect to the term loans, such prepayment or receipt shall be accompanied by a premium of 1.0%.

In December 2010, TransDigm issued \$1.6 billion in aggregate principal amount of its 7³/₄% Senior Subordinated Notes due 2018 (the 2018 Notes) at an issue price of 100% of the principal amount. The 2018 Notes represent unsecured obligations of TransDigm Inc. ranking subordinate to TransDigm Inc.'s senior debt, as defined in the indenture governing the 2018 Notes (the Indenture). Such notes do not require principal payments prior to their maturity in December 2018. Interest under the 2018 Notes is payable semi-annually.

TransDigm utilized a portion of the proceeds from the 2018 Notes to repurchase its 7³/₄% Senior Subordinated Notes due 2014.

Certain Restrictive Covenants in Our Debt Documents

The credit facilities and the Indenture contain restrictive covenants that, among other things, limit the incurrence of additional indebtedness, the payment of dividends, transactions with affiliates, asset sales, acquisitions, mergers and consolidations, liens and encumbrances, and prepayments of other indebtedness. A breach of any of the covenants or an inability to comply with the required leverage ratio could result in a default under the credit facilities or the Indenture. If any such default occurs, the lenders under the credit facilities and the holders of the 2018 Notes may elect to declare all outstanding borrowings, together with accrued interest and other amounts payable thereunder, to be immediately due and payable. The lenders under the credit facilities also have the right in these circumstances to terminate any commitments they have to provide further borrowings. In addition, following an event of default under the credit facilities, the lenders thereunder will have the right to proceed against the collateral granted to them to secure the debt, which includes our available cash, and they will also have the right to prevent us from making debt service payments on the 2018 Notes.

Stock Repurchase

On August 22, 2011 we announced a program permitting us to repurchase a portion of our outstanding shares not to exceed \$100 million in the aggregate. During the thirteen week period ended December 31, 2011, the Company repurchased 11,300 shares of its common stock at a gross cost of approximately \$0.8 million. The program replaces the repurchase program announced on October 23, 2008, under which the Company previously repurchased 494,100 shares of its common stock at a gross cost of approximately \$15.2 million.

Recent Accounting Pronouncement

In May 2011, the Financial Accounting Standard Board (FASB) issued authoritative accounting guidance included in Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. This guidance amends the requirements for measuring fair value and disclosing information about fair value measurements. This authoritative guidance was adopted during the first quarter of fiscal 2012. The adoption did not have a material impact on the Company's financial condition or results of operations.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our main exposure to market risk relates to interest rates. Our financial instruments that are subject to interest rate risk principally include fixed-rate and floating-rate long-term debt. At December 31, 2011, we had borrowings under our New Senior Secured Credit Facility of \$1.53 billion that were subject to interest rate risk. Borrowings under our New Senior Secured Credit Facility bear interest, at our option, at a rate equal to either an alternate base rate or an adjusted LIBO rate for a one-, two-, three- or six-month (or to the extent available to each lender, nine- or twelve-month) interest period chosen by us, in each case, plus an applicable margin percentage. Accordingly, the Company's cash flows and earnings will be exposed to the market risk of interest rate changes resulting from variable rate borrowings under our New Senior Secured Credit Facility. The effect of a hypothetical one percentage point increase in interest rates would increase the annual interest costs under our New Senior Secured Credit Facility by approximately \$15.3 million based on the amount of outstanding borrowings at December 31, 2011. The weighted average interest rate on the \$1.53 billion of borrowings under our New Senior Secured Credit Facility on December 31, 2011 was 4.0%.

At December 31, 2011, three forward-starting interest rate swap agreements were in place to swap variable rates on the New Senior Secured Credit Facility for a fixed rate based on an aggregate notional amount of \$353 million. Beginning December 31, 2012, these interest rate swap agreements will effectively convert the variable interest rate on the aggregate notional amount of the new senior secured credit facility to a fixed rate of 5.17% through June 30, 2015.

The fair value of the \$1.53 billion aggregate principal amount of borrowings under our New Senior Secured Credit Facility is exposed to the market risk of interest rates. The estimated fair value of such term loan approximated \$1.53 billion at December 31, 2011 based upon information provided to the Company from its agent under the credit facility. The fair value of the \$1.60 billion aggregate principal amount of our 7³/₄% senior subordinated notes due 2018 is exposed to the market risk of interest rate changes. The estimated fair value of such notes approximated \$1.70 billion at December 31, 2011 based upon quoted market rates.

ITEM 4. CONTROLS AND PROCEDURES

As of December 31, 2011, 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 and Accounting Officer), of the effectiveness of the design and operation of TD Group's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that TD Group's disclosure controls and procedures are effective to ensure that information required to be disclosed by TD Group in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to TD Group's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, TD Group's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures. There have been no significant changes in TD Group's internal controls or other factors that could significantly affect the internal controls subsequent to the date of TD Group's evaluations.

Changes in Internal Control over Financial Reporting

There have been no changes in TD Group's internal control over financial reporting that occurred during the thirteen week period ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, TD Group's internal control over financial reporting.

