

TransDigm Group INC
Form 10-Q
May 07, 2014
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 March 29, 2014.

.. **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)

(Registrant's 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.

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 52,924,861 as of April 26, 2014.

Table of Contents

INDEX

	Page	
Part I	FINANCIAL INFORMATION	
Item 1	Financial Statements	
	<u>Condensed Consolidated Balance Sheets – March 29, 2014 and September 30, 2013</u>	1
	<u>Condensed Consolidated Statements of Income – Thirteen and Twenty-Six Week Periods Ended March 29, 2014 and March 30, 2013</u>	2
	<u>Condensed Consolidated Statements of Comprehensive Income – Thirteen and Twenty-Six Week Periods Ended March 29, 2014 and March 30, 2013</u>	3
	<u>Condensed Consolidated Statement of Changes in Stockholders’ (Deficit) Equity – Twenty-Six Week Period Ended March 29, 2014</u>	4
	<u>Condensed Consolidated Statements of Cash Flows – Twenty-Six Week Periods Ended March 29, 2014 and March 30, 2013</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	33
Item 4	<u>Controls and Procedures</u>	33
Part II	<u>OTHER INFORMATION</u>	
Item 1A	<u>Risk Factors</u>	34
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
Item 6	<u>Exhibits</u>	35
	<u>SIGNATURES</u>	36

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

(Amounts in thousands, except share amounts)

(Unaudited)

	March 29, 2014	September 30, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 475,691	\$ 564,740
Trade accounts receivable - Net	342,379	290,449
Inventories - Net	458,463	413,581
Deferred income taxes	28,607	30,182
Prepaid expenses and other	22,877	21,543
Total current assets	1,328,017	1,320,495
PROPERTY, PLANT AND EQUIPMENT - Net	208,713	208,964
GOODWILL	3,531,184	3,343,907
TRADEMARKS AND TRADE NAMES	512,241	485,690
OTHER INTANGIBLE ASSETS - Net	735,839	703,800
DEBT ISSUE COSTS - Net	66,925	72,668
OTHER	16,419	13,355
TOTAL ASSETS	\$ 6,399,338	\$ 6,148,879
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 31,045	\$ 31,045
Accounts payable	95,150	106,768
Accrued liabilities	226,283	184,687
Total current liabilities	352,478	322,500
LONG-TERM DEBT	5,692,432	5,700,193
DEFERRED INCOME TAXES	403,988	384,301
OTHER NON-CURRENT LIABILITIES	76,069	78,266
Total liabilities	6,524,967	6,485,260
STOCKHOLDERS (DEFICIT) EQUITY:		
Common stock - \$.01 par value; authorized 224,400,000 shares; issued 53,387,216 and 53,172,551 at March 29, 2014 and September 30, 2013, respectively	534	532
Additional paid-in capital	722,445	689,935
Accumulated deficit	(831,889)	(1,004,244)
Accumulated other comprehensive loss	(631)	(6,516)
Treasury stock, at cost; 505,400 shares at March 29, 2014 and September 30, 2013, respectively	(16,088)	(16,088)
Total stockholders (deficit) equity	(125,629)	(336,381)

Edgar Filing: TransDigm Group INC - Form 10-Q

TOTAL LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY	\$ 6,399,338	\$ 6,148,879
---	--------------	--------------

See notes to condensed consolidated financial statements.

-1-

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****FOR THE THIRTEEN AND TWENTY-SIX WEEK PERIODS ENDED****MARCH 29, 2014 AND MARCH 30, 2013**

(Amounts in thousands, except per share amounts)

(Unaudited)

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
NET SALES	\$ 590,761	\$ 465,609	\$ 1,120,083	\$ 896,027
COST OF SALES	283,179	206,299	528,365	398,170
GROSS PROFIT	307,582	259,310	591,718	497,857
SELLING AND ADMINISTRATIVE EXPENSES	71,488	55,463	128,615	110,624
AMORTIZATION OF INTANGIBLE ASSETS	17,600	9,735	33,983	20,275
INCOME FROM OPERATIONS	218,494	194,112	429,120	366,958
INTEREST EXPENSE - Net	82,289	64,094	163,142	126,970
REFINANCING COSTS		30,281		30,281
INCOME BEFORE INCOME TAXES	136,205	99,737	265,978	209,707
INCOME TAX PROVISION	45,850	31,800	89,500	67,600
NET INCOME	\$ 90,355	\$ 67,937	\$ 176,478	\$ 142,107
NET INCOME APPLICABLE TO COMMON STOCK	\$ 84,869	\$ 67,937	\$ 166,853	\$ 103,977
Net earnings per share - see Note 4:				
Basic and diluted	\$ 1.49	\$ 1.25	\$ 2.93	\$ 1.91
Cash dividends paid per common share	\$	\$	\$	\$ 12.85
Weighted-average shares outstanding:				
Basic and diluted	57,068	54,453	57,030	54,453

See notes to condensed consolidated financial statements.

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****FOR THE THIRTEEN AND TWENTY-SIX WEEK PERIODS ENDED****MARCH 29, 2014 AND MARCH 30, 2013****(Amounts in thousands)****(Unaudited)**

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Net income	\$ 90,355	\$ 67,937	\$ 176,478	\$ 142,107
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	3,481	(8,995)	6,128	(6,943)
Interest rate swap agreements, net of tax	(4,307)	(330)	(243)	(330)
Other				(214)
Other comprehensive income (loss), net of tax	(826)	(9,325)	5,885	(7,487)
TOTAL COMPREHENSIVE INCOME	\$ 89,529	\$ 58,612	\$ 182,363	\$ 134,620

See notes to condensed consolidated financial statements.

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS (DEFICIT) EQUITY****FOR THE TWENTY-SIX WEEK PERIOD ENDED MARCH 29, 2014**

(Amounts in thousands, except share amounts)

(Unaudited)

	Common Stock		Additional	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Number of Shares	Par Value	Paid-In Capital		Number of Shares	Value		
BALANCE, OCTOBER 1, 2013	53,172,551	\$ 532	\$ 689,935	\$ (1,004,244)	\$ (6,516)	(505,400)	\$ (16,088)	\$ (336,381)
Dividends paid				(1,777)				(1,777)
Unvested dividend equivalents				(2,346)				(2,346)
Compensation expense recognized for employee stock options			12,333					12,333
Excess tax benefits related to share-based payment arrangements			10,698					10,698
Exercise of employee stock options	214,333	2	9,420					9,422
Common stock issued	332		59					59
Net income				176,478				176,478
Interest rate swaps, net of tax					(243)			(243)
Foreign currency translation adjustments					6,128			6,128
BALANCE, MARCH 29, 2014	53,387,216	\$ 534	\$ 722,445	\$ (831,889)	\$ (631)	(505,400)	\$ (16,088)	\$ (125,629)

See notes to condensed consolidated financial statements.

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

(Amounts in thousands)

(Unaudited)

	Twenty-Six Week Periods Ended	
	March 29, 2014	March 30, 2013
OPERATING ACTIVITIES:		
Net income	\$ 176,478	\$ 142,107
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,630	13,407
Amortization of intangible assets	34,090	20,366
Amortization of debt issue costs	6,430	6,966
Net gain on sale of real estate	(804)	
Refinancing costs		30,281
Non-cash equity compensation	12,333	14,262
Excess tax benefits related to share-based payment arrangements	(10,698)	(40,044)
Deferred income taxes	(6,130)	5,482
Changes in assets/liabilities, net of effects from acquisitions of businesses:		
Trade accounts receivable	(13,377)	(6,344)
Inventories	(4,880)	(18,226)
Income taxes receivable/payable	9,371	25,183
Other assets	3,255	2,776
Accounts payable	(23,412)	(1,825)
Accrued and other liabilities	22,202	2,898
Net cash provided by operating activities	220,488	197,289
INVESTING ACTIVITIES:		
Capital expenditures	(17,709)	(16,316)
Cash proceeds from sale of real estate	16,380	
Acquisition of businesses, net of cash acquired	(311,016)	(8,367)
Cash proceeds from sale of investment		10,500
Net cash used in investing activities	(312,345)	(14,183)
FINANCING ACTIVITIES:		
Excess tax benefits related to share-based payment arrangements	10,698	40,044
Proceeds from exercise of stock options	9,422	12,919
Dividends paid	(9,625)	(702,406)
Proceeds from 2013 credit facility - net		2,191,127
Repayment on 2013 credit facility	(7,761)	(5,500)
Proceeds from 2011 credit facility - net		147,360
Repayment on 2011 credit facility		(2,169,125)
Proceeds from senior subordinated notes due 2020 - net		542,000
Other	(78)	
Net cash provided by financing activities	2,656	56,419
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	152	(25)

Edgar Filing: TransDigm Group INC - Form 10-Q

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(89,049)	239,500
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	564,740	440,524
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 475,691	\$ 680,024
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 127,162	\$ 108,390
Cash paid during the period for income taxes	\$ 84,438	\$ 37,124

See notes to condensed consolidated financial statements.

-5-

Table of Contents

TRANSDIGM GROUP INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TWENTY-SIX WEEK PERIODS ENDED MARCH 29, 2014 AND MARCH 30, 2013

(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, seatbelts and safety restraints, engineered interior surfaces, lighting and control technology and military personnel parachutes and cargo delivery systems.

Separate Financial Statements Separate financial statements of TransDigm Inc. are not presented because TransDigm Inc. $\frac{3}{4}\%$ Senior Subordinated Notes due 2018, $5\frac{1}{2}\%$ Senior Subordinated Notes due 2020 and $7\frac{1}{2}\%$ Senior Subordinated Notes due 2021 are fully and unconditionally guaranteed on a senior subordinated basis by TD Group and all existing 100% owned 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, 2013 included in TD Group's Form 10-K dated November 15, 2013. 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, 2013 condensed consolidated balance sheet was derived from TD Group's audited financial statements. The results of operations for the twenty-six week period ended March 29, 2014 are not necessarily indicative of the results to be expected for the full year.

