

TransDigm Group INC  
Form 10-Q  
August 07, 2008  
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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 June 28, 2008.**

.. **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

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(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)

44114  
(Zip Code)

(216) 706-2939

(Registrants telephone number, including area code)

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

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

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

LARGE ACCELERATED FILER

ACCELERATED FILER

NON-ACCELERATED FILER  (Do not check if smaller reporting company)

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 48,402,437 as of July 26, 2008.

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

(Amounts in thousands, except share amounts)

(Unaudited)

	June 28, 2008	September 30, 2007
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 189,193	\$ 105,946
Trade accounts receivable - Net	100,947	100,094
Income taxes receivable		4,472
Inventories	142,993	126,763
Deferred income taxes	17,051	23,923
Prepaid expenses and other	4,033	4,401
Total current assets	454,217	365,599
PROPERTY, PLANT AND EQUIPMENT - Net	93,568	87,074
GOODWILL	1,300,777	1,247,870
TRADEMARKS AND TRADE NAMES	162,056	159,427
OTHER INTANGIBLE ASSETS - Net	186,870	175,471
DEBT ISSUE COSTS - Net	20,239	23,026
OTHER	4,369	2,586
TOTAL ASSETS	\$ 2,222,096	\$ 2,061,053
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 26,136	\$ 24,753
Income taxes payable	6,728	
Accrued liabilities	57,751	42,466
Total current liabilities	90,615	67,219
LONG-TERM DEBT	1,357,348	1,357,854
DEFERRED INCOME TAXES	149,506	140,251
OTHER NON-CURRENT LIABILITIES	10,461	8,178
Total liabilities	1,607,930	1,573,502
STOCKHOLDERS EQUITY:		
Common stock \$.01 par value; authorized 224,400,000 shares; issued 48,335,453 and 47,041,974 at June 28, 2008 and September 30, 2007, respectively	483	470
Additional paid-in capital	360,980	332,522
Retained earnings	249,756	156,312
Accumulated other comprehensive income/(loss)	2,947	(1,753)
Total stockholders equity	614,166	487,551

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TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 2,222,096	\$ 2,061,053
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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****FOR THE THIRTEEN AND THIRTY-NINE WEEK PERIODS ENDED****JUNE 28, 2008 AND JUNE 30, 2007****(Amounts in thousands, except per share amounts)****(Unaudited)**

	<b>Thirteen Week Periods Ended</b>		<b>Thirty-Nine Week Periods Ended</b>	
	<b>June 28, 2008</b>	<b>June 30, 2007</b>	<b>June 28, 2008</b>	<b>June 30, 2007</b>
NET SALES	\$ 186,052	\$ 157,613	\$ 524,473	\$ 424,760
COST OF SALES	85,570	75,360	241,980	203,802
GROSS PROFIT	100,482	82,253	282,493	220,958
OPERATING EXPENSES:				
Selling and administrative	19,317	17,340	55,549	44,047
Amortization of intangibles	2,747	3,607	8,841	8,617
Total operating expenses	22,064	20,947	64,390	52,664
INCOME FROM OPERATIONS	78,418	61,306	218,103	168,294
INTEREST EXPENSE - Net	21,849	25,924	70,371	66,320
INCOME BEFORE INCOME TAXES	56,569	35,382	147,732	101,974
INCOME TAX PROVISION	20,570	13,261	52,595	38,004
NET INCOME	\$ 35,999	\$ 22,121	\$ 95,137	\$ 63,970
Net earnings per share:				
Basic earnings per share	\$ 0.75	\$ 0.48	\$ 2.00	\$ 1.42
Diluted earnings per share	\$ 0.72	\$ 0.45	\$ 1.90	\$ 1.33
Weighted-average shares outstanding:				
Basic	48,084	45,800	47,639	45,182
Diluted	50,273	48,832	50,058	48,272

See notes to condensed consolidated financial statements.

**Table of Contents****TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****FOR THE THIRTY-NINE WEEK PERIOD ENDED JUNE 28, 2008**

(Amounts in thousands, except share amounts)

(Unaudited)

	Common Stock		Additional	Retained	Accumulated	Total
	Number	Par	Paid-In	Earnings	Other	
	of Shares	Value	Capital		Comprehensive	
					Income/(Loss)	
BALANCE, OCTOBER 1, 2007	47,041,974	\$ 470	\$ 332,522	\$ 156,312	\$ (1,753)	\$ 487,551
FIN 48 adjustment (Note 8)				(1,693)		(1,693)
Compensation expense recognized for employee stock options			3,066			3,066
Excess tax benefit from exercise of stock options			17,031			17,031
Common stock issued	3,160		83			83
Exercise of employee stock options	1,290,319	13	8,256			8,269
Restricted stock compensation			22			22
Comprehensive income/(loss):						
Net income				95,137		95,137
Interest rate swap					4,619	4,619
Other comprehensive income					81	81
Comprehensive income						99,837
BALANCE, JUNE 28, 2008	48,335,453	\$ 483	\$ 360,980	\$ 249,756	\$ 2,947	\$ 614,166

See notes to condensed consolidated financial statements.

