TransDigm Group INC
Form 10-Q
February 05, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended December 28, 2013.

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

Commission File Number 001-32833

TransDigm Group Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

41-2101738

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

1301 East 9th Street, Suite 3000, Cleveland, Ohio	**44114**
(Address of principal executive offices)	**(Zip Code)**

(216) 706-2960

(Registrant s 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 x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

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

LARGE ACCELERATED FILER	x	ACCELERATED FILER	¨
NON-ACCELERATED FILER	¨	SMALLER REPORTING COMPANY	¨

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

The number of shares outstanding of TransDigm Group Incorporated s common stock, par value $.01 per share, was 52,767,714 as of January 25, 2014.

Table of Contents

INDEX

Table of Contents

TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share amounts)

(Unaudited)

	December 28, 2013	September 30, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 410,924	$ 564,740
Trade accounts receivable - Net	322,439	290,449
Inventories - Net	443,051	413,581
Deferred income taxes	28,431	30,182
Prepaid expenses and other	16,248	21,543
Total current assets	1,221,093	1,320,495
PROPERTY, PLANT AND EQUIPMENT - Net	219,222	208,964
GOODWILL	3,489,842	3,343,907
TRADEMARKS AND TRADE NAMES	530,668	485,690
OTHER INTANGIBLE ASSETS - Net	747,359	703,800
DEBT ISSUE COSTS - Net	70,551	72,668
OTHER	13,752	13,355
TOTAL ASSETS	$ 6,292,487	$ 6,148,879
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 31,045	$ 31,045
Accounts payable	90,505	106,768
Accrued liabilities	217,099	184,687
Total current liabilities	338,649	322,500
LONG-TERM DEBT	5,700,193	5,700,193
DEFERRED INCOME TAXES	417,344	384,301
OTHER NON-CURRENT LIABILITIES	70,483	78,266
Total liabilities	6,526,669	6,485,260
STOCKHOLDERS (DEFICIT) EQUITY:		
Common stock - $.01 par value; authorized 224,400,000 shares; issued 53,240,219 and 53,172,551 at December 28, 2013 and September 30, 2013, respectively	532	532
Additional paid-in capital	700,639	689,935
Accumulated deficit	(919,460)	(1,004,244)
Accumulated other comprehensive income (loss)	195	(6,516)
Treasury stock, at cost; 505,400 shares at December 28, 2013 and September 30, 2013	(16,088)	(16,088)
Total stockholders (deficit) equity	(234,182)	(336,381)

TOTAL LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY	$ 6,292,487	$ 6,148,879

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

FOR THE THIRTEEN WEEK PERIODS ENDED

DECEMBER 28, 2013 AND DECEMBER 29, 2012

(Amounts in thousands, except per share amounts)

(Unaudited)

	Thirteen Week Periods Ended	
	December 28, 2013	December 29, 2012
NET SALES	$ 529,322	$ 430,418
COST OF SALES	245,186	191,871
GROSS PROFIT	284,136	238,547
SELLING AND ADMINISTRATIVE EXPENSES	57,127	55,161
AMORTIZATION OF INTANGIBLE ASSETS	16,383	10,540
INCOME FROM OPERATIONS	210,626	172,846
INTEREST EXPENSE - Net	80,853	62,876
INCOME BEFORE INCOME TAXES	129,773	109,970
INCOME TAX PROVISION	43,650	35,800
NET INCOME	$ 86,123	$ 74,170
NET INCOME APPLICABLE TO COMMON STOCK	$ 81,984	$ 36,040
Net earnings per share - see Note 5:		
Basic and diluted	$ 1.44	$ 0.66
Cash dividends paid per common share	$	$ 12.85
Weighted-average shares outstanding:		
Basic and diluted	56,991	54,453

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THIRTEEN WEEK PERIODS ENDED

DECEMBER 28, 2013 AND DECEMBER 29, 2012

(Amounts in thousands)

(Unaudited)

	Thirteen Week Periods Ended	
	December 28, 2013	December 29, 2012
Net income	$ 86,123	$ 74,170
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	2,647	2,052
Interest rate swap agreements, net of taxes of $1.8 million for the thirteen week period ended December 28, 2013	4,064	
Other		(214)
Other comprehensive income, net of tax	6,711	1,838
TOTAL COMPREHENSIVE INCOME	$ 92,834	$ 76,008

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS (DEFICIT) EQUITY

FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 28, 2013

(Amounts in thousands, except share amounts)

(Unaudited)

	Common Stock		Additional		Accumulated Other	Treasury Stock		
	Number of Shares	Par Value	Paid-In Capital	Accumulated Deficit	Comprehensive Income (Loss)	Number of Shares	Value	Total
BALANCE, OCTOBER 1, 2013	53,172,551	$ 532	$ 689,935	$ (1,004,244)	$ (6,516)	(505,400)	$ (16,088)	$ (336,381)
Unvested dividend equivalents				(1,339)				(1,339)
Compensation expense recognized for employee stock options			4,175					4,175
Excess tax benefits related to share-based payment arrangements			3,636					3,636
Exercise of employee stock options	67,668		2,893					2,893
Net income				86,123				86,123
Interest rate swaps, net of tax					4,064			4,064
Foreign currency translation adjustments					2,647			2,647
BALANCE, DECEMBER 28, 2013	53,240,219	$ 532	$ 700,639	$ (919,460)	$ 195	(505,400)	$ (16,088)	$ (234,182)

