

TransDigm Group INC
Form 10-Q
February 07, 2008
[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 29, 2007.**
- .. **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

Commission File Number 001-32833

TransDigm Group Incorporated

(Exact name of registrant as specified in its charter)

Delaware

Edgar Filing: TransDigm Group INC - Form 10-Q

(State or other Jurisdiction of incorporation or organization)

51-0484716

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

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

44114
(Zip Code)

(216) 706-2939

(Registrants telephone number, including area code)

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

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

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

LARGE ACCELERATED FILER ACCELERATED FILER NON-ACCELERATED FILER

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

The number of shares outstanding of TransDigm Group Incorporated s common stock, par value \$.01 per share, was 47,507,973 as of January 25, 2008.

Table of Contents

INDEX

| | Page | |
|---------|--|----|
| Part I | FINANCIAL INFORMATION | |
| Item 1 | Financial Statements | |
| | <u>Condensed Consolidated Balance Sheets – December 29, 2007 and September 30, 2007.</u> | 1 |
| | <u>Condensed Consolidated Statements of Income – Thirteen Week Periods Ended December 29, 2007 and December 30, 2006</u> | 2 |
| | <u>Condensed Consolidated Statement of Changes in Stockholders' Equity – Thirteen Week Period Ended December 29, 2007</u> | 3 |
| | <u>Condensed Consolidated Statements of Cash Flows – Thirteen Week Periods Ended December 29, 2007 and December 30, 2006</u> | 4 |
| | <u>Notes to Condensed Consolidated Financial Statements</u> | 5 |
| Item 2 | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 16 |
| Item 3 | <u>Quantitative and Qualitative Disclosure About Market Risk</u> | 21 |
| Item 4 | <u>Controls and Procedures</u> | 22 |
| Part II | <u>OTHER INFORMATION</u> | |
| Item 1A | <u>Risk Factors</u> | 22 |
| Item 6 | <u>Exhibits</u> | 22 |
| | <u>SIGNATURES</u> | 23 |

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

(Amounts in thousands, except share amounts)

(Unaudited)

| | December 29, 2007 | September 30, 2007 |
|---|----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 170,315 | \$ 105,946 |
| Trade accounts receivable - Net | 92,279 | 100,094 |
| Income taxes receivable | | 4,472 |
| Inventories | 128,129 | 126,763 |
| Deferred income taxes | 23,136 | 23,923 |
| Prepaid expenses and other | 3,700 | 4,401 |
| Total current assets | 417,559 | 365,599 |
| PROPERTY, PLANT AND EQUIPMENT - Net | 86,293 | 87,074 |
| GOODWILL | 1,247,753 | 1,247,870 |
| TRADEMARKS AND TRADE NAMES | 159,427 | 159,427 |
| OTHER INTANGIBLE ASSETS - Net | 172,166 | 175,471 |
| DEBT ISSUE COSTS - Net | 22,100 | 23,026 |
| OTHER | 2,654 | 2,586 |
| TOTAL ASSETS | \$ 2,107,952 | \$ 2,061,053 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 22,681 | \$ 24,753 |
| Accrued liabilities | 50,400 | 42,466 |
| Income taxes payable | 7,193 | |
| Total current liabilities | 80,274 | 67,219 |
| LONG-TERM DEBT | 1,357,797 | 1,357,854 |
| DEFERRED INCOME TAXES | 140,552 | 140,251 |
| OTHER NON-CURRENT LIABILITIES | 9,947 | 8,178 |
| Total liabilities | 1,588,570 | 1,573,502 |
| STOCKHOLDERS EQUITY: | | |
| Common stock \$.01 par value; authorized 224,400,000 shares; issued 47,397,832 and 47,041,974 at December 29, 2007 and September 30, 2007, respectively | 474 | 470 |
| Additional paid-in capital | 340,277 | 332,522 |
| Retained earnings | 181,587 | 156,312 |
| Accumulated other comprehensive loss | (2,956) | (1,753) |

Edgar Filing: TransDigm Group INC - Form 10-Q

| | | |
|---|---------------------|---------------------|
| Total stockholders' equity | 519,382 | 487,551 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 2,107,952 | \$ 2,061,053 |

See notes to condensed consolidated financial statements.