3. ACQUISITIONS

Elektro-Metall Export GmbH On March 6, 2014, TransDigm Germany GmbH, a newly formed subsidiary of TransDigm Inc., acquired Elektro-Metall Export GmbH ("EME") for approximately \$49.5 million, which comprises \$40.3 million in cash plus the assumption of approximately \$9.2 million of net indebtedness. EME manufactures proprietary, highly engineered aerospace electromechanical actuators, electrical and electromechanical components and assemblies for commercial aircraft, helicopters and other specialty applications. These products fit well with TransDigm's overall business direction. EME is included in TransDigm's Power & Control segment. The Company expects that the approximately \$21.4 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

Edgar Filing: TransDigm Group INC - Form 10-Q

Airborne Global Inc. On December 19, 2013, TransDigm Inc. acquired all of the outstanding stock of Airborne Global Inc. (Airborne) for approximately \$263.8 million in cash, which comprises the \$250 million contract price plus estimated cash and working capital at closing and which is subject to adjustments based on the actual level of cash and working capital as of the closing date of the acquisition. Airborne is the industry leading designer and manufacturer of personnel parachutes, cargo aerial delivery systems, emergency escape systems, naval decoys and other related products. These products fit well with TransDigm's overall business direction. Airborne is included in TransDigm's Airframe segment. The Company expects that the approximately \$157.1 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

Whippany Actuation Systems, LLC On June 28, 2013, Whippany Actuation Systems, LLC, a newly formed subsidiary of TransDigm Inc., acquired assets from GE Aviation's Electromechanical Actuation Division (Whippany Actuation) for approximately \$151.5 million in cash, which includes a purchase price adjustment of \$2.7 million paid in the first quarter of fiscal 2014. Whippany Actuation manufactures proprietary, highly engineered aerospace electromechanical motion control subsystems for civil and military applications with product offerings including control electronics, motors, high power mechanical transmissions and actuators. These products fit well with TransDigm's overall business direction. Whippany is included in TransDigm's Power & Control segment. The Company expects that the approximately \$103.9 million of goodwill recognized for the acquisition will be deductible for tax purposes.

Table of Contents

Arkwin Industries, Inc. On June 5, 2013, TransDigm Inc. acquired all of the outstanding stock of Arkwin Industries, Inc. (Arkwin), for approximately \$285.7 million in cash, which includes a purchase price adjustment of \$0.2 million received in the fourth quarter of fiscal 2013. Arkwin manufactures proprietary, highly engineered aerospace hydraulic and fuel system components for commercial and military aircraft, helicopters and other specialty applications. These products fit well with TransDigm's overall business direction. Arkwin is included in TransDigm's Power & Control segment. The Company expects that the approximately \$185.1 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

Aerosonic Corporation On June 5, 2013, Buccaneer Acquisition Sub Inc., a newly formed subsidiary of TransDigm Inc., completed the tender offer of a majority of the outstanding stock of Aerosonic Corporation (Aerosonic). Buccaneer Acquisition Sub Inc. was subsequently merged into Aerosonic on June 10, 2013; in connection therewith, all outstanding shares of Aerosonic were cancelled and Aerosonic became a wholly owned subsidiary of TransDigm Inc. The aggregate price paid in the tender offer and merger was approximately \$39.8 million in cash. Aerosonic designs and manufactures proprietary, highly engineered mechanical and digital altimeters, airspeed indicators, rate of climb indicators, microprocessor controlled air data test sets, angle of attack stall warning systems, integrated air data sensors and other aircraft sensors, monitoring systems and flight instrumentation for use on commercial and military aircraft. These products fit well with TransDigm's overall business direction. Aerosonic is included in TransDigm's Airframe segment. The Company expects that the approximately \$14.7 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

The Company accounted for 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 EME, Airborne, Whippany Actuation, Arkwin and Aerosonic; 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 had they occurred at the beginning of the applicable twenty-six week periods ended March 29, 2014 or March 30, 2013 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, 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.

4. EARNINGS PER SHARE (TWO-CLASS METHOD)

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

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Numerator for earnings per share:				
Net income	\$ 90,355	\$ 67,937	\$ 176,478	\$ 142,107
Less dividends paid on participating securities	(5,486)		(9,625)	(38,130)
Net income applicable to common stock - basic and diluted	\$ 84,869	\$ 67,937	\$ 166,853	\$ 103,977
Denominator for basic and diluted earnings per share under the two-class method:				
Weighted average common shares outstanding	52,803	52,204	52,745	52,001
Vested options deemed participating securities	4,265	2,249	4,285	2,452
Total shares for basic and diluted earnings per share	57,068	54,453	57,030	54,453

Edgar Filing: TransDigm Group INC - Form 10-Q

Basic and diluted earnings per share	\$	1.49	\$	1.25	\$	2.93	\$	1.91
---	----	------	----	------	----	------	----	------

-7-

Table of Contents**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 for all locations except CEF Industries LLC, which determines the cost of inventories using the last-in, first-out (LIFO) method. Less than 5% of the inventory was valued under the LIFO method at March 29, 2014.

Inventories consist of the following (in thousands):

	March 29, 2014	September 30, 2013
Raw materials and purchased component parts	\$ 300,306	\$ 274,510
Work-in-progress	142,148	124,765
Finished Goods	67,066	58,052
Total	509,520	457,327
Reserves for excess and obsolete inventory and LIFO	(51,057)	(43,746)
Inventories - net	\$ 458,463	\$ 413,581

6. INTANGIBLE ASSETS

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

	March 29, 2014			September 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Technology	\$ 856,401	\$ 164,610	\$ 691,791	\$ 801,010	\$ 143,196	\$ 657,814
Order backlog	25,497	14,748	10,749	19,255	7,936	11,319
Other	43,289	9,990	33,299	43,427	8,760	34,667
Total	\$ 925,187	\$ 189,348	\$ 735,839	\$ 863,692	\$ 159,892	\$ 703,800

Intangible assets acquired during the twenty-six week period ended March 29, 2014 were as follows (in thousands):

	Cost	Amortization Period
Intangible assets not subject to amortization:		
Goodwill	\$ 178,524	
Trademarks and trade names	26,847	
	205,371	
Intangible assets subject to amortization:		
Technology	54,463	20 years
Order backlog	9,348	1 year
	63,811	17.2 years

Edgar Filing: TransDigm Group INC - Form 10-Q

Total	\$ 269,182
--------------	-------------------

The aggregate amortization expense on identifiable intangible assets for the twenty-six week periods ended March 29, 2014 and March 30, 2013 was approximately \$34.0 million and \$20.3 million, respectively. The estimated amortization expense is \$63.9 million for fiscal 2014, \$47.1 million for fiscal 2015 and \$44.4 million for each of the four succeeding years 2016 through 2019.

The following is a summary of changes in the carrying value of goodwill by segment from September 30, 2013 through March 29, 2014 (in thousands):

	Power & Control	Airframe	Non-aviation	Total
Balance, September 30, 2013	\$ 1,566,926	\$ 1,721,901	\$ 55,080	\$ 3,343,907
Goodwill acquired during the year	21,413	157,111		178,524
Purchase price allocation adjustments	4,153	698	289	5,140
Other	13	3,600		3,613
Balance, March 29, 2014	\$ 1,592,505	\$ 1,883,310	\$ 55,369	\$ 3,531,184

Table of Contents**7. 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 March 29, 2014 and March 30, 2013, the effective income tax rate was 33.7% and 31.9%, respectively. The Company's effective tax rate for these periods was less than the Federal statutory tax rate due primarily to the domestic manufacturing deduction. The lower effective tax rate for the thirteen week period ended March 30, 2013 was primarily due to the non-recurring retroactive reinstatement of the research and development tax credit. During the twenty-six week periods ended March 29, 2014 and March 30, 2013, the effective income tax rate was 33.6% and 32.2%, respectively. The Company's effective tax rate for these periods was less than the Federal statutory tax rate due primarily to the domestic manufacturing deduction. The decrease in the effective tax rate for the twenty-six week period ended March 30, 2013 was primarily due to the retroactive reinstatement of the research and development tax credit.

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, China, France, Germany, Hungary, Malaysia, Mexico, Singapore, Sri Lanka and the United Kingdom. The Company is no longer subject to U.S. federal examinations for years before fiscal 2011. AmSafe is subject to U.S. federal examinations for the 2008, 2009, 2010 and 2011 years. In addition, the Company is subject to state income tax examinations for fiscal years 2009 and later.

At March 29, 2014 and September 30, 2013, TD Group had \$6.1 million and \$6.1 million in unrecognized tax benefits, the recognition of which would have an effect of approximately \$5.7 million and \$5.7 million on the effective tax rate at March 29, 2014 and September 30, 2013, 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.

8. 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	March 29, 2014		September 30, 2013	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	1	\$ 475,691	\$ 475,691	\$ 564,740	\$ 564,740
Liabilities:					
Interest rate swap agreements ⁽¹⁾	2	6,200	6,200	6,950	6,950
Interest rate swap agreements ⁽²⁾	2	10,600	10,600	7,550	7,550
<i>Long-term debt:</i>					
Term loans	2	3,073,477	3,075,000	3,081,238	3,065,000
7 3/4% Senior Subordinated Notes due 2018	1	1,600,000	1,708,000	1,600,000	1,708,000
5 1/2% Senior Subordinated Notes due 2020	1	550,000	558,000	550,000	540,000
7 1/2% Senior Subordinated Notes due 2021	1	500,000	550,000	500,000	536,000

(1) Included in Accrued liabilities on the Condensed Consolidated Balance Sheet.

(2) 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. 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 2018 Notes, 2020 Notes and 2021 Notes were based upon quoted market prices.