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Thirteen Week Periods Ended December 28, 2013	Thirteen Week Periods Ended December 29, 2012
OPERATING ACTIVITIES:		
Net income	$ 86,123	$ 74,170
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,404	6,868
Amortization of intangible assets	16,435	10,584
Amortization of debt issue costs	3,085	3,796
Non-cash equity compensation	4,175	7,131
Excess tax benefits related to share-based payment arrangements	(3,636)	(26,688)
Deferred income taxes	(87)	1,258
Changes in assets/liabilities, net of effects from acquisitions of businesses:		
Trade accounts receivable	(3,034)	17,321
Inventories	(2,216)	(11,521)
Income taxes receivable/payable	45,118	33,949
Other assets	3,156	3,045
Accounts payable	(24,773)	(4,405)
Accrued and other liabilities	(16,043)	(17,393)
Net cash provided by operating activities	115,707	98,115
INVESTING ACTIVITIES:		
Capital expenditures	(8,097)	(8,677)
Acquisition of businesses, net of cash acquired	(263,892)	134
Cash proceeds from sale of investment		5,000
Net cash used in investing activities	(271,989)	(3,543)
FINANCING ACTIVITIES:		
Excess tax benefits related to share-based payment arrangements	3,636	26,688
Proceeds from exercise of stock options	2,893	5,541
Dividends paid	(4,139)	(702,406)
Proceeds from 2011 credit facility - net		147,373
Proceeds from senior subordinated notes due 2020 - net		542,000
Other	(78)	
Net cash provided by financing activities	2,312	19,196
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	154	139
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(153,816)	113,907
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	564,740	440,524
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 410,924	$ 554,431

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 77,125	$ 67,772
Cash paid during the period for income taxes	$ 306	$ 895

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THIRTEEN WEEK PERIODS ENDED DECEMBER 28, 2013 AND DECEMBER 29, 2012

(UNAUDITED)

1. DESCRIPTION OF THE BUSINESS

Description of the Business TransDigm Group Incorporated (TD Group), through its wholly-owned subsidiary, TransDigm Inc., is a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly all commercial and military aircraft in service today. TransDigm Inc. along with TransDigm Inc. s direct and indirect wholly-owned operating subsidiaries (collectively, with TD Group, the Company or TransDigm), offers a broad range of proprietary aerospace components. TD Group has no significant assets or operations other than its 100% ownership of TransDigm Inc. TD Group s common stock is listed on The New York Stock Exchange, or the NYSE, under the trading symbol TDG.

Major product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, NiCad batteries and chargers, engineered latching and locking devices, rods and locking devices, engineered connectors and elastomers, cockpit security components and systems, specialized cockpit displays, aircraft audio systems, specialized lavatory components, seatbelts and safety restraints, engineered interior surfaces, lighting and control technology and military personnel parachutes and cargo delivery systems.

Separate Financial Statements Separate financial statements of TransDigm Inc. are not presented because TransDigm Inc. s 7 $^3/_4$% Senior Subordinated Notes due 2018, 5 $^1/_2$% Senior Subordinated Notes due 2020 and 7 $^1/_2$% Senior Subordinated Notes due 2021 are fully and unconditionally guaranteed on a senior subordinated basis by TD Group and all existing 100% owned domestic subsidiaries of TransDigm Inc. and because TD Group has no significant operations or assets separate from its investment in TransDigm Inc.

2. UNAUDITED INTERIM FINANCIAL INFORMATION

The financial information included herein is unaudited; however, the information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the Company s financial position and results of operations and cash flows for the interim periods presented. These financial statements and notes should be read in conjunction with the financial statements and related notes for the year ended September 30, 2013 included in TD Group s Form 10-K dated November 15, 2013. As disclosed therein, the Company s annual consolidated financial statements were prepared in conformity with generally accepted accounting principles in the United States (GAAP). The September 30, 2013 condensed consolidated balance sheet was derived from TD Group s audited financial statements. The results of operations for the thirteen week period ended December 28, 2013 are not necessarily indicative of the results to be expected for the full year.

3. ACQUISITIONS

Airborne Global Inc. On December 19, 2013, TransDigm Inc. acquired all of the outstanding stock of Airborne Global Inc. (Airborne) for approximately $263.8 million in cash, which comprises the $250 million contract price plus estimated cash and working capital at closing and which is subject to adjustments based on the actual level of cash and working capital as of the closing date of the acquisition. Airborne is the industry leading designer and manufacturer of personnel parachutes, cargo aerial delivery systems, emergency escape systems, naval decoys and other related products. These products fit well with TransDigm s overall business direction. Airborne is included in TransDigm s Airframe segment. The Company expects that the approximately $140 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

Whippany Actuation Systems, LLC On June 28, 2013, Whippany Actuation Systems, LLC, a newly formed subsidiary of TransDigm Inc., acquired assets from GE Aviation s Electromechanical Actuation Division (Whippany Actuation) for approximately $151.5 million in cash, which includes a purchase price adjustment of $2.7 million paid in the first quarter of fiscal 2014. Whippany Actuation manufactures proprietary, highly engineered aerospace electromechanical motion control subsystems for civil and military applications with product offerings including control electronics, motors, high power mechanical transmissions and actuators. These products fit well with TransDigm s overall business direction. Whippany is included in TransDigm s Power & Control segment. The Company expects that the approximately $103 million of goodwill recognized for the acquisition will be deductible for tax purposes.