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

(Amounts in thousands)

(Unaudited)

	Thirty-Nine Week Periods Ended	
	June 28, 2008	June 30, 2007
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 95,137	\$ 63,970
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,808	8,423
Amortization of intangibles	8,841	8,617
Amortization of debt issue costs and note premium	2,285	2,224
Non-cash equity compensation	3,088	2,453
Deferred income taxes	4,988	(1,911)
Changes in assets/liabilities, net of effects from acquisitions of businesses:		
Trade accounts receivable	2,352	(7,381)
Inventories	(1,684)	(8,064)
Income taxes receivable/payable	29,311	29,362
Excess tax benefit from exercise of stock options	(17,031)	(21,962)
Other assets	(812)	(3,309)
Accounts payable	663	1,474
Accrued and other liabilities	12,974	16,223
<b>Net cash provided by operating activities</b>	<b>149,920</b>	<b>90,119</b>
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(7,251)	(7,145)
Acquisitions of businesses	(84,722)	(475,909)
<b>Net cash used in investing activities</b>	<b>(91,973)</b>	<b>(483,054)</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of senior subordinated notes, net of fees		296,795
Borrowings under senior secured credit facility, net of fees		125,423
Excess tax benefit from exercise of stock options	17,031	21,962
Proceeds from exercise of stock options	8,269	7,733
<b>Net cash provided by financing activities</b>	<b>25,300</b>	<b>451,913</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>83,247</b>	<b>58,978</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>105,946</b>	<b>61,217</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 189,193</b>	<b>\$ 120,195</b>



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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for interest	\$ 61,444	\$ 53,272
Cash paid during the period for income taxes	\$ 18,095	\$ 10,508

See notes to condensed consolidated financial statements.

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**TRANSDIGM GROUP INCORPORATED**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**THIRTEEN AND THIRTY-NINE WEEK PERIODS ENDED JUNE 28, 2008 AND JUNE 30, 2007**

**(UNAUDITED)**

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

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

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

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

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

**2. UNAUDITED INTERIM FINANCIAL INFORMATION**

The financial information included herein is unaudited; however, the information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the Company's financial position and results of operations and cash flows for the interim periods presented. These financial statements and notes should be read in conjunction with the financial statements and related notes for the year ended September 30, 2007 included in the Company's Form 10-K dated November 21, 2007. The September 30, 2007 condensed consolidated balance sheet was derived from the TD Group's audited financial statements. The results of operations for the thirty-nine week period ended June 28, 2008 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made to prior period financial statements to conform to the current year classifications.

**3. NEW ACCOUNTING STANDARDS**

In March 2008, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities ( FAS 161 ). FAS 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FAS 161 is effective for fiscal years beginning after November 15,

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2008, with early adoption permitted. The Company is currently evaluating the impact of the provisions of FAS 161 on its consolidated financial position or results of operations.

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

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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. The Company adopted FIN 48 on October 1, 2007. See Note 8.

**4. ACQUISITIONS**

**CEF** On May 7, 2008, TransDigm Inc. acquired all of the outstanding capital stock of CEF Industries, Inc. ( CEF ) for approximately \$84.7 million in cash, subject to adjustment based on the level of working capital as of the closing date of the acquisition. CEF designs and manufactures specialized and highly engineered actuators, compressors, pumps and related components for the aerospace market, all of which fit well with TransDigm's overall business direction. The Company expects that the \$50.4 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

**Bruce** On August 10, 2007, pursuant to an asset purchase agreement among TransDigm Inc., Bruce Industries, Inc. and the shareholders of Bruce Industries, Inc., Bruce Aerospace, Inc. ( Bruce ), a newly formed wholly-owned subsidiary of TransDigm Inc., acquired certain assets and assumed certain liabilities of Bruce Industries, Inc. for \$35.5 million in cash, net of a purchase price adjustment of \$0.2 million received in February 2008. Additionally, in accordance with the purchase agreement, the Company recorded a contingent liability based upon earnings before income taxes, depreciation and amortization related to the sale of certain part numbers for a period of three years following the closing. Bruce designs and manufactures specialized fluorescent lighting used in the aerospace industry. The proprietary nature, established positions, and aftermarket content fit well with TransDigm's overall direction. The Company expects that the \$26.1 million of goodwill recognized for the acquisition will be deductible for tax purposes.

The Company accounted for the acquisitions of CEF and Bruce as purchases and included the results of operations of CEF and Bruce in its consolidated financial statements from the date of each acquisition. The Company is in the process of obtaining third-party valuations of certain intangible assets of CEF and Bruce; thus, the values attributed to acquired assets in the consolidated financial statements are subject to adjustment.

**ATI** On February 7, 2007, TransDigm Inc. acquired all of the outstanding capital stock of Aviation Technologies, Inc. ( ATI ) for \$430.1 million in cash. ATI consists of two primary operating units that service the commercial and military aerospace markets Avtech Corporation ( Avtech ) and Transicoil LLC (which, together with Transicoil (Malaysia) Sendirian Berhad is referred to as ADS/Transicoil ). Avtech is a supplier of flight deck and passenger audio systems, cabin lighting, and power control products and related components. ADS/Transicoil is a supplier of displays, clocks, brushless motors and related components and instruments. Through Avtech and ADS/Transicoil, ATI manufactures proprietary products for the aerospace industry with broad platform positions and high aftermarket content, all of which fit well with TransDigm's overall direction. Substantially all of the \$310.4 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

**CDA** On October 3, 2006, TransDigm Inc. acquired all of the outstanding capital stock of CDA InterCorp ( CDA ) for \$45.7 million in cash, which includes a purchase price adjustment of \$0.3 million paid in March 2007. CDA designs and manufactures specialized controllable drive actuators, motors, transducers, and gearing. The products are consistent with TransDigm's recent acquisition of similar product lines. Goodwill of \$34.3 million recognized in accounting for the acquisition will not be deductible for tax purposes.