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****FOR THE THIRTEEN WEEK PERIODS ENDED****DECEMBER 29, 2007 AND DECEMBER 30, 2006**

(Amounts in thousands, except per share amounts)

(Unaudited)

| | Thirteen Week Periods Ended | |
|--------------------------------------|--|------------------------------|
| | December 29, 2007 | December 30, 2006 |
| NET SALES | \$ 163,136 | \$ 122,709 |
| COST OF SALES | 75,044 | 59,075 |
| GROSS PROFIT | 88,092 | 63,634 |
| OPERATING EXPENSES: | | |
| Selling and administrative | 17,872 | 12,121 |
| Amortization of intangibles | 3,311 | 1,642 |
| Total operating expenses | 21,183 | 13,763 |
| INCOME FROM OPERATIONS | 66,909 | 49,871 |
| INTEREST EXPENSE - Net | 24,507 | 17,793 |
| INCOME BEFORE INCOME TAXES | 42,402 | 32,078 |
| INCOME TAX PROVISION | 15,434 | 11,743 |
| NET INCOME | \$ 26,968 | \$ 20,335 |
| Net earnings per share: | | |
| Basic earnings per share | \$ 0.57 | \$ 0.45 |
| Diluted earnings per share | \$ 0.54 | \$ 0.43 |
| Weighted-average shares outstanding: | | |
| Basic | 47,223 | 44,773 |
| Diluted | 49,862 | 47,802 |

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 29, 2007

(Amounts in thousands, except share amounts)

(Unaudited)

| | Common Stock | | Additional | Retained | Accumulated | Total |
|--|--------------|--------|------------|------------|---------------|------------|
| | Number | Par | Paid-In | Earnings | Other | |
| | of Shares | Value | Capital | | Comprehensive | |
| | | | | | Loss | |
| BALANCE, OCTOBER 1, 2007 | 47,041,974 | \$ 470 | \$ 332,522 | \$ 156,312 | \$ (1,753) | \$ 487,551 |
| FIN 48 adjustment (Note 8) | | | | (1,693) | | (1,693) |
| Compensation expense recognized for employee stock options | | | 1,206 | | | 1,206 |
| Excess tax benefit from exercise of stock options | | | 5,017 | | | 5,017 |
| Exercise of employee stock options | 355,858 | 4 | 1,521 | | | 1,525 |
| Restricted stock compensation | | | 11 | | | 11 |
| Comprehensive income: | | | | | | |
| Net income | | | | 26,968 | | 26,968 |
| Interest rate swap | | | | | (1,254) | (1,254) |
| Other comprehensive income | | | | | 51 | 51 |
| Comprehensive income | | | | | | 25,765 |
| BALANCE, DECEMBER 29, 2007 | 47,397,832 | \$ 474 | \$ 340,277 | \$ 181,587 | \$ (2,956) | \$ 519,382 |

See notes to condensed consolidated financial statements.

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

(Amounts in thousands)

(Unaudited)

| | Thirteen Weeks Ended | |
|---|----------------------|----------------------|
| | December 29, 2007 | December 30, 2006 |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 26,968 | \$ 20,335 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 3,182 | 2,551 |
| Amortization of intangibles | 3,311 | 1,642 |
| Amortization of debt issue costs | 930 | 461 |
| Non-cash equity compensation | 1,217 | 806 |
| Deferred income taxes | 1,088 | 2,756 |
| Changes in assets/liabilities, net of effects from acquisition of business: | | |
| Trade accounts receivable | 7,815 | 1,025 |
| Inventories | (1,366) | (2,333) |
| Income taxes receivable/payable | 14,362 | 9,017 |
| Excess tax benefit from exercise of stock options | (5,017) | (1,328) |
| Other assets | 1,310 | (1,488) |
| Accounts payable | (2,072) | 344 |
| Accrued and other liabilities | 8,500 | 4,665 |
| Net cash provided by operating activities | 60,228 | 38,453 |
| INVESTING ACTIVITIES: | | |
| Capital expenditures | (2,401) | (2,496) |
| Acquisition of business | | (45,250) |
| Net cash used in investing activities | (2,401) | (47,746) |
| FINANCING ACTIVITIES: | | |
| Excess tax benefit from exercise of stock options | 5,017 | 1,328 |
| Proceeds from exercise of stock options | 1,525 | 1,304 |
| Net cash provided by financing activities | 6,542 | 2,632 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 64,369 | (6,661) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 105,946 | 61,217 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 170,315 | \$ 54,556 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for interest | \$ 14,390 | \$ 12,713 |

Edgar Filing: TransDigm Group INC - Form 10-Q

| | | | | |
|--|----|-----|----|----|
| Cash received during the period for income taxes | \$ | 780 | \$ | 72 |
|--|----|-----|----|----|

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THIRTEEN WEEK PERIODS ENDED DECEMBER 29, 2007 AND DECEMBER 30, 2006

(UNAUDITED)

1. DESCRIPTION OF THE BUSINESS AND MERGER

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

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

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

Separate Financial Statements Separate financial statements of TransDigm Inc. are not presented since TransDigm Inc.'s 7/4% senior subordinated notes are fully and unconditionally guaranteed on a senior subordinated basis by TD Group and all existing domestic subsidiaries of TransDigm Inc. and since TD Group has no significant operations or assets separate from its investment in TransDigm Inc.