Arkwin Industries, Inc. On June 5, 2013, TransDigm Inc. acquired all of the outstanding stock of Arkwin Industries, Inc. (Arkwin), for approximately $285.7 million in cash, which includes a purchase price adjustment of $0.2 million received in the fourth quarter of fiscal 2013. Arkwin manufactures proprietary, highly engineered aerospace hydraulic and fuel system components for commercial and military aircraft, helicopters and other specialty applications. These products fit well with TransDigm s overall business direction. Arkwin is included in TransDigm s Power & Control segment. The Company expects that the approximately $185 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

Table of Contents

Aerosonic Corporation On June 5, 2013, Buccaneer Acquisition Sub Inc., a newly formed subsidiary of TransDigm Inc., completed the tender offer of a majority of the outstanding stock of Aerosonic Corporation (Aerosonic). Buccaneer Acquisition Sub Inc. was subsequently merged into Aerosonic on June 10, 2013; in connection therewith, all outstanding shares of Aerosonic were cancelled and Aerosonic became a wholly owned subsidiary of TransDigm Inc. The aggregate price paid in the tender offer and merger was approximately $39.8 million in cash. Aerosonic designs and manufactures proprietary, highly engineered mechanical and digital altimeters, airspeed indicators, rate of climb indicators, microprocessor controlled air data test sets, angle of attack stall warning systems, integrated air data sensors and other aircraft sensors, monitoring systems and flight instrumentation for use on commercial and military aircraft. These products fit well with TransDigm s overall business direction. Aerosonic is included in TransDigm s Airframe segment. The Company expects that the approximately $14 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

The Company accounted for the acquisitions using the acquisition method and included the results of operations of the acquisitions in its consolidated financial statements from the effective date of each acquisition. The Company is in the process of obtaining a third-party valuation of certain tangible and intangible assets of Airborne, Whippany Actuation, Arkwin and Aerosonic; therefore, the values attributed to those acquired assets in the consolidated financial statements are subject to adjustment. Pro forma net sales and results of operations for the acquisitions had they occurred at the beginning of the applicable thirteen week periods ended December 28, 2013 or December 29, 2012 are not significant and, accordingly, are not provided.

The acquisitions strengthen and expand the Company s position to design, produce and supply highly-engineered proprietary aerospace components in niche markets with significant aftermarket content and provide opportunities to create value through the application of our three core value-driven operating strategies (obtaining profitable new business, improving our cost structure, and providing highly engineered value-added products to customers). The purchase price paid for each acquisition reflects the current earnings before interest, taxes, depreciation and amortization (EBITDA) and cash flows, as well as, the future EBITDA and cash flows expected to be generated by the business, which are driven in most cases by the recurring aftermarket consumption over the life of a particular aircraft, estimated to be approximately 30 years.

4. EARNINGS PER SHARE (TWO-CLASS METHOD)

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

	Thirteen Week Periods Ended	
	December 28, 2013	**December 29, 2012**
Numerator for earnings per share:		
Net income	$ 86,123	$ 74,170
Less dividends on participating securities	(4,139)	(38,130)
Net income applicable to common stock - basic and diluted	$ 81,984	$ 36,040
Denominator for basic and diluted earnings per share under the two-class method:		
Weighted average common shares outstanding	52,687	51,796
Vested options deemed participating securities	4,304	2,657
Total shares for basic and diluted earnings per share	56,991	54,453
Basic and diluted earnings per share	$ 1.44	$ 0.66

5. INVENTORIES

Inventories are stated at the lower of cost or market. Cost of inventories is determined by the average cost and the first-in, first-out (FIFO) methods for all locations except CEF Industries LLC, which determines the cost of inventories using the last-in, first-out (LIFO) method. Less than 5% of the inventory was valued under the LIFO method at December 28, 2013.