**5. INVENTORIES**

Inventories are stated at the lower of cost or market. Cost of inventories is determined by the average cost and the first-in, first-out (FIFO) methods for all locations except CEF, which determines the cost of inventories using the last-in, first-out (LIFO) method. Net inventory for CEF at June 28, 2008 was approximately \$13.9 million. Inventories consist of the following (in thousands):

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	June 28, 2008	September 30, 2007
Work-in-progress and finished goods	\$ 79,886	\$ 68,287
Raw materials and purchased component parts	79,155	72,943
Total	159,041	141,230
Reserve for excess and obsolete inventory	(16,048)	(14,467)
Inventories - net	\$ 142,993	\$ 126,763

**6. INTANGIBLE ASSETS**

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

	Gross Carrying Amount	June 28, 2008 Accumulated Amortization	Net
Unpatented technology	\$ 186,684	\$ 25,093	\$ 161,591
License agreement	9,373	2,609	6,764
Trade secrets	18,462	3,057	15,405
Patented technology	1,651	877	774
Order backlog	16,489	15,068	1,421
Other	1,600	685	915
Total	\$ 234,259	\$ 47,389	\$ 186,870

	Gross Carrying Amount	September 30, 2007 Accumulated Amortization	Net
Unpatented technology	\$ 168,003	\$ 19,178	\$ 148,825
License agreement	9,373	2,211	7,162
Trade secrets	18,462	2,429	16,033
Patented technology	1,604	746	858
Order backlog	14,977	13,471	1,506
Other	1,600	513	1,087
Total	\$ 214,019	\$ 38,548	\$ 175,471

The total carrying amount of identifiable intangible assets not subject to amortization consists of \$162.1 million and \$159.4 million of trademarks and trade names at June 28, 2008 and September 30, 2007, respectively.

Intangible assets acquired during the thirty-nine week period ended June 28, 2008 were as follows (in thousands):

	Cost	Amortization Period
Intangible assets not subject to amortization:		
Goodwill	\$ 50,365	
Trademarks and trade names	2,629	

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Intangible assets subject to amortization:

Unpatented technology	17,813	22 years
Order backlog	1,571	1 year
	19,384	
Total	\$ 72,378	

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The aggregate amortization expense on identifiable intangible assets for the thirteen and thirty-nine week periods ended June 28, 2008 and June 30, 2007 was approximately \$2.7 million, \$8.8 million, \$3.6 million and \$8.6 million, respectively. The estimated amortization expense for fiscal 2008 is \$11.7 million and for each of the five succeeding years 2009 through 2013 is \$11.3 million, \$10.1 million, \$10.1 million, \$10.0 million and \$9.9 million, respectively.

The following is a summary of the changes in the carrying value of goodwill from September 30, 2007 through June 28, 2008 (in thousands):

Balance, September 30, 2007	\$ 1,247,870
Goodwill acquired during the year	50,365
Other	2,542
Balance, June 28, 2008	\$ 1,300,777

**7. PRODUCT WARRANTY**

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

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

	Thirty-Nine Week Periods Ended	
	June 28, 2008	June 30, 2007
Liability balance at beginning of period	\$ 4,624	\$ 2,472
Accruals for warranties issued	1,471	914
Warranty costs incurred	(1,289)	(941)
Acquisitions	794	1,593
Liability balance at end of period	\$ 5,600	\$ 4,038

**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 \$20.6 million in the thirteen week period ended June 28, 2008 compared to \$13.3 million in the prior year period. The effective tax rate for the thirteen week period ended June 28, 2008 was 36.4% compared to 37.5% for the comparable period in the prior year. The lower effective tax rate was primarily due to a reduction in state and local taxes and an increase in the domestic manufacturing deduction partially offset by a decrease in the research and development tax credit.

The Company recorded an income tax provision of \$52.6 million in the thirty-nine week period ended June 28, 2008 compared to \$38.0 million in the prior year period. The effective tax rate for the thirty-nine week period ended June 28, 2008 was 35.6% compared to 37.3% for the comparable period in the prior year. The lower effective tax rate was due to a reduction in state and local taxes, an increase in the domestic manufacturing deduction and the favorable resolution of a prior year state tax refund claim of \$0.9 million partially offset by a lower research and development tax credit.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction as well as in various state jurisdictions. Effective October 1, 2007, the Company adopted the provisions of FIN 48. In accordance with FIN 48, the Company recognized a cumulative-effect

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adjustment of \$1.7 million increasing its liability for unrecognized tax benefits, interest, and penalties and reducing the October 1, 2007 balance of retained earnings.

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

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

As of June 28, 2008, the Company is subject to a U.S. Federal income tax examination for fiscal years 2005 through 2007. In addition, the Company is subject to state and local income tax examinations for fiscal years 2004 through 2007.

There were no significant changes to any of these amounts during the thirty-nine week period ended June 28, 2008.

