

TransDigm Group INC  
Form 10-Q  
February 13, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D. C. 20549**

\_\_\_\_\_  
**FORM 10-Q**  
\_\_\_\_\_

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended December 30, 2006.**

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

Commission File Number 001-32833

\_\_\_\_\_  
**TransDigm Group Incorporated**

(Exact name of registrant as specified in its charter)

\_\_\_\_\_  
**Delaware**

(State or other Jurisdiction of incorporation or organization)

**51-0484716**

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

**1301 East 9<sup>th</sup> Street, Suite 3710, Cleveland, Ohio**  
(Address of principal executive offices)

**(216) 706-2939**

**44114**  
(Zip Code)

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(Registrants telephone number, including area code)

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

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

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

LARGE ACCELERATED FILER  ACCELERATED FILER  NON-ACCELERATED FILER

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

The number of shares outstanding of TransDigm Group Incorporated s common stock, par value \$.01 per share, was 44,935,221 as of January 27, 2007.

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

(Amounts in thousands, except share amounts)

(Unaudited)

	December 30, 2006	September 30, 2006
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 54,556	\$ 61,217
Trade accounts receivable - Net	66,818	65,568
Income taxes receivable	1,677	9,366
Inventories	94,075	89,243
Deferred income taxes	7,017	7,390
Prepaid expenses and other	3,073	1,397
<b>Total current assets</b>	<b>227,216</b>	<b>234,181</b>
PROPERTY, PLANT AND EQUIPMENT - Net	63,377	62,851
GOODWILL	918,636	877,829
TRADEMARKS AND TRADENAMES	125,497	125,497
OTHER INTANGIBLE ASSETS - Net	98,840	100,462
DEBT ISSUE COSTS - Net	14,644	14,872
OTHER	504	1,020
<b>TOTAL ASSETS</b>	<b>\$ 1,448,714</b>	<b>\$ 1,416,712</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 19,329	\$ 18,764
Accrued liabilities	30,009	24,675
<b>Total current liabilities</b>	<b>49,338</b>	<b>43,439</b>
LONG-TERM DEBT - Less current portion	925,000	925,000
DEFERRED INCOME TAXES	80,492	78,109
OTHER NON-CURRENT LIABILITIES	6,543	7,123
<b>Total liabilities</b>	<b>1,061,373</b>	<b>1,053,671</b>
STOCKHOLDERS EQUITY:		
Common stock \$.01 par value; authorized 224,400,000 shares; issued 44,874,217 and 44,664,020 at December 30, 2006 and September 30, 2006, respectively	449	446
Additional paid-in capital	300,195	296,757
Retained earnings	88,002	67,667
Accumulated other comprehensive loss	(1,305)	(1,829)
<b>Total stockholders equity</b>	<b>387,341</b>	<b>363,041</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 1,448,714</b>	<b>\$ 1,416,712</b>

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See notes to condensed consolidated financial statements.

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**Table of Contents****TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in thousands, except per share data)

(Unaudited)

	Thirteen Week	
	Periods Ended	
	December 30, 2006	December 31, 2005
NET SALES	\$ 122,709	\$ 100,140
COST OF SALES	59,075	50,897
GROSS PROFIT	63,634	49,243
OPERATING EXPENSES:		
Selling and administrative	12,121	13,090
Amortization of intangibles	1,642	1,816
Total operating expenses	13,763	14,906
INCOME FROM OPERATIONS	49,871	34,337
INTEREST EXPENSE - Net	17,793	19,799
INCOME BEFORE INCOME TAXES	32,078	14,538
INCOME TAX PROVISION	11,743	5,554
NET INCOME	\$ 20,335	\$ 8,984
Net earnings per share:		
Basic earnings per share	\$ 0.45	\$ 0.20
Diluted earnings per share	\$ 0.43	\$ 0.19
Weighted-Average Shares Outstanding:		
Basic	44,773	44,202
Diluted	47,802	46,657
See notes to condensed consolidated financial statements.		

**Table of Contents****TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 30, 2006**

(Amounts in thousands, except share data)

(Unaudited)

	Common Stock			Accumulated		Total
	Number of Shares	Additional		Other		
		Par Value	Paid-In Capital	Retained Earnings	Comprehensive Loss	
BALANCE, OCTOBER 1, 2006	44,664,020	\$ 446	\$ 296,757	\$ 67,667	\$ (1,829)	\$ 363,041
Compensation expense recognized for employee stock options			801			801
Income tax benefit from exercise of stock options			1,328			1,328
Exercise of employee stock options	210,197	3	1,304			1,307
Restricted stock amortization			5			5
Comprehensive income:						
Net income				20,335		20,335
Interest rate swap					514	514
Other comprehensive income					10	10
Comprehensive income						20,859
BALANCE, DECEMBER 30, 2006	44,874,217	\$ 449	\$ 300,195	\$ 88,002	\$ (1,305)	\$ 387,341

See notes to condensed consolidated financial statements.