Table of Contents

Inventories consist of the following (in thousands):

	December 28, 2013	September 30, 2013
Raw materials and purchased component parts	$ 295,135	$ 274,510
Work-in-progress	133,855	124,765
Finished Goods	60,556	58,052
Total	489,546	457,327
Reserves for excess and obsolete inventory and LIFO	(46,495)	(43,746)
Inventories - net	$ 443,051	$ 413,581

6. INTANGIBLE ASSETS

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

	December 28, 2013			September 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Technology	$ 851,399	$ 154,162	$ 697,237	$ 801,010	$ 143,196	$ 657,814
Order backlog	25,036	8,782	16,254	19,255	7,936	11,319
Other	43,280	9,412	33,868	43,427	8,760	34,667
Total	$ 919,715	$ 172,356	$ 747,359	$ 863,692	$ 159,892	$ 703,800

Intangible assets acquired during the thirteen week period ended December 28, 2013 were as follows (in thousands):

	Cost	Amortization Period
Intangible assets not subject to amortization:		
Goodwill	$ 140,474	
Trademarks and trade names	45,000	
	185,474	
Intangible assets subject to amortization:		
Technology	50,000	20 years
Order backlog	9,000	1 year
	59,000	17.1 years
Total	$ 244,474	

The aggregate amortization expense on identifiable intangible assets for the thirteen week periods ended December 28, 2013 and December 29, 2012 was approximately $16.4 million and $10.6 million, respectively. The estimated amortization expense is $64.1 million for fiscal 2014, $46.4 million for fiscal 2015 and $44.1 million for each of the four succeeding years 2016 through 2019.

The following is a summary of changes in the carrying value of goodwill by segment from September 30, 2013 through December 28, 2013 (in thousands):

	Power & Control	Airframe	Non-aviation	Total
Balance, September 30, 2013	$ 1,566,926	$ 1,721,901	$ 55,080	$ 3,343,907
Goodwill acquired during the year		140,474		140,474
Purchase price allocation adjustments	3,754	82		3,836
Other		1,625		1,625
Balance, December 28, 2013	$ 1,570,680	$ 1,864,082	$ 55,080	$ 3,489,842

Table of Contents

7. INCOME TAXES

At the end of each reporting period, TD Group makes an estimate of its annual effective income tax rate. The estimate used in the year-to-date period may change in subsequent periods. During the thirteen week periods ended December 28, 2013 and December 29, 2012, the effective income tax rate was 33.6% and 32.6%, respectively. The Company s effective tax rate for these periods was less than the Federal statutory tax rate due primarily to the domestic manufacturing deduction. The increase in the effective tax rate for the quarter ended December 28, 2013 was primarily due to non-recurring adjustments in estimated deferred state obligations recognized in the quarter ended December 29, 2012.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions as well as foreign jurisdictions located in Belgium, China, France, Malaysia, Mexico, Singapore, Sri Lanka and the United Kingdom. The Company is no longer subject to U.S. federal examinations for years before fiscal 2011. AmSafe is subject to U.S. federal examinations for the 2008, 2009, 2010 and 2011 years. In addition, the Company is subject to state income tax examinations for fiscal years 2009 and later.

At December 28, 2013 and September 30, 2013, TD Group had $6.1 million and $6.1 million in unrecognized tax benefits, the recognition of which would have an effect of approximately $5.7 million and $5.7 million on the effective tax rate at December 28, 2013 and September 30, 2013, respectively. The Company does not believe that the tax positions that comprise the unrecognized tax benefit amount will change significantly over the next 12 months. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense.

8. FAIR VALUE MEASUREMENTS

The following tables present our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following summarizes the carrying amounts and fair values of financial instruments (in thousands):

		December 28, 2013		September 30, 2013	
	Level	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets:					
Cash and cash equivalents	1	$ 410,924	$ 410,924	$ 564,740	$ 564,740
Liabilities:					
Interest rate swap agreements (1)	2	7,100	7,100	6,950	6,950
Interest rate swap agreements (2)	2	2,700	2,700	7,550	7,550
Long-term debt:					
Term loans	2	3,081,238	3,084,000	3,081,238	3,065,000
7 $^{3}/_{4}$% Senior Subordinated Notes due 2018	1	1,600,000	1,720,000	1,600,000	1,708,000
5 $^{1}/_{2}$% Senior Subordinated Notes due 2020	1	550,000	536,000	550,000	540,000
7 $^{1}/_{2}$% Senior Subordinated Notes due 2021	1	500,000	538,000	500,000	536,000

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

(2) Included in Other non-current liabilities on the Condensed Consolidated Balance Sheet.

Interest rate swaps were measured at fair value using quoted market prices for the swap interest rate indexes over the term of the swap discounted to present value versus the fixed rate of the contract. The estimated fair value of the Company s term loans was based on information provided by the agent under the Company s senior secured credit facility. The estimated fair values of the Company s 2018 Notes, 2020 Notes and 2021 Notes were based upon quoted market prices.

9. DERIVATIVES AND HEDGING ACTIVITIES

The Company is exposed to, among other things, the impact of changes in interest rates in the normal course of business. The Company s risk management program is designed to manage the exposure and volatility arising from these risks, and utilizes derivative financial instruments to offset a portion of these risks. The Company uses derivative financial instruments only to the extent necessary to hedge identified business risks and does not enter into such transactions for trading purposes. The Company generally does not require collateral or other security with counterparties to these financial instruments and is therefore subject to credit risk in the event of nonperformance; however, the Company monitors credit risk and currently does not anticipate nonperformance by other parties.