**9. EARNINGS PER SHARE CALCULATION**

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

(in thousands, except per share data)	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
<b>Basic Earnings Per Share Computation:</b>				
Net income	\$ 35,999	\$ 22,121	\$ 95,137	\$ 63,970
Weighted-average shares outstanding	48,084	45,800	47,639	45,182
Basic earnings per share	\$ 0.75	\$ 0.48	\$ 2.00	\$ 1.42
<b>Diluted Earnings Per Share Computation:</b>				
Net income	\$ 35,999	\$ 22,121	\$ 95,137	\$ 63,970
Weighted-average shares outstanding	48,084	45,800	47,639	45,182
Effect of dilutive options outstanding	2,189	3,032	2,419	3,090
Total weighted-average shares outstanding	50,273	48,832	50,058	48,272
Diluted earnings per share	\$ 0.72	\$ 0.45	\$ 1.90	\$ 1.33

Stock options outstanding at June 28, 2008 and June 30, 2007 that were excluded from the diluted earnings per share computation for the thirteen and thirty-nine week periods ended June 28, 2008 and June 30, 2007, due to the anti-dilutive effect of such options, were immaterial.

**10. SUPPLEMENTAL GUARANTOR INFORMATION**

TransDigm's 7/4% senior subordinated notes are jointly and severally guaranteed, on a senior subordinated basis, by TD Group and TransDigm Inc.'s Domestic Restricted Subsidiaries, as defined therein. The following supplemental consolidating condensed financial information presents the balance sheets of the Company as of June 28, 2008 and September 30, 2007 and its statements of income and cash flows for the thirty-nine week periods ended June 28, 2008 and June 30, 2007.

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

**AS OF JUNE 28, 2008**

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 20,285	\$ 169,890	\$ (982)	\$	\$ 189,193
Trade accounts receivable - Net		12,149	88,947	(149)	100,947
Inventories		19,192	123,895	(94)	142,993
Deferred income taxes		18,499	(1,448)		17,051
Prepaid expenses and other		1,827	2,206		4,033
Total current assets	20,285	221,557	212,618	(243)	454,217
<b>INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES</b>					
	593,642	1,957,954	335,959	(2,887,555)	
PROPERTY, PLANT AND EQUIPMENT - Net		14,250	79,318		93,568
GOODWILL		12,136	1,288,641		1,300,777
TRADEMARKS AND TRADE NAMES		19,376	142,680		162,056
OTHER INTANGIBLE ASSETS - Net		10,709	176,161		186,870
DEBT ISSUE COSTS - Net		20,239			20,239
OTHER		4,017	352		4,369
TOTAL ASSETS	\$ 613,927	\$ 2,260,238	\$ 2,235,729	\$ (2,887,798)	\$ 2,222,096
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$	\$ 6,441	\$ 19,843	\$ (148)	\$ 26,136
Income taxes payable		7,748	(1,020)		6,728
Accrued liabilities		28,434	29,317		57,751
Total current liabilities		42,623	48,140	(148)	90,615
<b>LONG-TERM DEBT</b>					
		1,357,348			1,357,348
DEFERRED INCOME TAXES	(5,606)	145,429	9,683		149,506
OTHER NON-CURRENT LIABILITIES	5,367	3,194	1,900		10,461
Total liabilities	(239)	1,548,594	59,723	(148)	1,607,930
<b>STOCKHOLDERS EQUITY</b>					
	614,166	711,644	2,176,006	(2,887,650)	614,166
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 613,927	\$ 2,260,238	\$ 2,235,729	\$ (2,887,798)	\$ 2,222,096



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

**AS OF SEPTEMBER 30, 2007**

(Amounts in thousands)

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



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**TRANSDIGM GROUP INCORPORATED**  
**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**FOR THE THIRTY-NINE WEEK PERIOD ENDED JUNE 28, 2008**

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
NET SALES	\$	\$ 56,575	\$ 469,263	\$ (1,365)	\$ 524,473
COST OF SALES		33,834	209,416	(1,270)	241,980
<b>GROSS PROFIT</b>		<b>22,741</b>	<b>259,847</b>	<b>(95)</b>	<b>282,493</b>
OPERATING EXPENSES:					
Selling and administrative		18,164	37,385		55,549
Amortization of intangibles		468	8,373		8,841
Total operating expenses		18,632	45,758		64,390
INCOME FROM OPERATIONS		4,109	214,089	(95)	218,103
OTHER INCOME (EXPENSES):					
Interest expense - net		(47,954)	(22,417)		(70,371)
Equity in income of subsidiaries	95,137	123,343		(218,480)	
INCOME BEFORE INCOME TAXES	95,137	79,498	191,672	(218,575)	147,732
INCOME TAX PROVISION (BENEFIT)		(15,639)	68,234		52,595
NET INCOME	\$ 95,137	\$ 95,137	\$ 123,438	\$ (218,575)	\$ 95,137

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

(Amounts in thousands)

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

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**TRANSDIGM GROUP INCORPORATED**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE THIRTY-NINE WEEK PERIOD ENDED JUNE 28, 2008**

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Eliminations	Total Consolidated
<b>OPERATING ACTIVITIES:</b>					
Net income	\$ 95,137	\$ 95,137	\$ 123,438	\$ (218,575)	\$ 95,137
Adjustments to reconcile net income to net cash provided by (used in) operating activities	(93,680)	(58,664)	(11,448)	218,575	54,783
Net cash provided by operating activities	1,457	36,473	111,990		149,920
<b>INVESTING ACTIVITIES:</b>					
Capital expenditures		(984)	(6,267)		(7,251)
Acquisition of business		(84,722)			(84,722)
Net cash used in investing activities		(85,706)	(6,267)		(91,973)
<b>FINANCING ACTIVITIES:</b>					
Changes in intercompany activities	(17,589)	121,343	(103,754)		
Excess tax benefit from exercise of stock options	17,031				17,031
Proceeds from exercise of stock options	8,269				8,269
Net cash provided by (used in) financing activities	7,711	121,343	(103,754)		25,300
INCREASE IN CASH AND CASH EQUIVALENTS	9,168	72,110	1,969		83,247
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,117	97,780	(2,951)		105,946
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 20,285	\$ 169,890	\$ (982)	\$	\$ 189,193



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

(Amounts in thousands)

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

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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*

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

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

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

**Overview**

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

For the third quarter of fiscal 2008, we generated net sales of \$186.0 million and net income of \$36.0 million. EBITDA As Defined was \$86.8 million, or 46.6% of net sales. See below for certain information regarding EBITDA and EBITDA As Defined, including a reconciliation of EBITDA and EBITDA As Defined to net income.