9. DERIVATIVES AND HEDGING ACTIVITIES

The Company is exposed to, among other things, the impact of changes in interest 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

Table of Contents

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 the Company's 2013 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 that qualify as effective cash flow hedges under GAAP. For these cash flow hedges, the effective portion of the gain or loss from the financial instruments was 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 affected earnings.

On July 16, 2013, the Company entered into three forward-starting interest rate swap agreements beginning September 30, 2014 to hedge the variable interest rates on the 2013 Credit Facility for a fixed rate based on an aggregate notional amount of \$1.0 billion through June 30, 2019. These forward-starting interest rate swap agreements will effectively convert the variable interest rate on the aggregate notional amount of the 2013 Credit Facility to a fixed rate of 5.4% (2.4% plus the 3% margin percentage) over the term of the interest rate swap agreements.

At March 29, 2014, three forward-starting interest rate swap agreements were in place to swap variable rates on the 2013 Credit Facility for a fixed rate based on an aggregate notional amount of \$353 million. These interest rate swap agreements converted the variable interest rate on the aggregate notional amount of the 2013 Credit Facility to a fixed rate of 5.17% (2.17% plus the 3% margin percentage) through June 30, 2015.

In conjunction with the refinancing of the 2011 Credit Facility, the Company no longer designated the interest rate swap agreements relating to the \$353 million aggregate notional amount as cash flow hedges for accounting purposes. Accordingly, amounts previously recorded as a component of accumulated other comprehensive loss in stockholders equity will be amortized into earnings over the remaining period of the swap agreements. The net after-tax loss included in accumulated other comprehensive loss to be reclassified into interest expense over the remaining term of the swap agreement was \$3.3 million at March 29, 2014.

10. SEGMENTS

The Company's businesses are organized and managed in three reporting segments: Power & Control, Airframe and Non-aviation.

The Power & Control segment includes operations that primarily develop, produce and market systems and components that predominately provide power to or control power of the aircraft utilizing electronic, fluid, power and mechanical motion control technologies. Major product offerings include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices and specialized AC/DC electric motors and generators. Primary customers of this segment are engine and power system and subsystem suppliers, airlines, third party maintenance suppliers, military buying agencies and repair depots. Products are sold in the original equipment and aftermarket market channels.

The Airframe segment includes operations that primarily develop, produce and market systems and components that are used in non-power airframe applications utilizing airframe and cabin structure technologies. Major product offerings include engineered latching and locking devices, rods and locking devices, engineered connectors and elastomers, cockpit security components and systems, aircraft audio systems, specialized lavatory components, seatbelts and safety restraints, engineered interior surfaces, lighting and control technology, personnel parachutes, cargo aerial delivery systems, emergency escape systems and naval decoys. Primary customers of this segment are airframe manufacturers and cabin system suppliers and subsystem suppliers, airlines, third party maintenance suppliers, military buying agencies and repair depots. Products are sold in the original equipment and aftermarket market channels.

The Non-aviation segment includes operations that primarily develop, produce and market products for non-aviation markets. Major product offerings include seatbelts and safety restraints for ground transportation applications, mechanical/electro-mechanical actuators and controls for space applications, and refueling systems for heavy equipment used in mining, construction and other industries. Primary customers of this segment are off road vehicle suppliers and subsystem suppliers, child restraint system suppliers, satellite and space system suppliers and manufacturers of heavy equipment used in mining, construction and other industries.

Table of Contents

The primary measurement used by management to review and assess the operating performance of each segment is EBITDA As Defined. The Company defines EBITDA As Defined as earnings before interest, taxes, depreciation and amortization plus certain non-operating items including refinancing costs, acquisition-related costs, transaction-related costs and non-cash compensation charges incurred in connection with the Company's stock option plans. Acquisition-related costs represent accounting adjustments to inventory associated with acquisitions of businesses and product lines that were charged to cost of sales when the inventory was sold; costs incurred to integrate acquired businesses and product lines into the Company's operations, facility relocation costs and other acquisition-related costs; transaction related costs comprising deal fees; legal, financial and tax diligence expenses and valuation costs that are required to be expensed as incurred and other acquisition accounting adjustments.

EBITDA As Defined is not a measurement of financial performance under GAAP. Although the Company uses EBITDA As Defined to assess the performance of its business and for various other purposes, the use of this non-GAAP financial measure as an analytical tool has limitations, and it should not be considered in isolation or as a substitute for analysis of the Company's results of operations as reported in accordance with GAAP.

The Company's segments are reported on the same basis used internally for evaluating performance and for allocating resources. The accounting policies for each segment are the same as those described in the summary of significant accounting policies in the Company's consolidated financial statements. Intersegment sales and transfers are recorded at values based on market prices, which creates intercompany profit on intersegment sales or transfers that is eliminated in consolidation. Intersegment sales were insignificant for the periods presented below.

The following table presents net sales by reportable segment (in thousands):

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Net sales to external customers				
Power & Control	\$ 258,351	\$ 203,998	\$ 509,559	\$ 397,874
Airframe	308,221	236,310	562,887	451,230
Non-aviation	24,189	25,301	47,637	46,923
	\$ 590,761	\$ 465,609	\$ 1,120,083	\$ 896,027

The following table reconciles EBITDA As Defined by segment to consolidated income from continuing operations before income taxes (in thousands):

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
EBITDA As Defined				
Power & Control	\$ 132,640	\$ 109,196	\$ 261,624	\$ 212,315
Airframe	130,917	110,635	245,387	209,441
Non-aviation	5,101	5,761	10,207	10,195
Total segment EBITDA As Defined	268,658	225,592	517,218	431,951
Unallocated corporate expenses	5,690	6,320	10,693	11,783
Total Company EBITDA As Defined	262,968	219,272	506,525	420,168
Depreciation and amortization	25,881	16,321	49,720	33,773
Interest expense - net	82,289	64,094	163,142	126,970
Acquisition-related costs	10,435	1,708	15,352	5,175
Stock compensation expense	8,158	7,131	12,333	14,262

Edgar Filing: TransDigm Group INC - Form 10-Q

Refinancing costs		30,281		30,281
Income from continuing operations before income taxes	\$ 136,205	\$ 99,737	\$ 265,978	\$ 209,707

-11-

Table of Contents

The following table presents total assets by segment (in thousands):

	March 29, 2014	September 30, 2013
Total assets		
Power & Control	\$ 2,447,270	\$ 2,398,469
Airframe	3,267,864	2,958,974
Non-aviation	131,908	132,672
Corporate	552,296	658,764
	\$ 6,399,338	\$ 6,148,879

The Company's sales principally originate from the United States, and the Company's long-lived assets are principally located in the United States.

11. SUPPLEMENTAL GUARANTOR INFORMATION

TransDigm's 2018 Notes, 2020 Notes and 2021 Notes are jointly and severally guaranteed, on a senior subordinated basis, by TD Group and TransDigm Inc.'s 100% Domestic Restricted Subsidiaries, as defined in the Indentures. The following supplemental condensed consolidating financial information presents, in separate columns, the balance sheets of the Company as of March 29, 2014 and September 30, 2013 and its statements of income and comprehensive income and cash flows for the twenty-six week periods ended March 29, 2014 and March 30, 2013 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 and (v) the Company on a consolidated basis.

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEET

AS OF MARCH 29, 2014

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 550	\$ 434,302	\$ 367	\$ 28,675	\$ 11,797	\$ 475,691
Trade accounts receivable - Net		19,593	278,082	47,466	(2,762)	342,379
Inventories - Net		28,753	380,698	49,712	(700)	458,463
Deferred income taxes		28,607				28,607
Prepaid expenses and other		8,487	9,992	4,398		22,877
Total current assets	550	519,742	669,139	130,251	8,335	1,328,017
INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES						
	(126,179)	5,554,270	2,776,176	82,739	(8,287,006)	
PROPERTY, PLANT AND EQUIPMENT - Net		15,944	167,068	25,701		208,713
GOODWILL		59,814	3,305,893	165,477		3,531,184
TRADEMARKS AND TRADE NAMES		19,377	449,706	43,158		512,241
OTHER INTANGIBLE ASSETS - Net		21,411	667,013	48,875	(1,460)	735,839
DEBT ISSUE COSTS - Net		66,570		355		66,925
OTHER		2,659	11,683	2,073	4	16,419
TOTAL ASSETS	\$ (125,629)	\$ 6,259,787	\$ 8,046,678	\$ 498,629	\$ (8,280,127)	\$ 6,399,338
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY						
CURRENT LIABILITIES:						
Current portion of long-term debt	\$	\$ 31,045	\$	\$	\$	\$ 31,045
Accounts payable		12,251	69,586	16,075	(2,762)	95,150
Accrued liabilities		96,957	84,015	45,311		226,283
Total current liabilities		140,253	153,601	61,386	(2,762)	352,478
LONG-TERM DEBT		5,692,432				5,692,432
DEFERRED INCOME TAXES		404,286		(298)		403,988
OTHER NON-CURRENT LIABILITIES		30,994	44,648	427		76,069
Total liabilities		6,267,965	198,249	61,515	(2,762)	6,524,967
STOCKHOLDERS (DEFICIT) EQUITY	(125,629)	(8,178)	7,848,429	437,114	(8,277,365)	(125,629)
TOTAL LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY	\$ (125,629)	\$ 6,259,787	\$ 8,046,678	\$ 498,629	\$ (8,280,127)	\$ 6,399,338