Table of Contents

Interest rate swap agreements are used to manage interest rate risk associated with floating-rate borrowings under our 2013 Credit Facility. The interest rate swap agreements utilized by the Company effectively modify the Company s exposure to interest rate risk by converting a portion of the Company s floating-rate debt to a fixed rate basis through the expiration date of the interest rate swap agreements, thereby reducing the impact of interest rate changes on future interest expense. These agreements involve the receipt of floating rate amounts in exchange for fixed rate interest payments over the term of the agreements without an exchange of the underlying principal amount. These derivative instruments that qualify as effective cash flow hedges under GAAP. For these cash flow hedges, the effective portion of the gain or loss from the financial instruments was initially reported as a component of accumulated other comprehensive income (loss) in stockholders equity and subsequently reclassified into earnings in the same line as the hedged item in the same period or periods during which the hedged item affected earnings.

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

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

In conjunction with the refinancing of the 2011 Credit Facility, the Company no longer designated the interest rate swap agreements relating to the $353 million aggregate notional amount as cash flow hedges for accounting purposes. Accordingly, amounts previously recorded as a component of accumulated other comprehensive loss in stockholder s equity will be amortized into earnings over the remaining period of the swap agreements. The net after-tax loss included in accumulated other comprehensive loss to be reclassified into interest expense over the remaining term of the swap agreement was $5.7 million at December 28, 2013.

10. SEGMENTS

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

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

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

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

Table of Contents

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

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

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

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

	Thirteen Week Periods Ended	
	December 28, 2013	December 29, 2012
Net sales to external customers		
Power & Control	$ 251,208	$ 193,876
Airframe	254,666	214,922
Non-aviation	23,448	21,620
	$ 529,322	$ 430,418

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

	Thirteen Week Periods Ended	
	December 28, 2013	December 29, 2012
EBITDA As Defined		
Power & Control	$ 128,984	$ 103,119
Airframe	114,470	98,806
Non-aviation	5,106	4,435
Total segment EBITDA As Defined	248,560	206,360
Unallocated corporate expenses	5,003	5,464
Total Company EBITDA As Defined	243,557	200,896
Depreciation and amortization	23,839	17,452
Interest expense - net	80,853	62,876
Acquisition-related costs	4,917	3,467
Stock compensation expense	4,175	7,131

Income from continuing operations before income taxes	$ 129,773	$ 109,970

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

	December 28, 2013	September 30, 2013
Total assets		
Power & Control	$ 2,392,889	$ 2,398,469
Airframe	3,246,082	2,958,974
Non-aviation	130,192	132,672
Corporate	523,324	658,764
	$ 6,292,487	$ 6,148,879

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

11. SUPPLEMENTAL GUARANTOR INFORMATION

TransDigm s 2018 Notes, 2020 Notes and 2021 Notes are jointly and severally guaranteed, on a senior subordinated basis, by TD Group and TransDigm Inc. s 100% Domestic Restricted Subsidiaries, as defined in the Indentures. The following supplemental condensed consolidating financial information presents, in separate columns, the balance sheets of the Company as of December 28, 2013 and September 30, 2013 and its statements of income and comprehensive income and cash flows for the thirteen week periods ended December 28, 2013 and December 29, 2012 for (i) TransDigm Group on a parent only basis with its investment in subsidiaries recorded under the equity method, (ii) TransDigm Inc. including its directly owned operations and non-operating entities, (iii) the Subsidiary Guarantors on a combined basis, (iv) Non-Guarantor Subsidiaries and (v) the Company on a consolidated basis.

Table of Contents

TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 28, 2013

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 1,083	$ 379,572	$ 7,034	$ 23,235	$	$ 410,924
Trade accounts receivable - Net		14,692	280,421	29,093	(1,767)	322,439
Inventories - Net		27,430	389,757	26,564	(700)	443,051
Deferred income taxes		28,431				28,431
Prepaid expenses and other		1,402	12,485	2,361		16,248
Total current assets	1,083	451,527	689,697	81,253	(2,467)	1,221,093
INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES	(235,265)	5,494,861	2,639,587	74,754	(7,973,937)	
PROPERTY, PLANT AND EQUIPMENT - Net		15,490	189,292	14,440		219,222
GOODWILL		97,507	3,306,565	85,770		3,489,842
TRADEMARKS AND TRADE NAMES		19,377	478,417	32,874		530,668
OTHER INTANGIBLE ASSETS - Net		21,771	707,670	19,378	(1,460)	747,359
DEBT ISSUE COSTS - Net		70,551				70,551
OTHER		2,650	10,904	198		13,752
TOTAL ASSETS	$ (234,182)	$ 6,173,734	$ 8,022,132	$ 308,667	$ (7,977,864)	$ 6,292,487
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY						
CURRENT LIABILITIES:						
Current portion of long-term debt	$	$ 31,045	$	$	$	$ 31,045
Accounts payable		10,106	71,853	10,315	(1,769)	90,505
Accrued liabilities		107,314	92,630	17,155		217,099
Total current liabilities		148,465	164,483	27,470	(1,769)	338,649
LONG-TERM DEBT		5,700,193				5,700,193
DEFERRED INCOME TAXES		417,344				417,344
OTHER NON-CURRENT LIABILITIES		24,994	45,550	(61)		70,483
Total liabilities		6,290,996	210,033	27,409	(1,769)	6,526,669
STOCKHOLDERS (DEFICIT) EQUITY	(234,182)	(117,262)	7,812,099	281,258	(7,976,095)	(234,182)
TOTAL LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY	$ (234,182)	$ 6,173,734	$ 8,022,132	$ 308,667	$ (7,977,864)	$ 6,292,487