2. UNAUDITED INTERIM FINANCIAL INFORMATION

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

3. NEW ACCOUNTING STANDARDS

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

Edgar Filing: TransDigm Group INC - Form 10-Q

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

Table of Contents

In July 2006, the FASB issued Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes the minimum accounting and disclosure requirements of uncertain tax positions. FIN 48 also provides guidance on the derecognition, measurement, classification, interest and penalties, and transition of uncertain tax positions. FIN 48 is effective for fiscal periods beginning after December 15, 2006. The Company adopted FIN 48 on October 1, 2007. See Note 8.

4. ACQUISITIONS

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

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

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

The purchase price consideration and costs associated with the acquisition of \$430.1 million were funded through additional borrowings under our senior secured credit facility of \$125.4 million (net of fees of \$4.6 million), the proceeds from the issuance by TransDigm Inc. of additional senior subordinated notes of \$296.5 million (net of fees of \$6.5 million) and the use of \$8.2 million of our available cash balances.

The Company accounted for the acquisition of ATI as a purchase and included the results of operations of ATI in its consolidated financial statements from the date of acquisition. The Company obtained a preliminary third-party valuation of certain tangible and intangible assets of ATI; thus, the values attributed to acquired assets in the consolidated financial statements are subject to adjustment. The Company expects that substantially all of the \$308.6 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

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

| | Thirteen Weeks Ended December 30, 2006 |
|----------------------------|---|
| Net sales | \$ 151,017 |
| Operating income | 54,020 |
| Net income | 17,627 |
| Diluted earnings per share | \$ 0.37 |

These pro forma results of operations included the effects of the: (i) inventory purchase accounting adjustments that were charged to cost of sales as the inventory that was on hand as of the date of the acquisition was sold, (ii) additional amortization expense that was recognized from the identifiable intangible assets recorded in accounting for the acquisition, (iii) a reduction in

Table of Contents

depreciation expense that resulted from the write-down of the carrying value of certain real property to fair value in accounting for the acquisition, and (iv) additional interest expense that resulted from the Company's increased indebtedness from the acquisition. This pro forma information is not necessarily indicative of the results that actually would have been obtained if the transactions had occurred as of the beginning of the periods presented and is not intended to be a projection of future results.

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

5. INVENTORIES

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

| | December 29, 2007 | September 30, 2007 |
|---|----------------------|-----------------------|
| Work-in-progress and finished goods | \$ 72,419 | \$ 68,287 |
| Raw materials and purchased component parts | 70,530 | 72,943 |
| Total | 142,949 | 141,230 |
| Reserve for excess and obsolete inventory | (14,820) | (14,467) |
| Inventories - net | \$ 128,129 | \$ 126,763 |

6. INTANGIBLE ASSETS

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

| | December 29, 2007 | | |
|-----------------------|--------------------------|-----------------------------|-------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net |
| Unpatented technology | \$ 168,003 | \$ 21,092 | \$ 146,911 |
| License agreement | 9,373 | 2,343 | 7,030 |
| Trade secrets | 18,462 | 2,638 | 15,824 |
| Patented technology | 1,610 | 791 | 819 |
| Order backlog | 14,977 | 14,425 | 552 |
| Other | 1,600 | 570 | 1,030 |
| Total | \$ 214,025 | \$ 41,859 | \$ 172,166 |

| | September 30, 2007 | | |
|-----------------------|-----------------------------|-----------------------------|------------|
| | Gross Carrying Amount | Accumulated Amortization | Net |
| Unpatented technology | \$ 168,003 | \$ 19,178 | \$ 148,825 |
| License agreement | 9,373 | 2,211 | 7,162 |
| Trade secrets | 18,462 | 2,429 | 16,033 |

Edgar Filing: TransDigm Group INC - Form 10-Q

| | | | |
|---------------------|------------|-----------|------------|
| Patented technology | 1,604 | 746 | 858 |
| Order backlog | 14,977 | 13,471 | 1,506 |
| Other | 1,600 | 513 | 1,087 |
| Total | \$ 214,019 | \$ 38,548 | \$ 175,471 |

-7-

Table of Contents

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

The aggregate amortization expense on identifiable intangible assets for the thirteen week periods ended December 29, 2007 and December 30, 2006 was approximately \$3.3 million and \$1.6 million, respectively. The estimated amortization expense for fiscal 2008 is \$10.9 million and for each of the five succeeding years 2009 through 2013 is \$9.3 million, \$9.3 million, \$9.3 million, \$9.1 million and \$9.1 million, respectively.