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

(Amounts in thousands)

(Unaudited)

	Thirteen Weeks Ended	
	December 30, 2006	December 31, 2005
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 20,335	\$ 8,984
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,551	2,421
Amortization of intangibles	1,642	1,816
Amortization of debt issue costs	461	1,153
Non-cash stock option costs and restricted stock amortization	806	237
Changes in assets/liabilities, net of effects from acquisition of business:		
Accounts receivable	1,025	1,797
Inventories	(2,333)	(2,131)
Other assets	6,610	2,273
Accounts payable	344	295
Accrued and other liabilities	6,547	5,818
Deferred compensation liability	465	(29,477)
Interest on unsecured promissory notes		(59,206)
Net cash provided by (used in) operating activities	38,453	(66,020)
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(2,496)	(1,767)
Acquisition of business	(45,250)	
Net cash used in investing activities	(47,746)	(1,767)
<b>FINANCING ACTIVITIES:</b>		
Repayment of amounts borrowed under the former credit facility		(736)
Repayment of unsecured promissory notes		(199,997)
Borrowings under TD Group loan facility, net of fees		193,855
Tax benefit from exercise of stock options	1,328	
Proceeds from exercise of stock options	1,304	
Net cash provided by (used in) financing activities	2,632	(6,878)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,661)	(74,665)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	61,217	104,221
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 54,556	\$ 29,556
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for interest	\$ 12,713	\$ 68,795
Cash (received) / paid during the period for income taxes	\$ (72)	\$ 2,593

See notes to condensed consolidated financial statements.

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**TRANSDIGM GROUP INCORPORATED**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**THIRTEEN WEEK PERIODS ENDED DECEMBER 30, 2006 AND DECEMBER 31, 2005**

**(UNAUDITED)**

**1. DESCRIPTION OF THE BUSINESS AND MERGER**

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

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

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

**Initial Public Offering** On March 20, 2006, TD Group completed an initial public offering ( IPO ) of its common stock. As a result of the IPO, TD Group s common stock is publicly traded on the New York Stock Exchange under the ticker symbol TDG .

On March 14, 2006, TD Group effected a 149.60 for 1.00 stock split and, in conjunction therewith, amended and restated its certificate of incorporation to increase the number of authorized shares of common stock and preferred stock. All common shares and per common share amounts in these condensed consolidated financial statements prior to March 14, 2006 have been retroactively adjusted for all periods presented to give effect to the stock split, including reclassifying an amount equal to the increase in par value from additional paid-in capital to common stock.

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

**Separate Financial Statements** Separate financial statements of TransDigm Inc. are not presented since TransDigm Inc. s 7/4% senior subordinated notes, or the 7<sup>3</sup>/4% Senior Subordinated Notes, are fully and unconditionally guaranteed on a senior subordinated basis by TD Group and all existing domestic subsidiaries of TransDigm Inc. and since TD Group has no significant operations or assets separate from its investment in TransDigm Inc.

**2. UNAUDITED INTERIM FINANCIAL INFORMATION**

The financial information included herein is unaudited; however, the information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the Company s financial position and results of operations and cash flows for the interim periods presented. These financial statements and notes should be read in conjunction with the financial statements and related notes for the year ended September 30, 2006 included in its Form 10-K dated November 28, 2006. The September 30, 2006 condensed consolidated balance sheet was derived from the TD Group s audited financial statements. The results of operations for the thirteen week periods ended December 30, 2006 are not necessarily indicative of the results to be expected for the full year.



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**3. NEW ACCOUNTING STANDARDS**

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

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

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

In July 2006, the FASB issued Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109 ( *FIN 48* ). FIN 48 prescribes the minimum accounting and disclosure requirements of uncertain tax positions. FIN 48 also provides guidance on the derecognition, measurement, classification, interest and penalties, and transition of uncertain tax positions. FIN 48 is effective for fiscal periods beginning after December 15, 2006. The Company is currently analyzing the expected impact of adoption of FIN 48 on its financial statements.