-13-

Table of Contents

TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2013

(Amounts in thousands)

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

-14-

Table of Contents

TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 28, 2013

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET SALES	$	$ 26,741	$ 468,056	$ 36,300	$ (1,775)	$ 529,322
COST OF SALES		15,594	206,624	24,966	(1,998)	245,186
GROSS PROFIT		11,147	261,432	11,334	223	284,136
SELLING AND ADMINISTRATIVE EXPENSES		12,166	39,069	5,892		57,127
AMORTIZATION OF INTANGIBLE ASSETS		347	15,774	262		16,383
INCOME (LOSS) FROM OPERATIONS		(1,366)	206,589	5,180	223	210,626
INTEREST EXPENSE - Net		80,646	71	136		80,853
EQUITY IN INCOME OF SUBSIDIARIES	(86,123)	(129,017)			215,140	
INCOME BEFORE INCOME TAXES	86,123	47,005	206,518	5,044	(214,917)	129,773
INCOME TAX PROVISION (BENEFIT)		(39,118)	80,648	2,120		43,650
NET INCOME	$ 86,123	$ 86,123	$ 125,870	$ 2,924	$ (214,917)	$ 86,123
OTHER COMPREHENSIVE INCOME, NET OF TAX	6,711	3,807	817	2,087	(6,711)	6,711
TOTAL COMPREHENSIVE INCOME	$ 92,834	$ 89,930	$ 126,687	$ 5,011	$ (221,628)	$ 92,834

Table of Contents

TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 29, 2012

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET SALES	$	$ 25,209	$ 379,870	$ 27,501	$ (2,162)	$ 430,418
COST OF SALES		14,242	159,959	19,629	(1,959)	191,871
GROSS PROFIT		10,967	219,911	7,872	(203)	238,547
SELLING AND ADMINISTRATIVE EXPENSES		15,549	35,566	4,046		55,161
AMORTIZATION OF INTANGIBLE ASSETS		156	9,945	439		10,540
INCOME (LOSS) FROM OPERATIONS		(4,738)	174,400	3,387	(203)	172,846
INTEREST EXPENSE - Net		61,956	624	296		62,876
EQUITY IN INCOME OF SUBSIDIARIES	(74,170)	(103,465)			177,635	
INCOME BEFORE INCOME TAXES	74,170	36,771	173,776	3,091	(177,838)	109,970
INCOME TAX PROVISION (BENEFIT)		(37,399)	71,971	1,228		35,800
NET INCOME	$ 74,170	$ 74,170	$ 101,805	$ 1,863	$ (177,838)	$ 74,170
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	1,838	(215)	261	1,792	(1,838)	1,838
TOTAL COMPREHENSIVE INCOME	$ 76,008	$ 73,955	$ 102,066	$ 3,655	$ (179,676)	$ 76,008

Table of Contents

TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 28, 2013

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$	$ (6,676)	$ 123,148	$ 2,134	$ (2,899)	$ 115,707
INVESTING ACTIVITIES:						
Capital expenditures		(569)	(6,892)	(636)		(8,097)
Acquisition of business, net of cash acquired		(263,892)				(263,892)
Net cash used in investing activities		(264,461)	(6,892)	(636)		(271,989)
FINANCING ACTIVITIES:						
Intercompany activities	(2,620)	113,924	(117,122)	2,919	2,899	
Excess tax benefits related to share-based payment arrangements	3,636					3,636
Proceeds from exercise of stock options	2,893					2,893
Dividends paid	(4,139)					(4,139)
Other		(78)				(78)
Net cash provided by (used in) financing activities	(230)	113,846	(117,122)	2,919	2,899	2,312
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				154		154
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(230)	(157,291)	(866)	4,571		(153,816)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,313	536,863	7,900	18,664		564,740
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,083	$ 379,572	$ 7,034	$ 23,235	$	$ 410,924

Table of Contents

TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 29, 2012

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$	$ (30,928)	$ 132,178	$ (1,061)	$ (2,074)	$ 98,115
INVESTING ACTIVITIES:						
Capital expenditures		(622)	(7,566)	(489)		(8,677)
Acquisition of businesses, net of cash acquired		134				134
Cash proceeds from sale of investment		5,000				5,000
Net cash provided by (used in) investing activities		4,512	(7,566)	(489)		(3,543)
FINANCING ACTIVITIES:						
Intercompany activities	660,335	(540,502)	(121,689)	(218)	2,074	
Excess tax benefits related to share-based payment arrangements	26,688					26,688
Proceeds from exercise of stock options	5,541					5,541
Dividends paid	(702,406)					(702,406)
Proceeds from 2011 credit facility-net		147,373				147,373
Proceeds from senior subordinated notes due 2020-net		542,000				542,000
Net cash provided by (used in) financing activities	(9,842)	148,871	(121,689)	(218)	2,074	19,196
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				139		139
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,842)	122,455	2,923	(1,629)		113,907
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	20,100	406,891	4,494	9,039		440,524
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 10,258	$ 529,346	$ 7,417	$ 7,410	$	$ 554,431