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2013

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 1,313	\$ 536,863	\$ 7,900	\$ 18,664	\$	\$ 564,740
Trade accounts receivable - Net		16,332	251,272	24,567	(1,722)	290,449
Inventories - Net		26,353	359,518	28,633	(923)	413,581
Deferred income taxes		30,182				30,182
Prepaid expenses and other		7,533	10,693	3,317		21,543
Total current assets	1,313	617,263	629,383	75,181	(2,645)	1,320,495
INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES						
	(337,694)	5,206,201	2,527,374	77,853	(7,473,734)	
PROPERTY, PLANT AND EQUIPMENT - Net		15,471	178,193	15,300		208,964
GOODWILL		67,245	3,192,519	84,143		3,343,907
TRADEMARKS AND TRADE NAMES		19,377	434,066	32,247		485,690
OTHER INTANGIBLE ASSETS - Net		22,130	663,881	19,249	(1,460)	703,800
DEBT ISSUE COSTS - Net		72,668				72,668
OTHER		2,633	10,520	201	1	13,355
TOTAL ASSETS	\$ (336,381)	\$ 6,022,988	\$ 7,635,936	\$ 304,174	\$ (7,477,838)	\$ 6,148,879
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY						
CURRENT LIABILITIES:						
Current portion of long-term debt	\$	\$ 31,045	\$	\$	\$	\$ 31,045
Accounts payable		14,353	82,661	11,481	(1,727)	106,768
Accrued liabilities		80,313	88,204	16,170		184,687
Total current liabilities		125,711	170,865	27,651	(1,727)	322,500
LONG-TERM DEBT		5,700,193				5,700,193
DEFERRED INCOME TAXES		384,301				384,301
OTHER NON-CURRENT LIABILITIES		32,474	45,748	44		78,266
Total liabilities		6,242,679	216,613	27,695	(1,727)	6,485,260
STOCKHOLDERS (DEFICIT) EQUITY	(336,381)	(219,691)	7,419,323	276,479	(7,476,111)	(336,381)
TOTAL LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY	\$ (336,381)	\$ 6,022,988	\$ 7,635,936	\$ 304,174	\$ (7,477,838)	\$ 6,148,879

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME****FOR THE TWENTY-SIX WEEK PERIOD ENDED MARCH 29, 2014**

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET SALES	\$	\$ 59,065	\$ 975,281	\$ 90,395	\$ (4,658)	\$ 1,120,083
COST OF SALES		35,692	432,613	64,941	(4,881)	528,365
GROSS PROFIT		23,373	542,668	25,454	223	591,718
SELLING AND ADMINISTRATIVE EXPENSES		29,740	84,867	14,008		128,615
AMORTIZATION OF INTANGIBLE ASSETS		694	31,118	2,171		33,983
INCOME (LOSS) FROM OPERATIONS		(7,061)	426,683	9,275	223	429,120
INTEREST EXPENSE - Net		162,134	94	914		163,142
EQUITY IN INCOME OF SUBSIDIARIES	(176,478)	(275,926)			452,404	
INCOME BEFORE INCOME TAXES	176,478	106,731	426,589	8,361	(452,181)	265,978
INCOME TAX PROVISION (BENEFIT)		(69,747)	153,204	6,043		89,500
NET INCOME	\$ 176,478	\$ 176,478	\$ 273,385	\$ 2,318	\$ (452,181)	\$ 176,478
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	5,885	(343)	1,018	5,111	(5,786)	5,885
TOTAL COMPREHENSIVE INCOME	\$ 182,363	\$ 176,135	\$ 274,403	\$ 7,429	\$ (457,967)	\$ 182,363

Table of Contents

TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

FOR THE TWENTY-SIX WEEK PERIOD ENDED MARCH 30, 2013

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET SALES	\$	\$ 52,286	\$ 789,907	\$ 57,361	\$ (3,527)	\$ 896,027
COST OF SALES		30,361	331,306	39,693	(3,190)	398,170
GROSS PROFIT		21,925	458,601	17,668	(337)	497,857
SELLING AND ADMINISTRATIVE EXPENSES		31,641	70,430	8,553		110,624
AMORTIZATION OF INTANGIBLE ASSETS		312	19,084	879		20,275
INCOME (LOSS) FROM OPERATIONS		(10,028)	369,087	8,236	(337)	366,958
INTEREST EXPENSE - Net		125,152	1,243	575		126,970
REFINANCING COSTS		30,281				30,281
EQUITY IN INCOME OF SUBSIDIARIES	(142,107)	(236,038)			378,145	
INCOME BEFORE INCOME TAXES	142,107	70,577	367,844	7,661	(378,482)	209,707
INCOME TAX PROVISION (BENEFIT)		(71,530)	136,836	2,294		67,600
NET INCOME	\$ 142,107	\$ 142,107	\$ 231,008	\$ 5,367	\$ (378,482)	\$ 142,107
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(7,487)	(545)	(1,790)	(5,152)	7,487	(7,487)
TOTAL COMPREHENSIVE INCOME	\$ 134,620	\$ 141,562	\$ 229,218	\$ 215	\$ (370,995)	\$ 134,620

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE TWENTY-SIX WEEK PERIOD ENDED MARCH 29, 2014**

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Total Consolidated
NET CASH PROVIDED BY (USED IN)						
OPERATING ACTIVITIES	\$	\$ (74,534)	\$ 279,875	\$ 21,275	\$ (6,128)	\$ 220,488
INVESTING ACTIVITIES:						
Capital expenditures		(1,573)	(14,669)	(1,467)		(17,709)
Cash proceeds from sale of real estate			16,380			16,380
Acquisition of business, net of cash acquired		(311,016)				(311,016)
Net cash (used in) provided by investing activities		(312,589)	1,711	(1,467)		(312,345)
FINANCING ACTIVITIES:						
Intercompany activities	(11,258)	292,401	(289,119)	(9,949)	17,925	
Excess tax benefits related to share-based payment arrangements	10,698					10,698
Proceeds from exercise of stock options	9,422					9,422
Dividends paid	(9,625)					(9,625)
Repayment on 2013 credit facility		(7,761)				(7,761)
Other		(78)				(78)
Net cash provided by (used in) financing activities	(763)	284,562	(289,119)	(9,949)	17,925	2,656
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS						
				152		152
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(763)	(102,561)	(7,533)	10,011	11,797	(89,049)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,313	536,863	7,900	18,664		564,740
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 550	\$ 434,302	\$ 367	\$ 28,675	\$ 11,797	\$ 475,691

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE TWENTY-SIX WEEK PERIOD ENDED MARCH 30, 2013**

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET CASH PROVIDED BY (USED IN)						
OPERATING ACTIVITIES	\$	\$ (55,398)	\$ 240,872	\$ 4,885	\$ 6,930	\$ 197,289
INVESTING ACTIVITIES:						
Capital expenditures		(1,105)	(14,308)	(903)		(16,316)
Acquisition of businesses, net of cash acquired		(8,367)				(8,367)
Cash proceeds from sale of investment		10,500				10,500
Net cash provided by (used in) investing activities		1,028	(14,308)	(903)		(14,183)
FINANCING ACTIVITIES:						
Intercompany activities	644,459	(408,158)	(226,417)	(2,954)	(6,930)	
Excess tax benefits related to share-based payment arrangements	40,044					40,044
Proceeds from exercise of stock options	12,919					12,919
Dividends paid	(702,406)					(702,406)
Proceeds from 2013 credit facility-net		2,191,127				2,191,127
Repayment on 2013 credit facility		(5,500)				(5,500)
Proceeds from 2011 credit facility-net		147,360				147,360
Repayment on 2011 credit facility		(2,169,125)				(2,169,125)
Proceeds from senior subordinated notes due 2020-net		542,000				542,000
Net cash provided by (used in) financing activities	(4,984)	297,704	(226,417)	(2,954)	(6,930)	56,419
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS						
				(25)		(25)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,984)	243,334	147	1,003		239,500
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	20,100	406,891	4,494	9,039		440,524
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 15,116	\$ 650,225	\$ 4,641	\$ 10,042	\$	\$ 680,024

* * * * *

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, seatbelts and safety restraints, engineered interior surfaces, lighting and control technology and military personnel parachutes and cargo delivery systems. 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 second quarter of fiscal 2014, we generated net sales of \$590.8 million and net income of \$90.4 million. EBITDA As Defined was \$263.0 million, or 44.5% 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

Elektro-Metall Export GmbH Acquisition

On March 6, 2014, TransDigm Germany GmbH, a newly formed subsidiary of TransDigm Inc., acquired Elektro-Metall Export GmbH (EME) for approximately \$49.5 million, which comprises \$40.3 million in cash plus the assumption of approximately \$9.2 million of net indebtedness. EME manufactures proprietary, highly engineered aerospace electromechanical actuators, electrical and electromechanical components and assemblies for commercial aircraft, helicopters and other specialty applications. These products fit well with TransDigm's overall business direction. EME is included in TransDigm's Power & Control segment. The Company is in the process of obtaining information to value certain tangible and intangible assets of EME, and therefore the consolidated financial statements at March 29, 2014 reflect a preliminary purchase price allocation for the business.

Airborne Global Inc. Acquisition

On December 19, 2013, TransDigm Inc. acquired all of the outstanding stock of Airborne Global Inc. (Airborne), for approximately \$263.8 million in cash, which comprises the \$250 million contract price plus estimated cash and working capital at closing and which is subject to adjustments based on the actual level of cash and working capital as of the closing date of the acquisition. Airborne is the industry leading designer and manufacturer of personnel parachutes, cargo aerial delivery systems, emergency escape systems, naval decoys and other related products. These products fit well with TransDigm's overall business direction. Airborne is included in TransDigm's Airframe segment. The Company is in the process of obtaining information to value certain tangible and intangible assets of Airborne, and therefore the consolidated financial statements at March 29, 2014 reflect a preliminary purchase price allocation for the business.

Whippany Actuation Systems, LLC Acquisition

On June 28, 2013, Whippany Actuation Systems, LLC, a newly formed, wholly owned subsidiary of TransDigm Inc., acquired assets from GE Aviation's Electromechanical Actuation Division (Whippany Actuation) for approximately \$151.5 million in cash, which includes a purchase price adjustment of \$2.7 million paid in the first quarter of fiscal 2014. Whippany Actuation manufactures proprietary, highly engineered aerospace electromechanical motion control subsystems for civil and military applications, with product offerings including control electronics, motors, high power mechanical transmissions and actuators. These products fit well with TransDigm's overall business direction. Whippany Actuation is included in TransDigm's Power & Control segment. The Company is in the process of obtaining information to value certain tangible and intangible assets of Whippany Actuation, and therefore the consolidated financial statements at March 29, 2014 reflect a preliminary purchase price allocation for the business.