7. PRODUCT WARRANTY

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

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

| | Thirteen Week Periods Ended | |
|--|------------------------------------|------------------------------|
| | December 29, 2007 | December 30, 2006 |
| Liability balance at beginning of period | \$ 4,624 | \$ 2,472 |
| Accruals for warranties issued | 623 | 417 |
| Warranty costs incurred | (431) | (343) |
| Liability balance at end of period | \$ 4,816 | \$ 2,546 |

8. INCOME TAXES

At the end of each reporting period, the Company makes an estimate of its annual effective income tax rate. The estimate used in the year-to-date period may change in subsequent periods. The Company recorded an income tax provision of \$15.4 million in the thirteen week period ended December 29, 2007 compared to \$11.7 million in the prior year period. The effective tax rate for the thirteen week period ended December 29, 2007 was 36.4% compared to 36.6% for the comparable period in the prior year.

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

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

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

As of December 29, 2007, the Company is subject to a U.S. Federal income tax examination for fiscal years 2004 through 2006. In addition, the Company is subject to state and local income tax examinations for fiscal years 2003 through 2006.

There were no significant changes to any of these amounts during the first quarter of fiscal 2008.

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

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

| | December 29, 2007 | December 30, 2006 |
|---|----------------------|----------------------|
| Basic Earnings Per Share Computation: | | |
| Net income | \$ 26,968 | \$ 20,335 |
| Weighted-average shares outstanding | 47,223 | 44,773 |
| Basic earnings per share | \$ 0.57 | \$ 0.45 |
| Diluted Earnings Per Share Computation: | | |
| Net income | \$ 26,968 | \$ 20,335 |
| Weighted-average shares outstanding | 47,223 | 44,773 |
| Effect of dilutive options outstanding ⁽¹⁾ | 2,639 | 3,029 |
| Total weighted-average shares outstanding | 49,862 | 47,802 |
| Diluted earnings per share | \$ 0.54 | \$ 0.43 |

⁽¹⁾ Stock options totaling -0- and 0.1 million outstanding at December 29, 2007 and December 30, 2006, respectively, were excluded from the diluted earnings per share computation for the thirteen weeks ended December 29, 2007 and December 30, 2006, respectively, due to the anti-dilutive effect of such options.

10. SUPPLEMENTAL GUARANTOR INFORMATION

TransDigm's 7/4 % senior subordinated notes are jointly and severally guaranteed, on a senior subordinated basis, by TD Group and TransDigm Inc.'s Domestic Restricted Subsidiaries, as defined therein. The following supplemental consolidating condensed financial information presents the balance sheets of the Company as of December 29, 2007 and September 30, 2007 and its statements of operations and cash flows for the thirteen week periods ended December 29, 2007 and December 30, 2006.

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 29, 2007

(Amounts in thousands)

| | TransDigm Group | TransDigm Inc. | Subsidiary Guarantors | Eliminations | Total Consolidated |
|---|--------------------|-------------------|--------------------------|----------------|-----------------------|
| ASSETS | | | | | |
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | \$ 14,367 | \$ 159,941 | \$ (3,993) | \$ | \$ 170,315 |
| Trade accounts receivable - Net | | 11,326 | 81,180 | (227) | 92,279 |
| Inventories | | 18,199 | 110,097 | (167) | 128,129 |
| Deferred income taxes | | 23,136 | | | 23,136 |
| Prepaid expenses and other | | 914 | 2,786 | | 3,700 |
| Total current assets | 14,367 | 213,516 | 190,070 | (394) | 417,559 |
| INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES | 503,844 | 1,846,517 | 273,924 | (2,624,285) | |
| PROPERTY, PLANT AND EQUIPMENT - Net | | 14,453 | 71,840 | | 86,293 |
| GOODWILL | | 43,576 | 1,204,177 | | 1,247,753 |
| TRADEMARKS AND TRADE NAMES | | 19,376 | 140,051 | | 159,427 |
| OTHER INTANGIBLE ASSETS - Net | | 11,009 | 161,157 | | 172,166 |
| DEBT ISSUE COSTS - Net | | 22,100 | | | 22,100 |
| OTHER | | 2,302 | 352 | | 2,654 |
| TOTAL ASSETS | \$ 518,211 | \$ 2,172,849 | \$ 2,041,571 | \$ (2,624,679) | \$ 2,107,952 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | | |
| CURRENT LIABILITIES: | | | | | |
| Accounts payable | \$ | \$ 6,528 | \$ 16,379 | \$ (226) | \$ 22,681 |
| Accrued liabilities | | 28,562 | 21,838 | | 50,400 |
| Income taxes payable | | 7,193 | | | 7,193 |
| Total current liabilities | | 42,283 | 38,217 | (226) | 80,274 |
| LONG-TERM DEBT | | 1,357,797 | | | 1,357,797 |
| DEFERRED INCOME TAXES | (5,606) | 146,158 | | | 140,552 |
| OTHER NON-CURRENT LIABILITIES | 4,435 | 4,765 | 747 | | 9,947 |
| Total liabilities | (1,171) | 1,551,003 | 38,964 | (226) | 1,588,570 |
| STOCKHOLDERS EQUITY | 519,382 | 621,846 | 2,002,607 | (2,624,453) | 519,382 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 518,211 | \$ 2,172,849 | \$ 2,041,571 | \$ (2,624,679) | \$ 2,107,952 |