**Certain Acquisitions**

**CEF Acquisition**

On May 7, 2008, TransDigm Inc. acquired all of the outstanding capital stock of CEF Industries, Inc. (CEF) for approximately \$84.7 million in cash, subject to adjustment based on the level of working capital as of the closing date of the acquisition. The

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transaction was funded through the use of the Company's existing cash balances. CEF is a designer and manufacturer of specialized and highly engineered actuators, compressors, pumps and related components for the aerospace market, all of which fit well with TransDigm's overall business direction.

**Bruce Acquisition**

On August 10, 2007, pursuant to an asset purchase agreement among TransDigm Inc., Bruce Industries and the shareholders of Bruce Industries, Bruce Aerospace, Inc., a newly formed wholly-owned subsidiary of TransDigm Inc., acquired certain assets and assumed certain liabilities of Bruce Industries for approximately \$35.5 million in cash, net of a purchase price adjustment of \$0.2 million received in February 2008. Bruce designs and manufactures specialized fluorescent lighting used in the aerospace industry. The proprietary nature, established positions, and aftermarket content fit well with our overall business direction.

**ATI Acquisition**

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

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

**EBITDA and EBITDA As Defined**

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

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net Income	\$ 36.0	\$ 22.1	\$ 95.1	\$ 64.0
Adjustments:				
Depreciation and amortization expense	6.2	6.6	18.7	17.0
Interest expense, net	21.8	25.9	70.4	66.3
Income tax provision	20.6	13.3	52.6	38.0
EBITDA <sup>(1)</sup>	84.6	67.9	236.8	185.3
Adjustments:				
Acquisition-related costs <sup>(2)</sup>	0.8	2.7	2.1	7.0
Non-cash compensation and deferred compensation costs <sup>(3)</sup>	1.4	1.3	4.7	3.8
Non-recurring public equity offering costs <sup>(4)</sup>		1.7		1.7
Other <sup>(5)</sup>				0.3
EBITDA As Defined <sup>(1)</sup>	\$ 86.8	\$ 73.6	\$ 243.6	\$ 198.1

(1) EBITDA represents earnings before interest, taxes, depreciation and amortization. EBITDA As Defined represents EBITDA plus, as applicable for the relevant period, inventory purchase accounting adjustments, acquisition integration costs, non-cash compensation and deferred compensation charges, acquisition earnout costs, and certain expenses incurred in connection with our financing activities, including public equity offerings.



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

Our management uses EBITDA As Defined to review and assess our operating performance and management team in connection with our employee incentive programs, and the preparation of our annual budget and financial projections. Our management also believes that EBITDA As Defined is useful to investors because our revolving credit facility under our senior secured credit facility requires compliance, on a pro forma basis, with a first lien leverage ratio, which is measured based on our Consolidated EBITDA. Our senior secured credit facility defines Consolidated EBITDA in the same manner as we define EBITDA As Defined. This financial covenant is a material term of our senior secured credit facility as the failure to comply with such financial covenant could result in an event of default in respect of the revolving credit facility thereunder (and, in turn, an event of default under our senior secured credit facility could result in an event of default under the indenture governing our 7<sup>3</sup>/4% senior subordinated notes).

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

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

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

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

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

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

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

- (2) Represents costs incurred to integrate acquired businesses into TD Group's operations, purchase accounting adjustments to inventory that were charged to cost of sales when inventory was sold, facility relocation costs and other acquisition-related costs.
- (3) Represents the expenses recognized by the Company under our stock option and deferred compensation plans.

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- (4) Represents non-recurring costs and expenses incurred by TD Group related to the secondary offering in May 2007.  
 (5) Represents the write-down of certain property to its fair value that was reclassified as held for sale in fiscal 2007.

**Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with GAAP, which often requires the judgment of management in the selection and application of certain accounting principles and methods. Management believes that the quality and reasonableness of our most critical policies enable the fair presentation of our financial position and results of operations. However, investors are cautioned that the sensitivity of financial statements to these methods, assumptions and estimates could create materially different results under different conditions or using different assumptions.

A summary of our significant accounting policies and estimates is included in the Annual Report on Form 10-K for the year ended September 30, 2007. There has been no significant change to our critical accounting policies during the thirty-nine week period ended June 28, 2008.