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Table of Contents

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

The following discussion of the Company s financial condition and results of operations should be read together with TD Group s consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q. References in this section to TransDigm, the Company, we, us, our, and similar references refer to TD Group, TransDigm Inc. and TransDigm Inc. s subsidiaries, unless the context otherwise indicates. The following discussion may contain predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed in this report. These risks could cause our actual results to differ materially from any future performance suggested below.

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

Important factors that could cause actual results to differ materially from the forward-looking statements made in this Quarterly Report on Form 10-Q include but are not limited to: the sensitivity of our business to the number of flight hours that our customers planes spend aloft and our customers profitability, both of which are affected by general economic conditions; future terrorist attacks; our reliance on certain customers; the U.S. defense budget and risks associated with being a government supplier; failure to maintain government or industry approvals; failure to complete or successfully integrate acquisitions; our substantial indebtedness; potential environmental liabilities; and other factors. Please refer to the other information included in this Quarterly Report on Form 10-Q and to the Annual Report on Form 10-K for additional information regarding the foregoing factors that may affect our business.

Overview

We believe we are a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly all commercial and military aircraft in service today. Our business is well diversified due to the broad range of products we offer to our customers. Some of our more significant product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, NiCad batteries and chargers, engineered latching and locking devices, rods and locking devices, engineered connectors and elastomers, cockpit security components and systems, specialized cockpit displays, aircraft audio systems, specialized lavatory components, seatbelts and safety restraints, engineered interior surfaces, lighting and control technology and military personnel parachutes and cargo delivery systems. Each of these product offerings is composed of many individual products that are typically customized to meet the needs of a particular aircraft platform or customer.

For the first quarter of fiscal 2014, we generated net sales of $529.3 million and net income of $86.1 million. EBITDA As Defined was $243.6 million, or 46.0% of net sales. See below for certain information regarding EBITDA and EBITDA As Defined, including reconciliations of EBITDA and EBITDA As Defined to net income and net cash provided by operating activities.

Table of Contents

Certain Acquisitions

Airborne Global Inc. Acquisition

On December 19, 2013, TransDigm Inc. acquired all of the outstanding stock of Airborne Global Inc. (Airborne), for approximately $263.8 million in cash, which comprises the $250 million contract price plus estimated cash and working capital at closing and which is subject to adjustments based on the actual level of cash and working capital as of the closing date of the acquisition. Airborne is the industry leading designer and manufacturer of personnel parachutes, cargo aerial delivery systems, emergency escape systems, naval decoys and other related products. These products fit well with TransDigm s overall business direction. Airborne is included in TransDigm s Airframe segment. The Company is in the process of obtaining information to value certain tangible and intangible assets of Airborne, and therefore the consolidated financial statements at December 28, 2013 reflect a preliminary purchase price allocation for the business.

Whippany Actuation Systems, LLC Acquisition

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

Arkwin Industries, Inc. Acquisition

On June 5, 2013, TransDigm Inc. acquired all of the outstanding stock of Arkwin Industries, Inc. (Arkwin), for approximately $285.7 million in cash, which includes a purchase price adjustment of $0.2 million received in the fourth quarter of fiscal 2013. Arkwin manufactures proprietary, highly engineered aerospace hydraulic and fuel system components for commercial and military aircraft, helicopters and other specialty applications. These products fit well with TransDigm s overall business direction. Arkwin is included in TransDigm s Power & Control segment. The Company is in the process of obtaining information to value certain tangible and intangible assets of Arkwin, and therefore the consolidated financial statements at December 28, 2013 reflect a preliminary purchase price allocation for the business.

Aerosonic Corporation Acquisition

On June 5, 2013, Buccaneer Acquisition Sub Inc., a newly formed subsidiary of TransDigm Inc., completed the tender offer of a majority of the outstanding stock of Aerosonic Corporation (Aerosonic). Buccaneer Acquisition Sub Inc. was subsequently merged into Aerosonic on June 10, 2013; in connection therewith, all outstanding shares of Aerosonic were cancelled and Aerosonic became a wholly owned subsidiary of TransDigm Inc. The aggregate price paid in the tender offer and merger was approximately $39.8 million in cash. Aerosonic designs and manufactures proprietary, highly engineered mechanical and digital altimeters, airspeed indicators, rate of climb indicators, microprocessor controlled air data test sets, angle of attack stall warning systems, integrated air data sensors and other aircraft sensors, monitoring systems and flight instrumentation for use on commercial and military aircraft. These products fit well with TransDigm s overall business direction. Aerosonic is included in TransDigm s Airframe segment. The Company is in the process of obtaining information to value certain tangible and intangible assets of Aerosonic, and therefore the consolidated financial statements at December 28, 2013 reflect a preliminary purchase price allocation for the business.