Arkwin Industries, Inc. Acquisition

On June 5, 2013, TransDigm Inc. acquired all of the outstanding stock of Arkwin Industries, Inc. (Arkwin), for approximately \$285.7 million in cash, which includes a purchase price adjustment of \$0.2 million received in the fourth quarter of fiscal 2013. Arkwin manufactures proprietary, highly engineered aerospace hydraulic and fuel system components for commercial and military aircraft, helicopters and other specialty applications. These products fit well with TransDigm's overall business direction. Arkwin is included in TransDigm's Power & Control segment. The Company is in the process of obtaining information to value certain tangible and intangible assets of Arkwin, and therefore the consolidated financial statements at March 29, 2014 reflect a preliminary purchase price allocation for the business.

Aerosonic Corporation Acquisition

On June 5, 2013, Buccaneer Acquisition Sub Inc., a newly formed subsidiary of TransDigm Inc., completed the tender offer of a majority of the outstanding stock of Aerosonic Corporation (Aerosonic). Buccaneer Acquisition Sub Inc. was subsequently merged into Aerosonic on June 10, 2013; in connection therewith, all outstanding shares of Aerosonic were cancelled and Aerosonic became a wholly owned subsidiary of TransDigm Inc. The aggregate price paid in the tender offer and merger was approximately \$39.8 million in cash. Aerosonic designs and manufactures proprietary, highly engineered mechanical and digital altimeters, airspeed indicators, rate of climb indicators, microprocessor controlled air data test sets, angle of attack stall warning systems, integrated air data sensors and other aircraft sensors, monitoring systems and flight instrumentation for use on commercial and military aircraft. These products fit well with TransDigm's overall business direction. Aerosonic is included in TransDigm's Airframe segment. The Company is in the process of obtaining information to value certain tangible and intangible assets of Aerosonic, and therefore the consolidated financial statements at March 29, 2014 reflect a preliminary purchase price allocation for the business.

Non-GAAP Financial Measures

Edgar Filing: TransDigm Group INC - Form 10-Q

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.

-20-

Table of Contents

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 the revolving credit facility under our senior secured credit facility requires compliance under certain circumstances, 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.

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;

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. Our calculation of EBITDA and EBITDA As Defined may not be comparable to the calculation of similarly titled measures reported by other companies.

Table of Contents

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

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
	(in thousands)		(in thousands)	
Net income	\$ 90,355	\$ 67,937	\$ 176,478	\$ 142,107
Adjustments:				
Depreciation and amortization expense	25,881	16,321	49,720	33,773
Interest expense, net	82,289	64,094	163,142	126,970
Income tax provision	45,850	31,800	89,500	67,600
 EBITDA	 244,375	 180,152	 478,840	 370,450
Adjustments:				
Inventory purchase accounting adjustments ⁽¹⁾	5,953		8,391	890
Acquisition integration costs ⁽²⁾	2,960	1,027	4,738	2,946
Acquisition transaction-related expenses ⁽³⁾	2,326	681	3,027	1,339
Non-cash stock compensation expense ⁽⁴⁾	8,158	7,131	12,333	14,262
Net gain on sale of real estate	(804)		(804)	
Refinancing costs ⁽⁵⁾		30,281		30,281
 EBITDA As Defined	 \$ 262,968	 \$ 219,272	 \$ 506,525	 \$ 420,168

- (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 debt issue costs expensed in conjunction with the refinancing of our 2010 Credit Facility and 2011 Credit Facility in February 2013.

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):

	Twenty-Six Week Period Ended	
	March 29, 2014	March 30, 2013
	(in thousands)	
Net Cash Provided by Operating Activities	\$ 220,488	\$ 197,289
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions of businesses	6,841	(4,462)
Net gain on sale of real estate	804	
Interest expense, net ⁽¹⁾	156,712	120,004
Income tax provision - current	95,630	62,118
Non-cash stock compensation expense ⁽²⁾	(12,333)	(14,262)
Excess tax benefit from exercise of stock options	10,698	40,044
Refinancing costs ⁽⁶⁾		(30,281)
EBITDA	478,840	370,450
Adjustments:		
Inventory purchase accounting adjustments ⁽³⁾	8,391	890
Acquisition integration costs ⁽⁴⁾	4,738	2,946
Acquisition transaction-related expenses ⁽⁵⁾	3,027	1,339
Non-cash stock compensation expense ⁽²⁾	12,333	14,262
Net gain on sale of real estate	(804)	
Refinancing costs ⁽⁶⁾		30,281
EBITDA As Defined	\$ 506,525	\$ 420,168

(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 option plans.

(3) 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.

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

(5) 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.

(6) Represents debt issue costs expensed in conjunction with the refinancing of our 2010 Credit Facility and 2011 Credit Facility in February 2013.

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, 2013. There have been no significant changes to our critical accounting policies during the twenty-six week period ended March 29, 2014.

Table of Contents**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):

	March 29, 2014	Thirteen Week Periods Ended		March 30, 2013	% of Sales
		% of Sales	% of Sales		
Net sales	\$ 590,761	100.0%	\$ 465,609	100.0%	
Cost of sales	283,179	47.9	206,299	44.3	
Selling and administrative expenses	71,488	12.1	55,463	11.9	
Amortization of intangible assets	17,600	3.0	9,735	2.1	
Income from operations	218,494	37.0	194,112	41.7	
Interest expense, net	82,289	13.9	64,094	13.8	
Refinancing costs			30,281	6.5	
Income tax provision	45,850	7.8	31,800	6.8	
Net income	\$ 90,355	15.3%	\$ 67,937	14.6%	

	March 29, 2014	Twenty-Six Week Periods Ended		March 30, 2013	% of Sales
		% of Sales	% of Sales		
Net sales	\$ 1,120,083	100.0%	\$ 896,027	100.0%	
Cost of sales	528,365	47.2	398,170	44.4	
Selling and administrative expenses	128,615	11.5	110,624	12.3	
Amortization of intangible assets	33,983	3.0	20,275	2.3	
Income from operations	429,120	38.3	366,958	41.0	
Interest expense, net	163,142	14.5	126,970	14.2	
Refinancing costs			30,281	3.4	
Income tax provision	89,500	8.0	67,600	7.5	
Net income	\$ 176,478	15.8%	\$ 142,107	15.9%	

Changes in Results of Operations

Thirteen week period ended March 29, 2014 compared with the thirteen week period ended March 30, 2013.

Total Company

Net Sales. Net organic sales and acquisition sales and the related dollar and percentage changes for the thirteen week periods ended March 29, 2014 and March 30, 2013 were as follows (amounts in millions):

	Thirteen Week Periods Ended			% Change Total Sales
	March 29, 2014	March 30, 2013	Change	
Organic sales	\$ 493.9	\$ 465.6	\$ 28.3	6.1%
Acquisition sales	96.9		96.9	20.8%
	\$ 590.8	\$ 465.6	\$ 125.2	26.9%

Edgar Filing: TransDigm Group INC - Form 10-Q

Commercial OEM sales increased \$15.5 million, or 10.8%, commercial aftermarket sales increased \$15.5 million, or 8.5%, and defense sales decreased \$0.8 million, or 0.8%, for the quarter ended March 29, 2014 compared to the quarter ended March 30, 2013.

Acquisition sales represent sales of acquired businesses for the period up to one year subsequent to their acquisition dates. The amount of acquisition sales shown in the table above was mainly attributable to the acquisitions of Airborne in fiscal 2014 and Whippany Actuation, Arkwin and Aerosonic in fiscal 2013.

Table of Contents

Cost of Sales and Gross Profit. Cost of sales increased by \$76.9 million, or 37.3%, to \$283.2 million for the quarter ended March 29, 2014 compared to \$206.3 million for the quarter ended March 30, 2013. Cost of sales and the related percentage of total sales for the thirteen week periods ended March 29, 2014 and March 30, 2013 were as follows (amounts in millions):

	Thirteen Week Periods Ended		Change	% Change
	March 29, 2014	March 30, 2013		
Cost of sales - excluding acquisition-related costs below	\$ 274.4	\$ 204.2	\$ 70.2	34.4%
% of total sales	46.4%	43.9%		
Inventory purchase accounting adjustments	6.0		6.0	100.0%
% of total sales	1.0%	0.0%		
Acquisition integration costs	1.6	1.0	0.6	60.0%
% of total sales	0.3%	0.2%		
Stock compensation expense	1.2	1.1	0.1	9.1%
% of total sales	0.2%	0.2%		
Total cost of sales	\$ 283.2	\$ 206.3	\$ 76.9	37.3%
% of total sales	47.9%	44.3%		
Gross profit	\$ 307.6	\$ 259.3	\$ 48.3	18.6%
Gross profit percentage	52.1%	55.7%		

The increase in the dollar amount of cost of sales during the thirteen week period ended March 29, 2014 was primarily due to increased volume associated with the sales from acquisitions and organic sales growth as well as higher acquisition-related costs as shown in the table above.

Gross profit as a percentage of sales decreased by 3.6 percentage points to 52.1% for the thirteen week period ended March 29, 2014 from 55.7% for the thirteen week period ended March 30, 2013. The dollar amount of gross profit increased by \$48.3 million, or 18.6%, for the quarter ended March 29, 2014 compared to the comparable quarter last year due to the following items:

Gross profit on the sales from the acquisitions indicated above (excluding acquisition-related costs) was approximately \$36 million for the quarter ended March 29, 2014, which represented gross profit of approximately 37% of the acquisition sales.