**4. ACQUISITIONS**

***CDA*** On October 3, 2006, TransDigm Inc. acquired all of the outstanding capital stock of CDA InterCorp ( *CDA* ) for \$45.3 million in cash, subject to adjustment based on the level of working capital as of the close of the acquisition. CDA designs and manufactures specialized controllable drive actuators, motors, transducers, and gearing. The products fit closely with TransDigm's existing business. The Company expects that the \$40.7 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

***Sweeney*** On June 12, 2006, TransDigm Inc. acquired all of the outstanding capital stock of Sweeney Engineering Corp. ( *Sweeney* ) for \$25.5 million in cash. Sweeney designs and manufactures specialized aerospace valving used primarily in fuel, environmental control, and de-icing applications. The products are used on defense and commercial aircraft applications. Sweeney's product characteristics and market position fit well with TransDigm's overall direction. The acquired business was consolidated into AeroControlex's existing business in Painesville, Ohio. The Company expects that the \$21.1 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

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The Company accounted for the acquisitions of CDA and Sweeney as purchases and included the results of operations of CDA and Sweeney in its consolidated financial statements for the effective date of each acquisition. The Company is in the process of obtaining third-party valuations of certain tangible and intangible assets of CDA and Sweeney; thus, the values attributed to acquired assets in the consolidated financial statements are subject to adjustment. Pro forma net sales and results of operations for CDA and Sweeney, had they occurred at the beginning of the thirteen week periods ended December 30, 2006 and December 31, 2005, respectively, are not significant and, accordingly, are not provided.

**5. INVENTORIES**

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

	December 30, 2006	September 30, 2006
Work-in-progress and finished goods	\$ 59,451	\$ 51,077
Raw materials and purchased component parts	43,542	46,060
<b>Total</b>	<b>102,993</b>	<b>97,137</b>
Reserve for excess and obsolete inventory	(8,918)	(7,894)
<b>Inventories - net</b>	<b>\$ 94,075</b>	<b>\$ 89,243</b>

**6. INTANGIBLE ASSETS**

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

	December 30, 2006		
	Gross		
	Carrying Amount	Accumulated Amortization	Net
Unpatented technology	\$ 92,196	\$ 13,755	\$ 78,441
License agreement	9,373	1,812	7,561
Trade secrets	11,772	1,830	9,942
Patented technology	1,542	610	932
Order backlog	10,040	9,543	497
Other	1,803	336	1,467
<b>Total</b>	<b>\$ 126,726</b>	<b>\$ 27,886</b>	<b>\$ 98,840</b>

	September 30, 2006		
	Gross		
	Carrying Amount	Accumulated Amortization	Net
Unpatented technology	\$ 92,196	\$ 12,696	\$ 79,500
License agreement	9,373	1,679	7,694
Trade secrets	11,772	1,696	10,076
Patented technology	1,522	568	954

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Order backlog	10,040	9,320	720
Other	1,803	285	1,518
Total	\$ 126,706	\$ 26,244	\$ 100,462

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

The aggregate amortization expense on identifiable intangible assets for the thirteen week periods ended December 30, 2006 and December 31, 2005 was approximately \$1.6 million, and \$1.8 million, respectively. The estimated amortization expense for fiscal 2007 is \$7.0 million and for each of the five succeeding years 2008 through 2012 is \$5.7 million, \$5.6 million, \$5.6 million, \$5.6 million and \$5.5 million, respectively.

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

Balance, September 30, 2006	\$ 877,829
Additional goodwill recognized in accounting for acquisition of CDA	40,676
Other	131
 Balance, December 30, 2006	 \$ 918,636

**7. PRODUCT WARRANTY**

The Company provides limited warranties in connection with the sale of its products. The warranty period for products sold varies among the Company's operations, ranging from 90 days to five years; however, the warranty period for the majority of the Company's sales generally does not exceed one year. A provision for the estimated cost to repair or replace the products is recorded at the time of sale and periodically adjusted to reflect actual experience.