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2007

(Amounts in thousands)

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

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF INCOME
FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 29, 2007

(Amounts in thousands)

| | TransDigm Group | TransDigm Inc. | Subsidiary Guarantors | Eliminations | Total Consolidated |
|----------------------------------|--------------------|-------------------|--------------------------|--------------|-----------------------|
| NET SALES | \$ | \$ 16,604 | \$ 146,967 | \$ (435) | \$ 163,136 |
| COST OF SALES | | 10,558 | 64,753 | (267) | 75,044 |
| GROSS PROFIT | | 6,046 | 82,214 | (168) | 88,092 |
| OPERATING EXPENSES: | | | | | |
| Selling and administrative | | 5,843 | 12,029 | | 17,872 |
| Amortization of intangibles | | 156 | 3,155 | | 3,311 |
| Total operating expenses | | 5,999 | 15,184 | | 21,183 |
| INCOME FROM OPERATIONS | | 47 | 67,030 | (168) | 66,909 |
| OTHER INCOME (EXPENSES): | | | | | |
| Interest expense - net | | (17,220) | (7,287) | | (24,507) |
| Equity in income of subsidiaries | 26,968 | 37,828 | | (64,796) | |
| INCOME BEFORE INCOME TAXES | 26,968 | 20,655 | 59,743 | (64,964) | 42,402 |
| INCOME TAX PROVISION (BENEFIT) | | (6,313) | 21,747 | | 15,434 |
| NET INCOME | \$ 26,968 | \$ 26,968 | \$ 37,996 | \$ (64,964) | \$ 26,968 |

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF INCOME
FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 30, 2006

(Amounts in thousands)

| | TransDigm Group | TransDigm Inc. | Subsidiary Guarantors | Eliminations | Total Consolidated |
|----------------------------------|--------------------|-------------------|--------------------------|--------------|-----------------------|
| NET SALES | \$ | \$ 14,608 | \$ 108,101 | \$ | \$ 122,709 |
| COST OF SALES | | 8,449 | 50,626 | | 59,075 |
| GROSS PROFIT | | 6,159 | 57,475 | | 63,634 |
| OPERATING EXPENSES: | | | | | |
| Selling and administrative | | 5,581 | 6,540 | | 12,121 |
| Amortization of intangibles | | 156 | 1,486 | | 1,642 |
| Total operating expenses | | 5,737 | 8,026 | | 13,763 |
| INCOME FROM OPERATIONS | | 422 | 49,449 | | 49,871 |
| OTHER INCOME (EXPENSES): | | | | | |
| Interest expense - net | | (16,212) | (1,581) | | (17,793) |
| Equity in income of subsidiaries | 20,335 | 31,024 | | (51,359) | |
| INCOME BEFORE INCOME TAXES | 20,335 | 15,234 | 47,868 | (51,359) | 32,078 |
| INCOME TAX PROVISION (BENEFIT) | | (5,101) | 16,844 | | 11,743 |
| NET INCOME | \$ 20,335 | \$ 20,335 | \$ 31,024 | \$ (51,359) | \$ 20,335 |

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 29, 2007

(Amounts in thousands)

| | TransDigm Group | TransDigm Inc. | Subsidiary Guarantors | Eliminations | Total Consolidated |
|---|--------------------|-------------------|--------------------------|--------------|-----------------------|
| OPERATING ACTIVITIES: | | | | | |
| Net income | \$ 26,968 | \$ 26,968 | \$ 37,996 | \$ (64,964) | \$ 26,968 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities | (26,453) | (12,118) | 6,867 | 64,964 | 33,260 |
| Net cash provided by operating activities | 515 | 14,850 | 44,863 | | 60,228 |
| INVESTING ACTIVITIES: | | | | | |
| Capital expenditures | | (197) | (2,204) | | (2,401) |
| Net cash used in investing activities | | (197) | (2,204) | | (2,401) |
| FINANCING ACTIVITIES: | | | | | |
| Changes in intercompany activities | (3,807) | 47,508 | (43,701) | | |
| Tax benefit from exercise of stock options | 5,017 | | | | 5,017 |
| Proceeds from exercise of stock options | 1,525 | | | | 1,525 |
| Net cash provided by (used in) financing activities | 2,735 | 47,508 | (43,701) | | 6,542 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 3,250 | 62,161 | (1,042) | | 64,369 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 11,117 | 97,780 | (2,951) | | 105,946 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 14,367 | \$ 159,941 | \$ (3,993) | \$ | \$ 170,315 |