Organic sales growth described above, 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), and positive leverage on our fixed overhead costs spread over a higher production volume, resulted in a net increase in gross profit of approximately \$19 million for the quarter ended March 29, 2014.

The gross profit increase described above was partially offset by higher inventory purchase accounting adjustments and acquisition integration costs charged to cost of sales of approximately \$7 million for the quarter ended March 29, 2014.

Table of Contents

Selling and Administrative Expenses. Selling and administrative expenses increased by \$16.0 million to \$71.5 million, or 12.1% of sales, for the thirteen week period ended March 29, 2014 from \$55.5 million, or 11.9% of sales, for the thirteen week period ended March 30, 2013. Selling and administrative expenses and the related percentage of total sales for the thirteen week periods ended March 29, 2014 and March 30, 2013 were as follows (amounts in millions):

	Thirteen Week Periods Ended		Change	% Change
	March 29, 2014	March 30, 2013		
Selling and administrative expenses - excluding costs below	\$ 61.8	\$ 48.7	\$ 13.1	26.9%
% of total sales	10.5%	10.5%		
Stock compensation expense	6.9	6.1	0.8	13.1%
% of total sales	1.2%	1.3%		
Acquisition related expenses	2.8	0.7	2.1	300.0%
% of total sales	0.5%	0.2%		
Total selling and administrative expenses	\$ 71.5	\$ 55.5	\$ 16.0	28.8%
% of total sales	12.1%	11.9%		

The increase in the dollar amount of selling and administrative expenses during the quarter ended March 29, 2014 is primarily due to higher selling and administrative expenses relating to recent acquisitions of approximately \$11 million, which was approximately 11% of the acquisition sales, and increased acquisition related expenses of approximately \$2.1 million.

Amortization of Intangible Assets. Amortization of intangible assets increased to \$17.6 million for the quarter ended March 29, 2014 from \$9.7 million for the comparable quarter last year. The net increase of \$7.9 million was primarily due to amortization expense related to the additional identifiable intangible assets recognized in connection with acquisitions during the last twelve months partially offset by order backlog from prior acquisitions becoming fully amortized.

Refinancing Costs. Refinancing costs of \$30.3 million were recorded during the quarter ended March 30, 2013 representing debt issue costs expensed in conjunction with the refinancing of our 2010 Credit Facility and 2011 Credit Facility in February 2013.

Interest Expense-net. Interest expense-net includes interest on outstanding borrowings, amortization of debt issue costs and revolving credit facility fees offset by interest income. Interest expense-net increased \$18.2 million, or 28.4%, to \$82.3 million for the quarter ended March 29, 2014 from \$64.1 million for the comparable quarter last year. The net increase in interest expense-net was primarily due to an increase in the weighted average level of outstanding borrowings, which was approximately \$5.72 billion for the quarter ended March 29, 2014 and approximately \$4.33 billion for the quarter ended March 30, 2013. The increase in borrowings was primarily due to additional borrowings of \$36.4 million relating to our refinancing of the 2011 Credit Facility in February 2013, additional borrowings of \$900 million relating to the Incremental Term Facility in July 2013 and the issuance in July 2013 of our \$500 million 2021 Notes. The weighted average interest rate for cash interest payments on total outstanding borrowings was 5.4% at March 29, 2014 and 5.5% at March 30, 2013.

Income Taxes. Income tax expense as a percentage of income before income taxes was approximately 33.7% for the quarter ended March 29, 2014 compared to 31.9% for the quarter ended March 30, 2013. The Company's effective tax rate for these periods was less than the Federal statutory tax rate due primarily to the domestic manufacturing deduction. The lower effective tax rate for the quarter ended March 30, 2013 was primarily due to non-recurring adjustments related to the retroactive reinstatement of the research and development tax credit.

Edgar Filing: TransDigm Group INC - Form 10-Q

Net Income. Net income increased \$22.5 million, or 33.1%, to \$90.4 million for the quarter ended March 29, 2014 compared to net income of \$67.9 million for the quarter ended March 30, 2013, primarily as a result of the factors referred to above.

Earnings per Share. The basic and diluted earnings per share were \$1.49 for the quarter ended March 29, 2014 and \$1.25 per share for the quarter ended March 30, 2013. Net income for the thirteen week period ended March 29, 2014 of \$90.4 million was decreased by an allocation of dividends on participating securities of \$5.5 million, or \$0.10 per share, resulting in net income available to common shareholders of \$84.9 million. The increase in earnings per share of \$0.24 per share to \$1.49 per share is a result of the factors referred to above.

Table of Contents**Business Segments**

Segment Net Sales. Net sales by segment for the thirteen week periods ended December 28, 2013 and December 29, 2012 as follows (amounts in millions):

	Thirteen Week Periods Ended					
	March 29, 2014	% of Sales	March 30, 2013	% of Sales	Change	% Change
Power & Control	\$ 258.4	43.7%	\$ 204.0	43.8%	\$ 54.4	26.7%
Airframe	308.2	52.2%	236.3	50.8%	71.9	30.4%
Non-aviation	24.2	4.1%	25.3	5.4%	(1.1)	-4.3%
	\$ 590.8	100.0%	\$ 465.6	100.0%	\$ 125.2	26.9%

Acquisition sales for the Power & Control segment totaled \$47.8 million, or an increase of 23.4%, resulting from the acquisitions in fiscal 2013. Organic sales increased \$6.6 million when compared to the quarter ended March 30, 2013. The organic sales increase was primarily due to an increase in commercial aftermarket sales of \$6.4 million, or 7.6%, and an increase in defense sales of \$1.0 million, or 1.3%, partially offset by a decrease in commercial OEM sales of \$1.3 million, or 3.5%.

Acquisition sales for the Airframe segment totaled \$48.3 million, or an increase of 20.4%, resulting from the acquisitions in fiscal 2013 and fiscal 2014. Organic sales increased \$23.6 million when compared to the quarter ended March 30, 2013. The organic sales increase was primarily due to an increase in commercial OEM sales of \$16.7 million, or 16.1%, and an increase in commercial aftermarket sales of \$9.1 million, or 9.1%, partially offset by a decrease in defense sales of \$1.9 million, or 6.1%.

Acquisition sales for the Non-aviation segment totaled \$0.8 million, or an increase of 3.0%. Organic sales declined \$1.9 million, or 7.4%.

EBITDA As Defined. EBITDA As Defined by segment for the thirteen week periods ended March 29, 2014 and March 30, 2013 were as follows (amounts in millions):

	Thirteen Week Periods Ended					
	March 29, 2014	% of Segment Sales	March 30, 2013	% of Segment Sales	Change	% Change
Power & Control	\$ 132.7	51.4%	\$ 109.2	53.5%	\$ 23.5	21.5%
Airframe	130.9	42.5%	110.6	46.8%	20.3	18.4%
Non-aviation	5.1	21.1%	5.8	22.9%	(0.7)	-12.1%
	\$ 268.7	45.5%	\$ 225.6	48.5%	\$ 43.1	19.1%

EBITDA As Defined for the Power & Control segment from the acquisitions in fiscal 2013 was approximately \$16.6 million for the quarter ended March 29, 2014. Organic EBITDA As Defined growth was \$6.9 million when compared to the quarter ended March 30, 2013.

EBITDA As Defined for the Airframe segment from the acquisitions in fiscal 2014 and fiscal 2013 was approximately \$10.3 million for the quarter ended March 29, 2014. Organic EBITDA As Defined increased approximately \$10.0 million.

EBITDA As Defined for the Non-aviation segment from acquisitions was approximately \$0.2 million for the quarter ended March 29, 2014. Organic EBITDA As Defined decreased approximately \$0.9 million.

Twenty-six week period ended March 29, 2014 compared with the twenty-six week period ended March 30, 2013.

Total Company

Net Sales. Net organic sales and acquisition sales and the related dollar and percentage changes for the twenty-six week periods ended March 29, 2014 and March 30, 2013 were as follows (amounts in millions):

	Twenty-Six Week Periods Ended			% Change Total Sales
	March 29, 2014	March 30, 2013	Change	
Organic sales	\$ 963.4	\$ 896.0	\$ 67.4	7.5%
Acquisition sales	156.7		156.7	17.5%
	\$ 1,120.1	\$ 896.0	\$ 224.1	25.0%

Table of Contents

Commercial OEM sales increased \$29.7 million, or 11.3%, commercial aftermarket sales increased \$26.3 million, or 7.2%, and defense sales increased \$14.5 million, or 6.9%, for the twenty-six week period ended March 29, 2014 compared to the twenty-six week ended March 30, 2013.

Acquisition sales represent sales of acquired businesses for the period up to one year subsequent to their acquisition dates. The amount of acquisition sales shown in the table above was mainly attributable to the acquisitions of Airborne in fiscal 2014 and Whippany Actuation, Arkwin and Aerosonic in fiscal 2013.

Cost of Sales and Gross Profit. Cost of sales increased by \$130.2 million, or 32.7%, to \$528.4 million for the twenty-six week period ended March 29, 2014 compared to \$398.2 million for the twenty-six period ended March 30, 2013. Cost of sales and the related percentage of total sales for the twenty-six week periods ended March 29, 2014 and March 30, 2013 were as follows (amounts in millions):

	Twenty-Six Week Periods Ended		Change	% Change
	March 29, 2014	March 30, 2013		
Cost of sales - excluding acquisition-related costs below	\$ 514.8	\$ 392.4	\$ 122.4	31.2%
% of total sales	46.0%	43.8%		
Inventory purchase accounting adjustments	8.4	0.9	7.5	833.3%
% of total sales	0.7%	0.1%		
Acquisition integration costs	3.3	2.8	0.5	17.9%
% of total sales	0.3%	0.3%		
Stock compensation expense	1.9	2.1	(0.2)	-9.5%
% of total sales	0.2%	0.2%		
Total cost of sales	\$ 528.4	\$ 398.2	\$ 130.2	32.7%
% of total sales	47.2%	44.4%		
Gross profit	\$ 591.7	\$ 497.9	\$ 93.8	18.9%
Gross profit percentage	52.8%	55.6%		

The increase in the dollar amount of cost of sales during the twenty-six week period ended March 29, 2014 was primarily due to increased volume associated with the sales from acquisitions and organic sales growth as well as higher acquisition-related costs as shown in the table above.