**Results of Operations**

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

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net sales	100%	100%	100%	100%
Cost of sales	46	48	46	48
Selling and administrative expenses	10	11	11	10
Amortization of intangibles	2	2	2	2
Income from operations	42	39	41	40
Interest expense - net	12	16	13	16
Income tax provision	11	9	10	9
Net income	19%	14%	18%	15%

**Changes in Results of Operations****Thirteen week period ended June 28, 2008 compared with the thirteen week period ended June 30, 2007.**

**Net Sales.** Net sales increased by \$28.4 million, or 18.0%, to \$186.0 million for the quarter ended June 28, 2008, from \$157.6 million for the comparable quarter last year. Sales growth excluding acquisitions was \$18.3 million and represented an 11.6% increase over the prior year. The organic sales growth was primarily due to (i) an increase of \$9.5 million in defense sales primarily due to increased demand for aftermarket spare parts and OEM sales across most of our product lines, (ii) an increase of \$5.5 million of commercial OEM sales resulting primarily from an increase in production rates from The Boeing Company and Airbus S.A.S. and related OEM system suppliers, and (iii) an increase of \$2.2 million in commercial aftermarket sales. The remaining \$10.1 million of the increase resulted from the acquisitions of CEF during fiscal 2008 and Bruce during fiscal 2007.

**Cost of Sales.** Cost of sales increased by \$10.2 million, or 13.5%, to \$85.6 million for the quarter ended June 28, 2008 from \$75.4 million for the comparable quarter last year primarily due to the increase volume associated with the higher net sales of \$28.4 million discussed above. Cost of sales as a percentage of sales decreased to 46.0% for the thirteen week period ended June 28, 2008 from 47.8% for the thirteen week period ended June 30, 2007. The decrease in cost of sales as a percentage of net sales was due primarily to a reduction in

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acquisition-related expenses of \$1.7 million, or approximately 1.2% of net sales, the strength of the Company's proprietary products, productivity improvements, partially offset by the dilutive impact of recent

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acquisitions. The decrease in acquisition related expenses was primarily due to inventory purchase price accounting charges recorded in the prior year of \$2.4 million related to the acquisitions of ATI and CDA partially offset by current year inventory purchase accounting charges of \$0.8 million related to the acquisitions of Bruce and CEF.

**Selling and Administrative Expenses.** Selling and administrative expenses increased by \$2.0 million to \$19.3 million, or 10.4% of sales, for the quarter ended June 28, 2008 from \$17.3 million, or 11.0% of sales, for the comparable quarter last year. This increase was primarily due to the higher sales discussed above, an increase in research and development expenses primarily relating to the Boeing 787 program partially offset by the non-recurring secondary offering costs of \$1.7 million, or 1.1% of sales, recorded in the prior year period.

**Amortization of Intangibles.** Amortization of intangibles decreased by \$0.9 million to \$2.7 million for the quarter ended June 28, 2008 from \$3.6 million for the comparable quarter last year due to order backlog amortization becoming fully amortized during fiscal 2007 and the first half of 2008 relating to the acquisitions of ATI and CDA in the prior year.

**Interest Expense-net.** Interest expense decreased \$4.1 million, or 15.7%, to \$21.8 million for the quarter ended June 28, 2008 from \$25.9 million for the comparable quarter last year due to the lower weighted average interest rate of approximately 6.4% during the quarter ended June 28, 2008 from approximately 7.6% for the comparable quarter last year. The Company's weighted average level of outstanding borrowings was approximately \$1.36 billion for the quarters ended June 28, 2008 and June 30, 2007, respectively.

**Income Taxes.** Income tax expense as a percentage of income before income taxes was approximately 36.4% for the quarter ended June 28, 2008 compared to 37.5% for the quarter ended June 30, 2007. The lower effective tax rate was primarily due to a reduction in state and local taxes and an increase in the domestic manufacturing deduction partially offset by a decrease in the research and development tax credit.

**Net Income.** Net income increased \$13.9 million, or 62.7%, to \$36.0 million for the third quarter of fiscal 2008 compared to \$22.1 million for the third quarter of fiscal 2007, primarily as a result of the factors referred to above.

**Thirty-nine week period ended June 28, 2008 compared with the thirty-nine week period ended June 30, 2007.**

**Net Sales.** Net sales increased by \$99.7 million, or 23.5%, to \$524.5 million for the thirty-nine week period ended June 28, 2008, from \$424.8 million for the comparable period last year. Sales growth excluding acquisitions was \$41.3 million and represented a 9.7% increase over the prior year. The organic sales growth was primarily due to (i) an increase of \$21.6 million in defense sales primarily due to increased demand for aftermarket spare parts across most of our product lines, (ii) \$10.3 million of commercial OEM sales resulting primarily from an increase in production rates from The Boeing Company and Airbus S.A.S. and related OEM system suppliers, and (iii) an increase of \$8.3 million of commercial aftermarket sales. The remaining \$58.4 million of the increase resulted from the acquisitions of CEF during fiscal 2008 and ATI and Bruce during fiscal 2007.

**Cost of Sales.** Cost of sales increased by \$38.2 million, or 18.7%, to \$242.0 million for the thirty-nine week period ended June 28, 2008 from \$203.8 million for the comparable period last year. Cost of sales as a percentage of sales decreased to 46.1% for the thirty-nine week period ended June 28, 2008 from 48.0% for the thirty-nine week period ended June 30, 2007. The increase in cost of sales was primarily due to increased volume associated with the higher net sales of \$99.7 million discussed above, partially offset by a \$4.3 million decrease, or 1.1% of net sales, of acquisition-related expenses. The decrease in acquisition related expenses was primarily due to inventory purchase accounting charges recorded in the prior year of \$4.8 million related to the acquisitions of ATI and CDA partially offset by current year inventory purchase accounting charges of \$1.9 million related to the acquisitions of Bruce and CEF.

The decrease in cost of sales as a percentage of sales was due to lower acquisition-related expenses, the strength of the Company's proprietary products and continued productivity efforts, partially offset by the dilutive impact from recent acquisitions.