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

	<b>Thirteen Week Periods Ended</b>	
	<b>December 30,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
Liability balance at beginning of period	\$ 2,472	\$ 2,789
Accruals for warranties issued	417	237
Warranty costs incurred	(343)	(402)
 Liability balance at end of period	 \$ 2,546	 \$ 2,624

**8. INCOME TAXES**

At the end of each reporting period, the Company makes an estimate of its annual effective income tax rate. The estimate used in the year-to-date period may change in subsequent periods. The Company recorded an income tax provision of \$11.7 million in the thirteen week period ended December 30, 2006 compared to \$5.6 million in the prior year period. The effective tax rate for the thirteen week period ended December 30, 2006 was 36.6% compared to 38.2% for the comparable period in the prior year. The lower effective tax rate was primarily due to the retroactive reinstatement of the research and development tax credit. The federal research and development tax credit expired on December 31, 2005. On December 20, 2006, the Tax Relief and Health Care Act of 2006 was enacted, which retroactively reinstated and extended the research and development tax credit from January 1, 2006 to December 31, 2007. The retroactive benefit for the previously expired period from January 1, 2006 to September 30, 2006 is reflected as a discrete item which lowered the Company's effective tax rate by approximately 1.5%.

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

(in thousands, except per share data)	Thirteen Week	
	December 30, 2006	December 31, 2005
<b>Basic Earnings Per Share Computation:</b>		
Net income	\$ 20,335	\$ 8,984
Weighted-average shares outstanding	44,773	44,202
Basic earnings per share	\$ 0.45	\$ 0.20
<b>Diluted Earnings Per Share Computation:</b>		
Net income	\$ 20,335	\$ 8,984
Weighted-average shares outstanding	44,773	44,202
Effect of dilutive options outstanding <sup>(1)</sup>	3,029	2,455
Total weighted-average shares outstanding	47,802	46,657
Diluted earnings per share	\$ 0.43	\$ 0.19

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

**10. STOCK COMPENSATION PLANS**

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

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

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



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

	Thirteen Week Periods Ended	
	December 30, 2006	December 31, 2005
Stock option compensation expense:		
Time vested stock options	\$ 111	\$ 47
Performance vested stock options	690	190
Restricted stock award amortization	5	
	<b>\$ 806</b>	<b>\$ 237</b>

As of December 30, 2006, there was \$3.9 million of total unrecognized compensation cost related to nonvested awards expected to vest, which is expected to be recognized over a weighted-average period of 1.7 years.

**2006 Stock Incentive Plan**

In conjunction with the consummation of the IPO, a 2006 stock incentive plan was adopted by TD Group. TD Group has reserved 2,619,668 shares of its common stock for issuance to key employees, directors or consultants under the plan. On April 21, 2006, 2,370 restricted shares were issued with a weighted-average grant date fair value of \$25.34 and which vest over three years. The compensation committee established vesting and performance requirements that must be met prior to the vesting of an award, as well as other terms and conditions relating to such awards. Options granted under the plan will expire no later than the tenth anniversary of the applicable date of grant of the options, and will have an exercise price of not less than the fair market value of our common stock on the date of grant.

At December 30, 2006, 2,617,298 remaining shares were available for award under TD Group's 2006 stock incentive plan.

**2003 Stock Option Plan**

Certain executives and key employees of the Company were granted stock options under TD Group's 2003 stock option plan. Upon the closing of the Merger, certain employees rolled over certain then-existing options to purchase shares of common stock of TransDigm Holdings. These employees were granted rollover options to purchase an aggregate of 3,870,152 shares of common stock of TD Group (after giving effect to the 149.60 for 1.00 stock split effected on March 14, 2006). All rollover options granted were fully vested on the date of grant. In addition to shares of common stock reserved for issuance upon the exercise of rollover options, an aggregate of 5,469,301 shares of TD Group's common stock are reserved for issuance upon the exercise of new management options. In general, approximately 20% of all new management options vest based on employment service or a change in control. These time vested options have a graded vesting schedule of up to four years. Approximately 80% of all new management options vest (i) based upon the satisfaction of specified performance criteria, which is annual EBITDA As Defined targets through 2008, or (ii) upon the occurrence of a change in control if the Investor Group (defined as Warburg Pincus and the other investors who invested in TD Group in connection with the Merger) receives a minimum specified rate of return. Unless terminated earlier, the options expire ten years from the date of grant. In addition to the stock options issued under the plan covering the Company's employees, members of the Company's board of directors have also been granted stock options of TD Group. TD Group has reserved a total of 9,339,453 shares of its common stock for issuance to the Company's employees under the plan, 9,055,698 of which had been issued as of December 30, 2006.

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

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	<b>2007</b>	<b>2006</b>
Risk-free interest rate	4.41%	4.21%-4.33%
Expected life of options	4 years	4 years
Expected dividend yield of stock		
Expected volatility of stock	30%	0%-30%

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

The total fair value of shares vested during the first quarter of fiscal 2007 and fiscal 2006 was \$102,000 and \$117,000, respectively.