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 30, 2006

(Amounts in thousands)

| | TransDigm Group | TransDigm Inc. | Subsidiary Guarantors | Eliminations | Total Consolidated |
|---|--------------------|-------------------|--------------------------|--------------|-----------------------|
| OPERATING ACTIVITIES: | | | | | |
| Net income | \$ 20,335 | \$ 20,335 | \$ 31,024 | \$ (51,359) | \$ 20,335 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities | (21,550) | (15,310) | 3,619 | 51,359 | 18,118 |
| Net cash provided by (used in) operating activities | (1,215) | 5,025 | 34,643 | | 38,453 |
| INVESTING ACTIVITIES: | | | | | |
| Capital expenditures | | (481) | (2,015) | | (2,496) |
| Acquisition of business | | (45,250) | | | (45,250) |
| Net cash used in investing activities | | (45,731) | (2,015) | | (47,746) |
| FINANCING ACTIVITIES: | | | | | |
| Changes in intercompany activities | (460) | 32,346 | (31,886) | | |
| Excess tax benefit from exercise of stock options | 1,328 | | | | 1,328 |
| Proceeds from exercise of stock options | 1,304 | | | | 1,304 |
| Net cash provided by (used in) financing activities | 2,172 | 32,346 | (31,886) | | 2,632 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 957 | (8,360) | 742 | | (6,661) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,604 | 62,561 | (2,948) | | 61,217 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 2,561 | \$ 54,201 | \$ (2,206) | \$ | \$ 54,556 |

* * * * *

Table of Contents

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

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

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

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

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

Overview

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

For the first quarter of fiscal 2008, we generated net sales of \$163.1 million and net income of \$27.0 million. EBITDA As Defined was \$75.9 million, or 46.5% of net sales. See below for certain information regarding EBITDA and EBITDA As Defined, including a reconciliation of EBITDA and EBITDA As Defined to net income.

Table of Contents

Certain Acquisitions

Bruce Acquisition

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

ATI Acquisition

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

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

EBITDA and EBITDA As Defined

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

| | Thirteen Week Periods Ended | |
|--|--------------------------------|----------------------|
| | December 29, 2007 | December 30, 2006 |
| Net Income | \$ 27.0 | \$ 20.3 |
| Adjustments: | | |
| Depreciation and amortization expense | 6.5 | 4.2 |
| Interest expense, net | 24.5 | 17.8 |
| Income tax provision | 15.4 | 11.8 |
| EBITDA ⁽¹⁾ | 73.4 | 54.1 |
| Adjustments: | | |
| Acquisition-related costs ⁽²⁾ | 0.8 | 0.9 |
| Non-cash compensation and deferred compensation costs ⁽³⁾ | 1.7 | 1.3 |
| EBITDA As Defined ⁽¹⁾ | \$ 75.9 | \$ 56.3 |

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

We present EBITDA because we believe that it is a useful indicator of our operating performance. Our management believes that EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties to measure a company's operating performance without regard to items such as interest expense, income tax expense and

Table of Contents

depreciation and amortization, which may vary substantially from company to company depending upon, among other things, accounting methods, book value of assets, capital structure and the method by which assets are acquired. We also believe EBITDA is useful to our management and investors as a measure of comparative operating performance between time periods and among companies as it is reflective of changes in pricing decisions, cost controls and other factors that affect operating performance.

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

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

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

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

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

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

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

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

(2) Represents costs incurred to integrate acquired businesses into TD Group's operations, purchase accounting adjustments to inventory that were charged to cost of sales when inventory was sold, facility relocation costs and other acquisition-related costs.

(3) Represents the expenses recognized by the Company under our stock option and deferred compensation plans.

Critical Accounting Policies

Edgar Filing: TransDigm Group INC - Form 10-Q

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

-18-

Table of Contents

reasonableness of our most critical policies enable the fair presentation of our financial position and results of operations. However, investors are cautioned that the sensitivity of financial statements to these methods, assumptions and estimates could create materially different results under different conditions or using different assumptions.