Table of Contents**PART II: OTHER INFORMATION****ITEM 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. There have been no material changes to the risk factors set forth therein.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds: Purchases of Equity Securities by the Issuer

On August 22, 2011, the Board of Directors authorized a common share repurchase program, which was announced on August 23, 2011. Under the terms of the program, the Company may purchase up to a maximum aggregate value of \$100 million of its shares of common stock. During the thirteen week period ended December 31, 2011, the Company repurchased 11,300 shares of its common stock at a gross cost of approximately \$0.8 million at a weighted-average price per share of \$74.87 per share. The program replaces the repurchase program announced on October 23, 2008, under which the Company previously repurchased 494,100 shares of its common stock at a gross cost of approximately \$15.2 million at a weighted-average price per share of \$30.85.

ISSUER PURCHASES OF EQUITY SECURITIES

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs (in thousands)
October 1-31, 2011	11,300	\$ 74.87	11,300	\$ 99,154
November 1-30, 2011			11,300	99,154
December 1-31, 2011			11,300	99,154

Table of Contents

ITEM 6. Exhibits

- 3.1 Amended and Restated Certificate of Incorporation, filed October 4, 2011, of Harco Laboratories, Incorporated
- 3.2 Amended and Restated By-Laws of Harco Laboratories, Incorporated
- 3.3 Limited Liability Company Certificate of Formation, filed May 30, 2007, of Schneller LLC
- 3.4 Amended and Restated Limited Liability Company Agreement, filed August 31, 2011 of Schneller LLC
- 3.5 Limited Liability Company Certificate of Formation, filed May 30, 2007, of Schneller Holdings LLC
- 3.6 Amended and Restated Limited Liability Company Agreement, filed August 31, 2011 of Schneller Holdings LLC
- 3.7 Articles of Incorporation, filed December 22, 2004, of Schneller International Sales Corp.
- 3.8 Code of Regulations of Schneller International Sales Corp.
- 4.1 Second Supplemental Indenture, dated as of December 9, 2011, among TransDigm Inc., TransDigm Group Incorporated, the guarantors listed on the signature pages thereto and The Bank of New York Mellon Trust Company, N.A., as trustee. (Incorporated by reference to Form 8-K filed December 12, 2011).
- 10.1 Joinder Agreement, dated as of December 9, 2011, between Harco Laboratories, Incorporated and Credit Suisse AG, as agent, to the Credit Agreement, dated as of December 6, 2010, as amended. (Incorporated by reference to Form 8-K filed December 12, 2011).
- 10.2 Joinder Agreement, dated as of December 9, 2011, between Harco Laboratories, Incorporated and Credit Suisse AG, as agent, to the Credit Agreement, dated as of February 14, 2011. (Incorporated by reference to Form 8-K filed December 12, 2011).
- 10.3 Supplement No. 2. dated as of December 9, 2011, between Harco Laboratories, Incorporated and Credit Suisse AG, as agent. (Incorporated by reference to Form 8-K filed December 12, 2011).
- 10.4 Form of Option Agreement under the stock incentive program adopted under the 2006 Stock Incentive Plan (in the form of options granted in fiscal 2012)*
- 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 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.
- 101 Financial Statements and Notes to the Condensed Consolidated Financial Statements formatted in XBRL.

* Indicates management contract or compensatory plan contract or arrangement.

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)	February 8, 2012
/s/ Gregory Rufus Gregory Rufus	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	February 8, 2012

Table of Contents

EXHIBIT INDEX

TO FORM 10-Q FOR THE PERIOD ENDED DECEMBER 31, 2011

EXHIBIT NO.	DESCRIPTION
3.1	Amended and Restated Certificate of Incorporation, filed October 4, 2011, of Harco Laboratories, Incorporated
3.2	Amended and Restated By-Laws of Harco Laboratories, Incorporated
3.3	Limited Liability Company Certificate of Formation, filed May 30, 2007, of Schneller LLC
3.4	Amended and Restated Limited Liability Company Agreement, filed August 31, 2011 of Schneller LLC
3.5	Limited Liability Company Certificate of Formation, filed May 30, 2007, of Schneller Holdings LLC
3.6	Amended and Restated Limited Liability Company Agreement, filed August 31, 2011 of Schneller Holdings LLC
3.7	Articles of Incorporation, filed December 22, 2004, of Schneller International Sales Corp.
3.8	Code of Regulations of Schneller International Sales Corp.
4.1	Second Supplemental Indenture, dated as of December 9, 2011, among TransDigm Inc., TransDigm Group Incorporated, the guarantors listed on the signature pages thereto and The Bank of New York Mellon Trust Company, N.A., as trustee. (Incorporated by reference to Form 8-K filed December 12, 2011).
10.1	Joinder Agreement, dated as of December 9, 2011, between Harco Laboratories, Incorporated and Credit Suisse AG, as agent, to the Credit Agreement, dated as of December 6, 2010, as amended. (Incorporated by reference to Form 8-K filed December 12, 2011).
10.2	Joinder Agreement, dated as of December 9, 2011, between Harco Laboratories, Incorporated and Credit Suisse AG, as agent, to the Credit Agreement, dated as of February 14, 2011. (Incorporated by reference to Form 8-K filed December 12, 2011).
10.3	Supplement No. 2. dated as of December 9, 2011, between Harco Laboratories, Incorporated and Credit Suisse AG, as agent. (Incorporated by reference to Form 8-K filed December 12, 2011).
10.4	Form of Option Agreement under the stock incentive program adopted under the 2006 Stock Incentive Plan (in the form of options granted in fiscal 2012)*
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.
101	Financial Statements and Notes to the Condensed Consolidated Financial Statements formatted in XBRL.

* Indicates management contract or compensatory plan contract or arrangement.