**Time Vested Stock Options** - The following table summarizes activity, pricing and other information for the Company's time vested stock-based award activity during the first quarter of fiscal 2007 (options in thousands):

	Number of Options	Weighted-Average Exercise Price Per Option	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2006	1,063	\$ 9.10		
Granted	14	25.60		
Exercised	(24)	7.34		
Forfeited	(12)	12.57		
Outstanding at December 30, 2006	1,041	\$ 9.32	7.3 years	\$ 17.19
Expected to Vest	1,041	\$ 9.32	7.3 years	\$ 17.19
Exercisable at December 30, 2006	829	\$ 8.31	7.1 years	\$ 18.20

**Performance Vested Stock Options** -The following table summarizes the activity, pricing and other information for the Company's performance vested stock-based award activity during the first quarter of fiscal 2007 (options in thousands):

	Number of Options	Weighted-Average Exercise Price Per Option	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2006	4,250	\$ 9.09		
Granted	56	25.60		
Exercised	(137)	7.16		
Forfeited	(52)	11.53		
Outstanding at December 30, 2006	4,117	\$ 9.35	7.3 years	\$ 17.16
Expected to Vest	4,117	\$ 9.35	7.3 years	\$ 17.16
Exercisable at December 30, 2006	1,924	\$ 8.46	7.1 years	\$ 18.05

**Rollover Option Awards** -The following table summarizes the activity, pricing and other information for the Company's rollover option award activity during the first quarter of fiscal 2007 (options in thousands):



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	Number of Options	Weighted-Average Exercise Price Per Option	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2006	2,788	\$ 2.45		
Granted				
Exercised	(49)	3.38		
Forfeited				
Outstanding at December 30, 2006	2,739	\$ 2.43	3.6 years	\$ 24.08
Expected to Vest	2,739	\$ 2.43	3.6 years	\$ 24.08
Exercisable at December 30, 2006	2,739	\$ 2.43	3.6 years	\$ 24.08

The weighted-average grant date fair value of time, performance and rollover options granted during the first quarter of fiscal 2007 and fiscal 2006 were \$7.85 and \$2.58, respectively. The total intrinsic value of time, performance and rollover options exercised during the first quarter of fiscal 2007 and fiscal 2006 were \$3.9 million and \$0, respectively.

**11. SUBSEQUENT EVENT**

On February 7, 2007, the Company completed the acquisition of Aviation Technologies, Inc. (ATI) for an enterprise value of \$430 million in cash. The transaction was funded through an additional term loan under the Senior Secured Credit Facility of \$130.0 million, together with the net proceeds from the issuance of an additional \$300.0 million of 7<sup>3</sup>/<sub>4</sub>% Senior Subordinated Notes and a portion of our cash balances. ATI, which is based in Seattle, WA, consists of two primary operating units that service the commercial and military aerospace markets Avtech and ADS/Transicoil. Avtech is a leading supplier of flight deck and passenger audio systems, cabin lighting, and power control products and related components. ADS/Transicoil is a leading supplier of displays, clocks, brushless motors and related components and instruments. ATI manufactures proprietary products for the aerospace industry that have broad platform positions with high aftermarket content, all of which fit well with TransDigm's overall direction.

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

**12. SUPPLEMENTAL GUARANTOR INFORMATION**

TransDigm's 7<sup>3</sup>/<sub>4</sub>% Senior Subordinated Notes are jointly and severally guaranteed, on a senior subordinated basis, by TransDigm Inc. and TransDigm Inc.'s Domestic Restricted Subsidiaries, as defined therein. The following supplemental consolidating condensed financial information presents the balance sheets of the Company as of December 30, 2006 and September 30, 2006 and its statements of income and cash flows for the thirteen week periods ended December 30, 2006 and December 31, 2005.