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

Results of Operations

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

| | Thirteen Week Periods Ended | |
|-------------------------------------|--------------------------------|----------------------|
| | December 29, 2007 | December 30, 2006 |
| Net sales | 100% | 100% |
| Cost of Sales | 46 | 48 |
| Selling and administrative expenses | 11 | 10 |
| Amortization of intangibles | 2 | 1 |
| Income from operations | 41 | 41 |
| Interest expense - net | 15 | 14 |
| Income tax provision | 9 | 10 |
| Net income | 17% | 17% |

Changes in Results of Operations**Thirteen week period ended December 29, 2007 compared with the thirteen week period ended December 30, 2006.**

Net Sales. Net sales increased by \$40.4 million, or 32.9%, to \$163.1 million for the quarter ended December 29, 2007, from \$122.7 million for the comparable quarter last year. Sales growth excluding acquisitions was \$9.2 million and represented a 7.5% increase over the prior year. This organic growth rate was negatively impacted by a \$2.6 million one-time commercial aftermarket shipment made in the prior-year quarter. The organic sales growth was primarily due to (i) an increase of \$4.7 million in defense sales (ii) an increase of \$3.1 million in commercial aftermarket sales due to the continuing growth in the worldwide commercial aerospace market, and (iii) an increase of \$1.4 million of commercial OEM sales resulting primarily from an increase in production rates from The Boeing Company and Airbus S.A.S. and related OEM system suppliers. The remaining \$31.2 million of the increase resulted from the acquisitions of ATI and Bruce which were not owned in the comparable quarter last year.

Cost of Sales. Cost of sales increased by \$15.9 million, or 27.0%, to \$75.0 million for the quarter ended December 29, 2007 from \$59.1 million for the comparable quarter last year primarily due to the increase volume associated with the higher net sales of \$40.4 million discussed above. Cost of sales as a percentage of sales decreased to 46.0% for the thirteen week period ended December 29, 2007 from 48.1% for the thirteen week period ended December 30, 2006. Cost of sales as a percentage of net sales decreased by approximately two percentage points, which was due primarily to the strength of the Company's proprietary products, continued productivity efforts and, to a lesser extent, favorable product mix on the increase in defense and commercial aftermarket sales.

Edgar Filing: TransDigm Group INC - Form 10-Q

Selling and Administrative Expenses. Selling and administrative expenses increased by \$5.8 million to \$17.9 million, or 11.0% of sales, for the quarter ended December 29, 2007 from \$12.1 million, or 9.9% of sales, for the comparable quarter last year. This increase was primarily due to the higher sales discussed above and an increase in research and development expenses relating to the Boeing 787 and other new programs of \$2.7 million, or 1.6% of net sales.

-19-

Table of Contents

Amortization of Intangibles. Amortization of intangibles increased by \$1.7 million to \$3.3 million for the quarter ended December 29, 2007 from \$1.6 million for the comparable quarter last year. The increase of \$1.7 million was primarily due to the additional identifiable intangible assets recognized in connection with the acquisitions of ATI and Bruce, of which \$0.7 million related to order backlog amortization that is amortized over 12 months.

Interest Expense-net. Interest expense increased \$6.7 million, or 37.7%, to \$24.5 million for the quarter ended December 29, 2007 from \$17.8 million for the comparable quarter last year as a result of an increase in our outstanding borrowings of approximately \$430 million related to the acquisition of ATI, partially offset by higher interest income of \$1.4 million. The Company's weighted average level of outstanding borrowings increased to approximately \$1.36 billion for the quarter ended December 29, 2007 from approximately \$0.93 billion during the comparable quarter last year while the average interest rate was approximately 7.5% during both the quarter ended December 29, 2007 and the comparable quarter last year.

Income Taxes. Income tax expense as a percentage of income before income taxes was approximately 36.4% for the quarter ended December 29, 2007 compared to 36.6% for the quarter ended December 30, 2006.

Net Income. Net income increased \$6.7 million, or 32.6%, to \$27.0 million for the first quarter of fiscal 2008 compared to \$20.3 million for the first quarter of fiscal 2007, primarily as a result of the factors referred to above.

Backlog

As of December 29, 2007, the Company estimated its sales order backlog at \$374.8 million compared to an estimated \$261.6 million as of December 30, 2006. This increase in backlog is due to the purchase orders acquired in connection with the acquisitions of ATI and Bruce, discussed above, totaling approximately \$60.8 million and an increase in orders across existing product lines in both the OEM and aftermarket segments. The majority of the purchase orders outstanding as of December 29, 2007 are scheduled for delivery within the next twelve months. Purchase orders may be subject to cancellation by the customer prior to shipment. The level of unfilled purchase orders at any given date during the year will be materially affected by the timing of the Company's receipt of purchase orders and the speed with which those orders are filled. Accordingly, the Company's backlog as of December 29, 2007 may not necessarily represent the actual amount of shipments or sales for any future period.

Foreign Currency Exchange Rate Risk

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

Liquidity and Capital Resources

Operating Activities. The Company generated \$60.2 million of cash from operating activities during the thirteen week period ended December 29, 2007 compared to \$38.5 million during the thirteen week period ended December 30, 2006. The increase of \$21.7 million was primarily due to higher net income and favorable changes in working capital for the thirteen week period ended December 29, 2007.