Gross profit as a percentage of sales decreased by 2.8 percentage points to 52.8% for the twenty-six week period ended March 29, 2014 from 55.6% for the twenty-six week period ended March 30, 2013. The dollar amount of gross profit increased by \$93.8 million, or 18.9%, for the twenty-six week period ended March 29, 2014 compared to the comparable twenty-six week period last year due to the following items:

Gross profit on the sales from the acquisitions indicated above (excluding acquisition-related costs) was approximately \$59 million for the twenty-six week period ended March 29, 2014, which represented gross profit of approximately 38% of the acquisition sales.

Organic sales growth described above, 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), and positive leverage on our fixed overhead costs spread over a higher production volume, resulted in a net increase in gross profit of

Edgar Filing: TransDigm Group INC - Form 10-Q

approximately \$43 million for the twenty-six week period ended March 29, 2014.

The gross profit increase described above was partially offset by higher inventory purchase accounting adjustments and acquisition integration costs charged to cost of sales of approximately \$8 million for the twenty-six week period ended March 29, 2014.

-28-

Table of Contents

Selling and Administrative Expenses. Selling and administrative expenses increased by \$18.0 million to \$128.6 million, or 11.5% of sales, for the twenty-six week period ended March 29, 2014 from \$110.6 million, or 12.3% of sales, for the twenty-six week period ended March 30, 2013. Selling and administrative expenses and the related percentage of total sales for the twenty-six week periods ended March 29, 2014 and March 30, 2013 were as follows (amounts in millions):

	Twenty-Six Week Periods Ended			
	March 29, 2014	March 30, 2013	Change	% Change
Selling and administrative expenses - excluding costs below	\$ 114.5	\$ 97.0	\$ 17.5	18.0%
% of total sales	10.2%	10.8%		
Stock compensation expense	10.5	12.1	(1.6)	-13.2%
% of total sales	0.9%	1.4%		
Acquisition related expenses	3.6	1.5	2.1	140.0%
% of total sales	0.3%	0.1%		
Total selling and administrative expenses	\$ 128.6	\$ 110.6	\$ 18.0	16.3%
% of total sales	11.5%	12.3%		

The increase in the dollar amount of selling and administrative expenses during the twenty-six week period ended March 29, 2014 is primarily due to higher selling and administrative expenses relating to recent acquisitions of approximately \$16 million, which was approximately 10% of the acquisition sales, and higher acquisition related expenses of \$2.1 million partially offset by lower stock compensation expense of approximately \$1.6 million.

Amortization of Intangible Assets. Amortization of intangible assets increased to \$34.0 million for the twenty-six week period ended March 29, 2014 from \$20.3 million for the comparable twenty-six week period last year. The net increase of \$13.7 million was primarily due to amortization expense related to the additional identifiable intangible assets recognized in connection with acquisitions during the last twelve months partially offset by order backlog from prior acquisitions becoming fully amortized.

Refinancing Costs. Refinancing costs of \$30.3 million were recorded during the twenty-six week period ended March 30, 2013 representing debt issue costs expensed in conjunction with the refinancing of our 2010 Credit Facility and 2011 Credit Facility in February 2013.

Interest Expense-net. Interest expense-net includes interest on outstanding borrowings, amortization of debt issue costs and revolving credit facility fees offset by interest income. Interest expense-net increased \$36.1 million, or 28.4%, to \$163.1 million for the twenty-six week period ended March 29, 2014 from \$127.0 million for the comparable twenty-six week period last year. The net increase in interest expense-net was primarily due to an increase in the weighted average level of outstanding borrowings, which was approximately \$5.73 billion for the twenty-six week period ended March 29, 2014 and approximately \$4.27 billion for the twenty-six week period ended March 30, 2013. The increase in borrowings was primarily due to the additional \$150 million term loan facility under the amendments to our 2011 Credit Facility which occurred in October 2012, additional borrowings of \$36.4 million relating to our refinancing of the 2011 Credit Facility in February 2013, additional borrowings of \$900 million relating to the Incremental Term Facility in July 2013, the issuance in October 2012 of our \$550 million 2020 Notes and the issuance in July 2013 of our \$500 million 2021 Notes. The weighted average interest rate for cash interest payments on total outstanding borrowings was 5.4% at March 29, 2014 and 5.5% at March 30, 2013.

Income Taxes. Income tax expense as a percentage of income before income taxes was approximately 33.6% for the twenty-six week period ended March 29, 2014 compared to 32.2% for the twenty-six week period ended March 30, 2013. The Company's effective tax rate for these periods was less than the Federal statutory tax rate due primarily to the domestic manufacturing deduction. The lower effective tax rate for the twenty-six week period ended March 30, 2013 was primarily due to non-recurring adjustments related to the retroactive reinstatement of the research and development tax credit.

Edgar Filing: TransDigm Group INC - Form 10-Q

Net Income. Net income increased \$34.4 million, or 24.2%, to \$176.5 million for the twenty-six week period ended March 29, 2014 compared to net income of \$142.1 million for the twenty-six week period ended March 30, 2013, primarily as a result of the factors referred to above.

Earnings per Share. The basic and diluted earnings per share were \$2.93 for the twenty-six week period ended March 29, 2014 and \$1.91 per share for the twenty-six week period ended March 30, 2013. Net income for the twenty-six week period ended March 29, 2014 of \$176.5 million was decreased by an allocation of dividends on participating securities of \$9.6 million, or \$0.17 per share, resulting in net income available to common shareholders of \$166.9 million. Net income for the thirteen week period ended March 30, 2013 of \$142.1 million was decreased by an allocation of dividends on participating securities of \$38.1 million, or \$0.70 per share, resulting in net income available to common shareholders of \$104.0 million. The increase in earnings per share of \$1.02 per share to \$2.93 per share is a result of the factors referred to above.

-29-

Table of Contents**Business Segments**

Segment Net Sales. Net sales by segment for the twenty-six week periods ended March 29, 2014 and March 30, 2013 as follows (amounts in millions):

	Twenty-Six Week Periods Ended					
	March 29, 2014	% of Sales	March 30, 2014	% of Sales	Change	% Change
Power & Control	\$ 509.6	45.5%	\$ 397.9	44.4%	\$ 111.7	28.1%
Airframe	562.9	50.3%	451.2	50.4%	111.7	24.8%
Non-aviation	47.6	4.2%	46.9	5.2%	0.7	1.5%
	\$ 1,120.1	100.0%	\$ 896.0	100.0%	\$ 224.1	25.0%

Acquisition sales for the Power & Control segment totaled \$97.5 million, or an increase of 24.5%, resulting from the acquisitions in fiscal 2013. Organic sales increased \$14.2 million when compared to the twenty-six week period ended March 30, 2013. The organic sales increase was primarily due to an increase in commercial aftermarket sales of \$9.6 million, or 5.7%, and an increase in defense sales of \$5.9 million, or 4.0%, partially offset by a decrease in commercial OEM sales of \$2.0 million, or 2.8%.

Acquisition sales for the Airframe segment totaled \$56.4 million, or an increase of 12.5%, resulting from the acquisitions in fiscal 2014 and fiscal 2013. Organic sales increased \$55.3 million when compared to the twenty-six week period ended March 30, 2013. The organic sales increase was primarily due to an increase in commercial OEM sales of \$29.7 million, or 15.8%, an increase in commercial aftermarket sales of \$16.8 million, or 8.4%, and an increase in defense sales of \$9.3 million, or 15.4%. The increase in defense sales was primarily due to \$11.4 million of shipments of the new Tarian product to the U.K. Ministry of Defense.

Acquisition sales for the Non-aviation segment totaled \$2.8 million, or an increase of 6.0%. Organic sales declined \$2.1 million, or 4.5%.

EBITDA As Defined. EBITDA As Defined by segment for the twenty-six week periods ended March 29, 2014 and March 30, 2013 were as follows (amounts in millions):

	Twenty-Six Week Periods Ended					
	March 29, 2014	% of Segment Sales	March 30, 2013	% of Segment Sales	Change	% Change
Power & Control	\$ 261.6	51.3%	\$ 212.3	53.4%	\$ 49.3	23.2%
Airframe	245.4	43.6%	209.5	46.4%	35.9	17.1%
Non-aviation	10.2	21.4%	10.2	21.7%		0.0%
	\$ 517.2	46.2%	\$ 432.0	48.2%	\$ 85.2	19.7%

EBITDA As Defined for the Power & Control segment from the acquisitions in fiscal 2013 was approximately \$33.4 million for the twenty-six week period ended March 29, 2014. Organic EBITDA As Defined growth was \$15.9 million when compared to the twenty-six week period ended March 30, 2013.

EBITDA As Defined for the Airframe segment from the acquisition in fiscal 2013 was approximately \$12.1 million for the twenty-six week period ended March 29, 2014. Organic EBITDA As Defined increased approximately \$23.8 million.

EBITDA As Defined for the Non-aviation segment from acquisitions was approximately \$0.4 million for the twenty-six week period ended March 29, 2014. Organic EBITDA As Defined decreased approximately \$0.4 million.

Backlog

As of March 29, 2014, the Company estimated its sales order backlog at \$1,253 million compared to an estimated sales order backlog of \$895 million as of March 30, 2013. The increase in backlog is primarily due to acquisitions, totaling approximately \$314 million. The majority of the purchase orders outstanding as of March 29, 2014 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 March 29, 2014 may not necessarily represent the actual amount of shipments or sales for any future period.