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**TRANSDIGM GROUP INCORPORATED**  
**CONDENSED CONSOLIDATING BALANCE SHEET**

**AS OF DECEMBER 30, 2006**

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 2,561	\$ 52,637	\$ (642)	\$	\$ 54,556
Marketable securities					
Trade accounts receivable - Net		27,721	39,097		66,818
Inventories		35,719	58,356		94,075
Income Taxes Receivables		1,677			1,677
Deferred income taxes		7,017			7,017
Prepaid expenses and other	8	2,393	672		3,073
<b>Total current assets</b>	<b>2,569</b>	<b>127,164</b>	<b>97,483</b>		<b>227,216</b>
<b>INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES</b>					
	381,519	1,382,697	44,201	(1,808,417)	
<b>PROPERTY, PLANT AND EQUIPMENT - Net</b>		24,631	38,746		63,377
<b>GOODWILL</b>		446,457	472,179		918,636
<b>TRADEMARKS AND TRADE NAMES</b>		52,997	72,500		125,497
<b>OTHER INTANGIBLE ASSETS - Net</b>		36,361	62,479		98,840
<b>DEBT ISSUE COSTS - Net</b>		14,644			14,644
<b>OTHER</b>		327	177		504
<b>TOTAL ASSETS</b>	<b>\$ 384,088</b>	<b>\$ 2,085,278</b>	<b>\$ 787,765</b>	<b>\$ (1,808,417)</b>	<b>\$ 1,448,714</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$	\$ 10,954	\$ 8,375	\$	\$ 19,329
Accrued liabilities		22,249	7,760		30,009
<b>Total current liabilities</b>		<b>33,203</b>	<b>16,135</b>		<b>49,338</b>
<b>LONG-TERM DEBT - Less current portion</b>		<b>925,000</b>			<b>925,000</b>
<b>DEFERRED INCOME TAXES</b>	<b>(5,606)</b>	<b>86,098</b>			<b>80,492</b>
<b>OTHER NON-CURRENT LIABILITIES</b>	<b>2,353</b>	<b>3,310</b>	<b>880</b>		<b>6,543</b>
<b>Total liabilities</b>	<b>(3,253)</b>	<b>1,047,611</b>	<b>17,015</b>		<b>1,061,373</b>
<b>STOCKHOLDERS EQUITY</b>	<b>387,341</b>	<b>1,037,667</b>	<b>770,750</b>	<b>(1,808,417)</b>	<b>387,341</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 384,088</b>	<b>\$ 2,085,278</b>	<b>\$ 787,765</b>	<b>\$ (1,808,417)</b>	<b>\$ 1,448,714</b>



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**TRANSDIGM GROUP INCORPORATED**  
**CONDENSED CONSOLIDATING BALANCE SHEET**

**AS OF SEPTEMBER 30, 2006**

(Amounts in thousands)

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



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

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
NET SALES	\$	\$ 49,648	\$ 73,061	\$	\$ 122,709
COST OF SALES		22,043	37,032		59,075
GROSS PROFIT		27,605	36,029		63,634
OPERATING EXPENSES:					
Selling and administrative		6,990	5,131		12,121
Amortization of intangibles		747	895		1,642
Total operating expenses		7,737	6,026		13,763
INCOME FROM OPERATIONS		19,868	30,003		49,871
OTHER INCOME (EXPENSES):					
Interest expense - Net		(16,212)	(1,581)		(17,793)
Equity in income of subsidiaries	20,335	18,695		(39,030)	
INCOME BEFORE INCOME TAXES	20,335	22,351	28,422	(39,030)	32,078
INCOME TAX PROVISION		2,016	9,727		11,743
NET INCOME	\$ 20,335	\$ 20,335	\$ 18,695	\$ (39,030)	\$ 20,335

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**TRANSDIGM GROUP INCORPORATED**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 31, 2005**

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
NET SALES	\$	\$ 42,624	\$ 57,516	\$	\$ 100,140
COST OF SALES		20,070	30,827		50,897
<b>GROSS PROFIT</b>		<b>22,554</b>	<b>26,689</b>		<b>49,243</b>
OPERATING EXPENSES:					
Selling and administrative		8,467	4,623		13,090
Amortization of intangibles		600	1,216		1,816
Total operating expenses		9,067	5,839		14,906
<b>INCOME FROM OPERATIONS</b>		<b>13,487</b>	<b>20,850</b>		<b>34,337</b>
OTHER INCOME (EXPENSES):					
Interest expense - Net	(6,365)	(14,360)	926		(19,799)
Equity in income of subsidiaries	12,918	13,523		(26,441)	
<b>INCOME BEFORE INCOME TAXES</b>	<b>6,553</b>	<b>12,650</b>	<b>21,776</b>	<b>(26,441)</b>	<b>14,538</b>
<b>INCOME TAX PROVISION (BENEFIT)</b>	<b>(2,431)</b>	<b>(268)</b>	<b>8,253</b>		<b>5,554</b>
<b>NET INCOME</b>	<b>\$ 8,984</b>	<b>\$ 12,918</b>	<b>\$ 13,523</b>	<b>\$ (26,441)</b>	<b>\$ 8,984</b>