Investing Activities. Cash used in investing activities was \$2.4 million during thirteen week period ended December 29, 2007 consisting of capital expenditures. Cash used in investing activities was \$47.8 million during thirteen week period ended December 30, 2006 consisting of capital expenditures of \$2.5 million and the acquisition of CDA for \$45.3 million.

Financing Activities. Cash provided by financing activities during the thirteen week period ended December 29, 2007 was \$6.5 million compared to \$2.6 million during the thirteen week period ended December 30, 2006. Cash provided by financing activities during the thirteen week periods ended December 29, 2007 and December 30, 2006 related to the exercise of stock options of \$6.5 million and \$2.6 million, respectively.

Table of Contents

Description of Current Senior Secured Credit Facility and Indenture

The senior secured credit facility (Senior Secured Credit Facility) consists of a \$780 million term loan facility, which is fully drawn, and a \$200 million revolving loan facility. At December 29, 2007, \$198.9 million of the revolving credit facility was available. The term loan facility will mature in June 2013 and is not subject to interim scheduled amortization, but is subject to certain prepayment requirements.

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

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

New Accounting Standards

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

In July 2006, the FASB issued FIN 48. FIN 48 prescribes the minimum accounting and disclosure requirements of uncertain tax positions. FIN 48 also provides guidance on the derecognition, measurement, classification, interest and penalties, and transition of uncertain tax positions. FIN 48 is effective for fiscal periods beginning after December 15, 2006. The Company adopted FIN 48 on October 1, 2007. See Note 8 in Notes to Condensed Consolidated Financial Statements.

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 29, 2007, we had borrowings under our Senior Secured Credit Facility of \$780 million that were subject to interest rate risk. Borrowings under our Senior Secured Credit Facility bear interest, at our option, at a rate equal to either an alternate base rate or an adjusted LIBO rate for a one-, two-, three- or six-month (or to the extent available to each lender, nine- or twelve-month) interest period chosen by us, in each case, plus an applicable margin percentage. Accordingly, the Company's cash flows and earnings will be exposed to the market risk of interest rate changes resulting from variable rate borrowings under our Senior Secured Credit Facility. The effect of a hypothetical one percentage point increase in interest rates would increase the annual interest costs under our Senior Secured Credit Facility by approximately \$7.8 million based on the amount of outstanding borrowings at December 29, 2007. The weighted average interest rate on the \$780 million of borrowings under our Senior Secured Credit Facility on December 29, 2007 was 6.86%.

At December 29, 2007, we had an agreement in place to swap variable interest rates on our Senior Secured Credit Facility for fixed interest rates through June 23, 2009 for the notional amount of \$170 million, which will decrease to \$150 million on September 23, 2008 through June 23, 2009. The fair value of the interest rate swap agreement is adjusted at each balance sheet date, with a corresponding adjustment to other comprehensive income. At December 29, 2007, the fair value of the interest rate swap agreement was a liability of \$4.1 million.

Because the interest rates on borrowings under our Senior Secured Credit Facility vary with market conditions, the amount of outstanding borrowings under our Senior Secured Credit Facility approximates the fair value of the indebtedness. The fair value of the

Table of Contents

\$575 million aggregate principal amount of our 7³/₄% Senior Subordinated Notes is exposed to the market risk of interest rate changes. The estimated fair value of such notes approximated \$581 million at December 29, 2007 based upon quoted market rates.

ITEM 4. CONTROLS AND PROCEDURES

As of December 29, 2007, TD Group carried out an evaluation, under the supervision and with the participation of TD Group's management, including its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of TD Group's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that TD Group's disclosure controls and procedures are effective to ensure that information required to be disclosed by TD Group in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to TD Group's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, TD Group's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures. There have been no significant changes in TD Group's internal controls or other factors that could significantly affect the internal controls subsequent to the date of TD Group's evaluations.

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 ending December 29, 2007 that have materially affected, or are reasonably likely to materially affect, TD Group's internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1A. Risk Factors

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

ITEM 6. Exhibits

- 10.1 Employment Agreement, dated January 1, 1998, between Chris Anderson and Avtech Corporation.
- 31.1 Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

TRANSDIGM GROUP INCORPORATED

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

| SIGNATURE | TITLE | DATE |
|--|---|------------------|
| /s/ W. Nicholas Howley W. Nicholas Howley | Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer) | February 7, 2008 |
| /s/ Gregory Rufus Gregory Rufus | Chief Financial Officer and Executive Vice President (Principal Financial and Accounting Officer) | February 7, 2008 |

Table of Contents

EXHIBIT INDEX

TO FORM 10-Q FOR THE PERIOD ENDED DECEMBER 29, 2007

| EXHIBIT NO. | DESCRIPTION |
|--------------------|--|
| 10.1 | Employment Agreement, dated January 1, 1998, between Chris Anderson and Avtech Corporation. |
| 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. |