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**Selling and Administrative Expenses.** Selling and administrative expenses increased by \$11.5 million, or 26.1%, to \$55.6 million, or 10.6% of sales, for the thirty-nine week period ended June 28, 2008 from \$44.1 million, or 10.4% of sales, for the comparable period last year. This increase was primarily due to the higher sales discussed above and an increase in research and development expenses of \$4.4 million primarily relating to the Boeing 787 program, partially offset by the non-recurring charge of \$1.7 million relating to the secondary offering recorded in the prior year.

**Amortization of Intangibles.** Amortization of intangibles increased slightly to \$8.8 million for the thirty-nine week period ended June 28, 2008 from \$8.6 million for the comparable period last year.

**Interest Expense-net.** Interest expense increased \$4.1 million, or 6.1%, to \$70.4 million for the thirty-nine week period ended June 28, 2008 from \$66.3 million for the comparable period last year primarily the result of an increase in our debt of approximately \$430 million due to the acquisition ATI in February 2007, partially offset by lower interest rates and higher interest income of \$2.5 million. The Company's weighted average level of outstanding borrowings was approximately \$1.36 billion during the thirty-nine weeks ended June 28, 2008 compared to approximately \$1.15 billion during the comparable period last year while the average interest rate decreased to approximately 7.1% during the thirty-nine week period ended June 28, 2008 from 7.6% for the comparable period last year.

**Income Taxes.** Income tax expense as a percentage of income before income taxes was approximately 35.6% for the thirty-nine weeks ended June 28, 2008 compared to 37.3% for the thirty-nine week period ended June 30, 2007. The lower effective tax rate was due to a reduction in state and local taxes, an increase in the domestic manufacturing deduction and the favorable resolution of a prior year state tax refund claim of \$0.9 million partially offset by a lower research and development tax credit.

**Net Income.** Net income increased \$31.1 million, or 48.7%, to \$95.1 million for the thirty-nine week period ended June 28, 2008 compared to net income of \$64.0 million for the thirty-nine week period ended June 30, 2007, primarily as a result of the factors referred to above.

### **Backlog**

As of June 28, 2008, the Company estimated its sales order backlog at \$422.9 million compared to an estimated \$339.1 million as of June 30, 2007. This increase in backlog is due to the purchase orders acquired in connection with the acquisitions of CEF and Bruce, discussed above, totaling approximately \$41.5 million and an increase in orders across existing product lines in both the OEM and aftermarket segments. The majority of the purchase orders outstanding as of June 28, 2008 are scheduled for delivery within the next twelve months. Purchase orders may be subject to cancellation by the customer prior to shipment. The level of unfilled purchase orders at any given date during the year will be materially affected by the timing of the Company's receipt of purchase orders and the speed with which those orders are filled. Accordingly, the Company's backlog as of June 28, 2008 may not necessarily represent the actual amount of shipments or sales for any future period.

### **Foreign Currency Exchange Rate Risk**

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

### **Liquidity and Capital Resources**

*Operating Activities.* The Company generated \$149.9 million of cash from operating activities during the thirty-nine week period ended June 28, 2008 compared to \$90.1 million during the thirty-nine week period ended June 30, 2007. The increase of \$59.8 million was primarily due to higher net income and favorable changes in working capital for the thirty-nine week period ended June 28, 2008.



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*Investing Activities.* Cash used in investing activities was \$92.0 million during thirty-nine week period ended June 28, 2008 consisted of the acquisition of CEF of \$84.7 million and capital expenditures of \$7.3 million. Cash used in investing activities was \$483.1 million during thirty-nine week period ended June 30, 2007 consisted of the acquisitions of ATI and CDA for \$475.9 million and capital expenditures of \$7.1 million.

*Financing Activities.* Cash provided by financing activities during the thirty-nine week period ended June 28, 2008 was \$25.3 million compared to \$451.9 million during the thirty-nine week period ended June 30, 2007. Cash provided by financing activities during the thirty-nine week period ended June 28, 2008 related to the exercise of stock options. Cash provided by financing activities for the thirty-nine week period ended June 30, 2007 consisted of the proceeds received of \$296.8 million, net of fees, from the issuance of additional 7<sup>3</sup>/<sub>4</sub>% senior subordinated notes and additional term loans of \$125.4 million, net of fees, to finance the acquisition of ATI, and the exercise of stock options of \$29.7 million.

*Description of Current Senior Secured Credit Facility and Indenture*

The senior secured credit facility ( Senior Secured Credit Facility ) consists of a \$780 million term loan facility, which is fully drawn, and a \$200 million revolving loan facility. At June 28, 2008, \$198.5 million of the revolving credit facility was available. The term loan facility will mature in June 2013 and is not subject to interim scheduled amortization, but is subject to certain prepayment requirements.

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

TransDigm Inc. issued \$575 million aggregate principal amount of 7<sup>3</sup>/<sub>4</sub>% senior subordinated notes ( 7<sup>3</sup>/<sub>4</sub>% Senior Subordinated Notes ) under the indenture dated as of June 23, 2006. Such notes do not require principal payments prior to their maturity in July 2014.

**New Accounting Standards**

In March 2008, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities ( FAS 161 ). FAS 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FAS 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company is currently evaluating the impact of the provisions of FAS 161 on its consolidated financial position or results of operations.

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

In July 2006, the FASB issued 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. The Company adopted FIN 48 on October 1, 2007. See Note 8 in Notes to Condensed Consolidated Financial Statements.