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

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
<b>OPERATING ACTIVITIES:</b>					
Net income	\$ 20,335	\$ 20,335	\$ 18,695	\$ (39,030)	\$ 20,335
Adjustments to reconcile net income to net cash provided by operating activities	(21,550)	(6,161)	6,799	39,030	18,118
Net cash provided by (used in) operating activities	(1,215)	14,174	25,494		38,453
<b>INVESTING ACTIVITIES</b>					
Capital expenditures		(759)	(1,737)		(2,496)
Acquisition of businesses		(45,250)			(45,250)
Net cash used in investing activities		(46,009)	(1,737)		(47,746)
<b>FINANCING ACTIVITIES:</b>					
Changes in intercompany activities	(460)	21,911	(21,451)		
Tax benefit from exercise of stock options	1,328				1,328
Proceeds from exercise of stock options	1,304				1,304
Net cash provided by (used in) financing activities	2,172	21,911	(21,451)		2,632
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	957	(9,924)	2,306		(6,661)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,604	62,561	(2,948)		61,217
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,561	\$ 52,637	\$ (642)	\$	\$ 54,556

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**TRANSDIGM GROUP INCORPORATED**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 31, 2005**

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
<b>OPERATING ACTIVITIES:</b>					
Net income	\$ 8,984	\$ 12,918	\$ 13,523	\$ (26,441)	\$ 8,984
Adjustments to reconcile net income to net cash provided by operating activities	(8,984)	(93,918)	1,457	26,441	(75,004)
Net cash provided by (used in) operating activities		(81,000)	14,980		(66,020)
<b>INVESTING ACTIVITIES</b>					
Capital expenditures		(569)	(1,198)		(1,767)
Acquisition of businesses					
Net cash used in investing activities		(569)	(1,198)		(1,767)
<b>FINANCING ACTIVITIES:</b>					
Changes in intercompany activities		10,153	(10,153)		
Payment of amounts borrowed under credit facility		(736)			(736)
Payoff of unsecured promissory notes		(199,997)			(199,997)
New loan facility, net of fees		193,855			193,855
Net cash provided by (used in) financing activities		3,275	(10,153)		(6,878)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(78,294)</b>	<b>3,629</b>		<b>(74,665)</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		106,082	(1,861)		104,221
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$</b>	<b>\$ 27,788</b>	<b>\$ 1,768</b>	<b>\$</b>	<b>\$ 29,556</b>

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**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 the 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. There risks could cause our actual results to differ materially from any future performance suggested below.*

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

Important factors that could cause actual results to differ materially from the forward-looking statements made in this Quarterly Report on Form 10-Q include but are not limited to:

Future terrorist attacks may have a material adverse impact on our business.

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

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

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

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

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

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

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

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

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

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

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The terms of the Senior Secured Credit Agreement and the Indenture may restrict our current and future operations, particularly our ability to respond to changes or take certain actions.

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

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

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

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

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

We face significant competition.

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

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

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

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

We are exempt from certain corporate governance requirements since we are a controlled company within the meaning of the New York Stock Exchange rules and, as a result, you will not have the protections afforded by these corporate governance requirements.

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

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

Please refer to the other information included in this Quarterly Report on Form 10-Q and to the Annual Report on Form 10-K for additional information regarding the foregoing factors that may affect our business.

**Overview**

## Edgar Filing: TransDigm Group INC - Form 10-Q

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

For the first quarter of fiscal 2007, we generated net sales of \$122.7 million and net income of \$20.3 million. EBITDA As Defined was \$56.3 million, or 45.9% of net sales. Please see below for certain information regarding EBITDA and EBITDA As Defined, including a reconciliation of EBITDA and EBITDA As Defined to net income.

### **Recent Developments**

On February 7, 2007, pursuant to a definitive agreement and plan of merger (the Agreement) among TransDigm Inc., Project Coffee Acquisition Co., a wholly owned subsidiary of TransDigm Inc. ( Merger Sub ), and Aviation Technologies, Inc. ( ATI ), Merger Sub was merged into ATI with the result that ATI became a wholly-owned subsidiary of TransDigm Inc., for consideration of approximately \$430 million.

