

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 9th 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.)

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
ASSETS		
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
Total current assets	227,216	234,181
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
TOTAL ASSETS	\$ 1,448,714	\$ 1,416,712
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 19,329	\$ 18,764
Accrued liabilities	30,009	24,675
Total current liabilities	49,338	43,439
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
Total liabilities	1,061,373	1,053,671
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)
Total stockholders equity	387,341	363,041
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,448,714	\$ 1,416,712

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See notes to condensed consolidated financial statements.

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(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		Retained Earnings	Comprehensive Loss	
		Par Value	Paid-In Capital			
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
OPERATING ACTIVITIES:		
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)
INVESTING ACTIVITIES:		
Capital expenditures	(2,496)	(1,767)
Acquisition of business	(45,250)	
Net cash used in investing activities	(47,746)	(1,767)
FINANCING ACTIVITIES:		
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
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 12,713	\$ 68,795
Cash (received) / paid during the period for income taxes	\$ (72)	\$ 2,593

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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 7³/4% 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	&