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**ITEM 3. Quantitative and Qualitative Disclosure About Market Risk**

Our main exposure to market risk relates to interest rates. Our financial instruments that are subject to interest rate risk principally include fixed-rate and floating-rate long-term debt. At June 28, 2008, we had borrowings under our Senior Secured Credit Facility of \$780 million that were subject to interest rate risk. Borrowings under our Senior Secured Credit Facility bear interest, at our option, at a rate equal to either an alternate base rate or an adjusted LIBO rate for a one-, two-, three- or six-month (or to the extent available to each lender, nine- or twelve-month) interest period chosen by us, in each case, plus an applicable margin percentage. Accordingly, the Company's cash flows and earnings will be exposed to the market risk of interest rate changes resulting from variable rate borrowings under our Senior Secured Credit Facility. The effect of a hypothetical one percentage point increase in interest rates would increase the annual interest costs under our Senior Secured Credit Facility by approximately \$7.8 million based on the amount of outstanding borrowings at June 28, 2008. The weighted average interest rate on the \$780 million of borrowings under our Senior Secured Credit Facility on June 28, 2008 was 4.8%.

At June 28, 2008, we had an agreement in place to swap variable interest rates on our Senior Secured Credit Facility for fixed interest rates through June 23, 2009 for the notional amount of \$170 million, which will decrease to \$150 million on September 23, 2008 through June 23, 2009. The fair value of the interest rate swap agreement is adjusted at each balance sheet date, with a corresponding adjustment to other comprehensive income. At June 28, 2008, the fair value of the interest rate swap agreement was a liability of \$4.0 million.

At June 28, 2008, we had an agreement in place to swap variable interest rates on our Senior Secured Credit Facility for fixed interest rates through March 23, 2011 for the notional amount of \$300 million. The fair value of the interest rate swap agreement is adjusted at each balance sheet date, with a corresponding adjustment to other comprehensive income. At June 28, 2008, the fair value of the interest rate swap agreement was an asset of \$5.7 million.

Because the interest rates on borrowings under our Senior Secured Credit Facility vary with market conditions, the amount of outstanding borrowings under our Senior Secured Credit Facility approximates the fair value of the indebtedness. The fair value of the \$575 million aggregate principal amount of our 7<sup>3</sup>/<sub>4</sub>% Senior Subordinated Notes is exposed to the market risk of interest rate changes. The estimated fair value of such notes approximated \$571 million at June 28, 2008 based upon quoted market rates.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

As of June 28, 2008, TD Group carried out an evaluation, under the supervision and with the participation of TD Group's management, including its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of TD Group's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that TD Group's disclosure controls and procedures are effective to ensure that information required to be disclosed by TD Group in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to TD Group's management, including its Chief Executive Officer and

Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, TD Group's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures. There have been no significant changes in TD Group's internal controls or other factors that could significantly affect the internal controls subsequent to the date of TD Group's evaluations.

**Changes in Internal Control over Financial Reporting**

There have been no changes in TD Group's internal control over financial reporting that occurred during the thirty-nine week period ending June 28, 2008 that have materially affected, or are reasonably likely to materially affect, TD Group's internal control over financial reporting.

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**PART II: OTHER INFORMATION**

**ITEM 1A. Risk Factors**

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

**ITEM 6. Exhibits**

- 3.1 Certificate of Incorporation, filed September 30, 1986, of CEF Industries, Inc.
- 3.2 Certificate of Amendment of Certificate of Incorporation before Payment of Capital, filed November 12, 1986, of CEF Industries, Inc.
- 3.3 Bylaws of CEF Industries, Inc.
- 10.1 Amendment No. 2 to TransDigm Group Incorporated Fourth Amended and Restated 2003 Stock Option Plan.\*
- 10.2 Amended and Restated Employment Agreement, dated June 3, 2008, between TransDigm Group Incorporated and W. Nicholas Howley (incorporated by reference to Form 8-K filed June 6, 2008).\*
- 10.3 Amendment No. 1 to Employment Agreement, dated as of July 21, 2008, between TransDigm Group Incorporated and W. Nicholas Howley (incorporated by reference to Form 8-K filed July 22, 2008).\*
- 10.4 TransDigm Group Incorporated 2006 Stock Incentive Plan Dividend Equivalent Plan (incorporated by reference to Form 8-K filed June 6, 2008).\*
- 10.5 Fifth Supplemental Indenture, dated as of May 7, 2008, among TransDigm Inc., TransDigm Group Incorporated, the guarantors listed on the signature pages thereto and The Bank of New York Trust Company, N.A., as trustee (incorporated by reference to Form 8-K filed May 9, 2008).
- 10.6 Supplement No. 5, dated as of May 7, 2008, between CEF Industries, Inc. and Credit Suisse, as collateral agent and administrative agent, to the Guarantee and Collateral Agreement, dated as of June 23, 2006, among TransDigm Inc., TransDigm Group Incorporated, the subsidiaries of TransDigm Inc. named therein and Credit Suisse, as administrative agent and collateral agent (incorporated by reference to Form 8-K filed May 9, 2008).
- 10.7 Joinder Agreement, dated as of May 7, 2008, between CEF Industries, Inc. and Credit Suisse, as agent (incorporated by reference to Form 8-K filed May 9, 2008).
- 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.

\* Indicates management contract or compensatory plan or arrangement.

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**SIGNATURES**

TRANSDIGM GROUP INCORPORATED

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

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

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**EXHIBIT INDEX**

**TO FORM 10-Q FOR THE PERIOD ENDED JUNE 28, 2008**

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