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ATI, which is based in Seattle, WA, consists of two primary operating units that service the commercial and military aerospace markets Avtech and ADS/Transicoil. Avtech is a leading supplier of flight deck and passenger audio systems, cabin lighting, and power control products and related components. ADS/Transicoil is a leading supplier of displays, clocks, brushless motors and related components and instruments. ATI manufactures proprietary products for the aerospace industry that have broad platform positions with high aftermarket content, all of which fit well with TransDigm's acquisition strategy and business model.

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

On October 3, 2006, TransDigm Inc. acquired all of the outstanding capital stock of CDA InterCorp (CDA) for an aggregate purchase price of approximately \$45.3 million. CDA designs and manufactures specialized controllable drive actuators, motors, transducers, and gearing. CDA's products are used on a range of defense, space and commercial aircraft applications. The proprietary nature, established positions and aftermarket content of CDA's products fit well with our overall business direction.

### **Government Pricing Review**

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

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

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

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

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

**EBITDA and EBITDA As Defined**

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

	Thirteen Week Periods Ended December 30, 2006	Thirteen Week Periods Ended December 31, 2005
Net income	\$ 20.3	\$ 9.0
Adjustments:		
Depreciation and amortization expense	4.2	4.2
Interest expense, net	17.8	19.8
Income tax provision	11.8	5.6
EBITDA <sup>(1)</sup>	54.1	38.6
Adjustments:		
Acquisition integration costs <sup>(2)</sup>	0.7	0.3
Non-cash compensation and deferred compensation costs <sup>(3)</sup>	1.3	(2.8)
Acquisition earnout costs <sup>(4)</sup>	0.2	0.1
Non-recurring IPO costs <sup>(5)</sup>		0.7
One-Time Special Bonus <sup>(6)</sup>		6.2
EBITDA, As Defined <sup>(1)</sup>	\$ 56.3	\$ 43.1

(1) EBITDA represents earnings before interest, taxes, depreciation and amortization. EBITDA As Defined, represents EBITDA, plus inventory purchase accounting charges, acquisition integration costs, non-cash compensation and deferred compensation charges, refinancing costs, IPO related option vesting, acquisition earnout costs, non-recurring IPO costs and one-time special bonus payments made to certain members of our management, as applicable for the relevant period.

We present EBITDA because we believe that it is a useful indicator of our operating performance. Our management believes that EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties to measure a company's operating performance without regard to items such as interest and debt expense, income tax expense and depreciation and amortization, which may vary substantially from company to company depending upon, among other things, accounting methods, book value of assets, capital structure and the method by which assets are acquired. We also believe EBITDA is useful to our management and investors as a measure of comparative operating performance between time periods and among companies as it is reflective of changes in pricing decisions, cost controls and other factors that affect operating performance.

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Our management uses EBITDA As Defined to review and assess our operating performance and management team in connection with our employee incentive programs, the preparation of our annual budget and financial projections. In addition, the revolving credit facility under the Senior Secured Credit Agreement requires compliance, on a pro forma basis, with a first lien leverage ratio, which is measured based on our Consolidated EBITDA (as defined in therein). The Senior Secured Credit Agreement defines Consolidated EBITDA in a manner equal to how we define EBITDA As Defined. This financial covenant is a material term of the Senior Secured Credit Agreement as the failure to comply with such financial covenant could result in an event of default in respect of the revolving credit facility under the Senior Secured Credit Facility (and, in turn, an event of default under the Senior Secured Credit Agreement could result in an event of default under the Indenture governing the 7<sup>3/4</sup>% Senior Subordinated Notes). In addition, our former senior secured credit facility required compliance, on a pro forma basis, with a leverage ratio, a fixed charge coverage ratio and an interest coverage ratio, all of which were measured based on our Consolidated EBITDA (as defined therein). The former senior secured credit facility defined Consolidated EBITDA in a manner equal to how we defined EBITDA As Defined for the periods presented prior to fiscal 2007, and such historical definition was substantially similar to the definition of Consolidated EBITDA under the Senior Secured Credit Facility, except that for purposes of computing Consolidated EBITDA under the Senior Secured Credit Facility, we are permitted to add back to net income any and all expenses or charges incurred by us in connection with equity offerings, permitted investments, acquisitions, dispositions, recapitalizations or permitted debt transactions, including all of the expenses or charges related to the refinancing which occurred in June 2006.

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

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

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

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

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

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

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

- (2) Represents costs incurred to integrate Sweeney Engineering Corp. ( Sweeney ) and CDA into the Company s operations.
- (3) Represents the expenses (income) recognized by the Company under a stock option plan and deferred compensation plans of TD Group. The amount reflected above for the thirteen week period ended December 31,