Table of Contents

Foreign Operations

Although we manufacture a significant portion of our products in the United States, we manufacture some products in Belgium, China, Germany, Hungary, Malaysia, Mexico, Sri Lanka and the United Kingdom. We sell our products in the United States as well as in foreign countries. Although the majority of sales of our products are made to customers including distributors located in the United States, our products are ultimately sold to and used by customers, including airlines and other end users of aircraft, throughout the world. 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 \$220.5 million of net cash from operating activities during the twenty-six week period ended March 29, 2014 compared to \$197.3 million during the twenty-six week period ended March 30, 2013. The net increase of \$23.2 million was due primarily to an increase in income from operations offset by higher payments for interest and income taxes during the period.

Investing Activities. Net cash used in investing activities was \$312.3 million during the twenty-six week period ended March 29, 2014 consisting primarily of the acquisitions of Airborne and EME, capital expenditures of \$17.7 million, and cash paid for working capital settlements of \$2.7 million partially offset by net proceeds from the sale of real estate of \$16.4 million. Net cash used in investing activities was \$14.2 million during the twenty-six week period ended March 30, 2013 consisting primarily of acquisitions and capital expenditures of \$24.7 million partially offset by the cash proceeds of \$10.5 million from the sale of an equity investment.

Financing Activities. Net cash provided by financing activities during the twenty-six week period ended March 29, 2014 was \$2.7 million, which primarily comprised \$20.1 million of cash for tax benefits related to share-based payment arrangements and from the exercise of stock options partially offset by \$9.6 million of dividend equivalent payments and \$7.8 million repayment on the 2013 Credit Facility.

Net cash provided by financing activities during the twenty-six week period ended March 30, 2013 was \$56.4 million, which comprised \$2,191.1 million of net proceeds from our 2013 Credit Facility, \$147.4 million of additional net proceeds from the Amendment under our 2011 Credit Facility, \$542.0 million of net proceeds from our 5 1/2% Senior Subordinated Notes due 2020 and \$52.9 million of cash for tax benefits related to share-based payment arrangements and from the exercise of stock options offset by \$5.5 million repayment on the 2013 Credit Facility, the repayment of our 2011 Credit Facility of \$2,169.1 million and \$702.4 million of dividend and dividend equivalent payments.

Description of Senior Secured Credit Facilities and Indentures

Senior Secured Credit Facilities

TransDigm has \$3,100 million in fully drawn term loans (the Term Loan Facility) and a \$310 million Revolving Credit Facility (together with the Term Loan Facility, the 2013 Credit Facility).

The Term Loan Facility consists of two tranches of term loans—tranche B term loans and tranche C term loans, and the Revolving Credit Facility consists of two tranches—revolving A commitments and revolving B commitments. The tranche B term loans consist of \$500 million in the aggregate and the tranche C term loans consist of \$1,700 million in the aggregate. The tranche B term loans mature on February 14, 2017 and the tranche C term loans mature on February 28, 2020. The Term Loan Facility requires quarterly principal payments of \$5.5 million which began on March 28, 2013.

The revolving A commitments consist of \$32 million in the aggregate and the revolving B commitments consist of \$278 million in the aggregate. The revolving A commitments mature on December 6, 2015 and the revolving B commitments mature on February 28, 2018. At March 29, 2014, the Company had \$7.3 million letters of credit outstanding and \$302.7 million of borrowings available under the 2013 Credit Facility.

Table of Contents

The interest rates per annum applicable to the loans under the 2013 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 adjusted LIBO rate is subject to a floor of .75%. At March 29, 2014, applicable interest rate on the tranche B term loan was 3.50% and the tranche C term loan was 3.75%.

At December 28, 2013, three forward-starting interest rate swap agreements were in place to swap variable rates on the 2013 Credit Facility for a fixed rate based on an aggregate notional amount of \$353 million. These interest rate swap agreements converted the variable interest rate on the aggregate notional amount of the 2013 Credit Facility to a fixed rate of 5.17% (2.17% plus the 3% margin percentage) through June 30, 2015.

The Term Loan Facility requires mandatory prepayments of principal based on certain percentages of Excess Cash Flow (as defined in the 2013 Credit Facility), commencing 90 days after the end of each fiscal year, commencing with the fiscal year ending September 30, 2014, 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 28, 2014, 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 2013 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%.

Indentures

In December 2010, TransDigm Inc. 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. Such notes do not require principal payments prior to their maturity in December 2018. Interest under the 2018 Notes is payable semi-annually.

In October 2012, TransDigm Inc. issued \$550 million in aggregate principal amount of its 5¹/₂% Senior Subordinated Notes due 2020 (2020 Notes) at an issue price of 100% of the principal amount. Such notes do not require principal payments prior to their maturity in October 2020. Interest under the 2020 Notes is payable semi-annually.

In July 2013, the Company issued \$500 million in aggregate principal amount of its 7¹/₂% Senior Subordinated Notes due 2021 (2021 Notes) and together with the 2018 Notes and the 2020 Notes, the Notes) at an issue price of 100% of the principal amount. Such notes do not require principal payments prior to their maturity in July 2021. Interest under the 2021 Notes is payable semi-annually. The Notes represent unsecured obligations of TransDigm Inc. ranking subordinate to TransDigm Inc.'s senior debt, as defined in the applicable Indentures.

Certain Restrictive Covenants in Our Debt Documents

The credit facility and the Indentures 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. In addition if the total amount of revolving loans and letters of credit exceeds 25% of the aggregate revolving commitment, the credit facility requires that the Company meet a net debt to EBITDA As Defined ratio, on a pro forma basis. 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 Indentures. If any such default occurs, the lenders under the credit facilities and the holders of the 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 Notes.

Trade Receivables Securitization

During the quarter ended December 28, 2013, the Company established a trade receivables securitization facility (the Securitization Facility). The Securitization Facility effectively increases the Company's borrowing capacity by up to \$225 million depending on the amount of trade accounts receivable, and matures on October 20, 2014. The Company expects to utilize proceeds from the securitization program as an alternative to other forms of debt, effectively reducing borrowing costs. As of March 29, 2014, the Company had not borrowed any amounts under the Securitization Facility.

Table of Contents

Stock Repurchase Program

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. On October 29, 2013, we announced a new program replacing that program permitting us to repurchase a portion of our outstanding shares not to exceed \$200 million in the aggregate. No repurchases were made under the program during the quarter ended March 29, 2014.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our main exposure to market risk relates to interest rates. Our financial instruments that are subject to interest rate risk principally include fixed-rate and floating-rate long-term debt. At March 29, 2014, we had borrowings under our 2013 Credit Facility of \$3.07 billion that were subject to interest rate risk. Borrowings under our 2013 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 2013 Credit Facility. The effect of a hypothetical one percentage point increase in interest rates would increase the annual interest costs under our 2013 Credit Facility by approximately \$30.7 million based on the amount of outstanding borrowings at March 29, 2014. The weighted average interest rate on the \$3.07 billion of borrowings under our 2013 Credit Facility on March 29, 2014 was 3.8%.

At March 29, 2014, three forward-starting interest rate swap agreements were in place to swap variable rates on the 2013 Credit Facility for a fixed rate based on an aggregate notional amount of \$353 million. These interest rate swap agreements converted the variable interest rate on the aggregate notional amount of the 2013 Credit Facility to a fixed rate of 5.17% (2.17% plus the 3% margin percentage) through June 30, 2015.

On July 16, 2013, the Company entered into three forward-starting interest rate swap agreements beginning September 30, 2014 to hedge the variable interest rates on the 2013 Credit Facility for a fixed rate based on an aggregate notional amount of \$1.0 billion through June 30, 2019. These forward-starting interest rate swap agreements will effectively convert the variable interest rate on the aggregate notional amount of the 2013 Credit Facility to a fixed rate of 5.4% (2.4% plus the 3% margin percentage) over the term of the interest rate swap agreements.

The fair value of the \$3.07 billion aggregate principal amount of borrowings under our 2013 Credit Facility is exposed to the market risk of interest rates. The estimated fair value of such term loan approximated \$3.08 billion at March 29, 2014 based upon information provided to the Company from its agent under the 2013 Credit Facility. The fair value of the \$1.60 billion aggregate principal amount of our 2018 Notes, \$0.55 billion 2020 Notes and our \$0.50 billion 2021 Notes due are exposed to the market risk of interest rate changes. The estimated fair value of the 2018 Notes approximated \$1.7 billion, the estimated fair value of the 2020 Notes approximated \$0.56 billion and the estimated fair value of the 2021 Notes approximated \$0.55 billion at March 29, 2014 based upon quoted market rates.

ITEM 4. CONTROLS AND PROCEDURES

As of March 29, 2014, 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.

Table of Contents

Changes in Internal Control over Financial Reporting

On March 6, 2014 we acquired EME. EME operated under its own set of systems and internal controls and we are currently maintaining those systems and much of that control environment until we are able to incorporate EME's processes into our own systems and control environment. We currently expect to complete the incorporation of EME's operations into our systems and control environment in fiscal 2015.

There have been no other changes to our internal controls over financial reporting that could have a material effect on our financial reporting during the quarter ended March 29, 2014.

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, 2013. 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. On October 29, 2013, a new program replacing that program permitting the Company to repurchase a portion of its outstanding shares not to exceed \$200 million in the aggregate was announced. During the quarter ended March 29, 2014, the Company did not repurchase any shares under the program.

Table of Contents

ITEM 6. EXHIBITS

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

Table of Contents

SIGNATURES

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 authorized.

TRANSDIGM GROUP INCORPORATED

SIGNATURE	TITLE	DATE
/s/ W. Nicholas Howley	Chairman of the Board of Directors and	May 7, 2014
W. Nicholas Howley	Chief Executive Officer (Principal Executive Officer)	
/s/ Gregory Rufus	Executive Vice President,	May 7, 2014
Gregory Rufus	Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	

Table of Contents

EXHIBIT INDEX

TO FORM 10-Q FOR THE PERIOD ENDED MARCH 29, 2014

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