Non-GAAP Financial Measures

We present below certain financial information based on our EBITDA and EBITDA As Defined. References to EBITDA mean earnings before interest, taxes, depreciation and amortization, and references to EBITDA As Defined mean EBITDA plus, as applicable for each relevant period, certain adjustments as set forth in the reconciliations of net income to EBITDA and EBITDA As Defined and the reconciliations of net cash provided by operating activities to EBITDA and EBITDA As Defined presented below.

Neither EBITDA nor EBITDA As Defined is a measurement of financial performance under accounting principles generally accepted in the United States of America (GAAP). We present EBITDA and EBITDA As Defined because we believe they are useful indicators for evaluating operating performance and liquidity.

Our management believes that EBITDA and EBITDA As Defined are useful as indicators of liquidity because securities analysts, investors, rating agencies and others use EBITDA to evaluate a company s ability to incur and service debt. In addition, EBITDA As Defined is useful to investors because the revolving credit facility under our senior secured credit facility requires compliance under certain circumstances, on a pro forma basis, with a financial covenant that measures the ratio of the amount of our secured indebtedness to the amount of our Consolidated EBITDA defined in the same manner as we define EBITDA As Defined herein.

Table of Contents

In addition to the above, our management uses EBITDA As Defined to review and assess the performance of the management team in connection with employee incentive programs and to prepare its annual budget and financial projections. Moreover, our management uses EBITDA As Defined to evaluate acquisitions.

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

- neither EBITDA nor EBITDA As Defined reflects the significant interest expense, or the cash requirements necessary to service interest payments, on our indebtedness;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and neither EBITDA nor EBITDA As Defined reflects any cash requirements for such replacements;
- the omission of the substantial amortization expense associated with our intangible assets further limits the usefulness of EBITDA and EBITDA As Defined;
- neither EBITDA nor EBITDA As Defined includes the payment of taxes, which is a necessary element of our operations; and
- EBITDA As Defined excludes the cash expense we have incurred to integrate acquired businesses into our operations, which is a necessary element of certain of our acquisitions.

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

Table of Contents

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

	Thirteen Week Periods Ended	
	December 28, 2013	December 29, 2012
	(in thousands)	
Net income	$ 86,123	$ 74,170
Adjustments:		
Depreciation and amortization expense	23,839	17,452
Interest expense, net	80,853	62,876
Income tax provision	43,650	35,800
EBITDA	234,465	190,298
Adjustments:		
Inventory purchase accounting adjustments[(1)]	2,438	890
Acquisition integration costs[(2)]	1,778	1,919
Acquisition transaction-related expenses[(3)]	701	658
Non-cash stock compensation expense[(4)]	4,175	7,131
EBITDA As Defined	$ 243,557	$ 200,896

(1) Represents accounting adjustments to inventory associated with acquisitions of businesses and product lines that were charged to cost of sales when the inventory was sold.

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

(3) Represents transaction-related costs comprising deal fees; legal, financial and tax due diligence expenses; and valuation costs that are required to be expensed as incurred.

(4) Represents the compensation expense recognized by TD Group under our stock option plans.

Table of Contents

The following table sets forth a reconciliation of net cash provided by operating activities to EBITDA and EBITDA As Defined (in thousands):

	Thirteen Week Period Ended	
	December 28, 2013	December 29, 2012
	(in thousands)	
Net Cash Provided by Operating Activities	$ 115,707	$ 98,115
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions of businesses	(2,208)	(20,996)
Interest expense, net[1]	77,768	59,080
Income tax provision - current	43,737	34,542
Non-cash stock compensation expense[2]	(4,175)	(7,131)
Excess tax benefit from exercise of stock options	3,636	26,688
EBITDA	234,465	190,298
Adjustments:		
Inventory purchase accounting adjustments[3]	2,438	890
Acquisition integration costs[4]	1,778	1,919
Acquisition transaction-related expenses[5]	701	658
Non-cash stock compensation expense[2]	4,175	7,131
EBITDA As Defined	$ 243,557	$ 200,896

(1) Represents interest expense excluding the amortization of debt issue costs and note premium and discount.
(2) Represents the compensation expense recognized by TD Group under our stock option plans.
(3) Represents accounting adjustments to inventory associated with acquisitions of businesses and product lines that were charged to cost of sales when the inventory was sold.
(4) Represents costs incurred to integrate acquired businesses and product lines into TD Group s operations, facility relocation costs and other acquisition-related costs.
(5) Represents transaction-related costs comprising deal fees; legal, financial and tax due diligence expenses; and valuation costs that are required to be expensed as incurred.

Critical Accounting Policies

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

A summary of our significant accounting policies and estimates is included in the Annual Report on Form 10-K for the year ended September 30, 2013. There have been no significant changes to our critical accounting policies during the thirteen week period ended December 28, 2013.

Table of Contents

Results of Operations

The following table sets forth, for the periods indicated, certain operating data of the Company, including presentation of the amounts as a percentage of net sales (amounts in thousands):

	Thirteen Week Periods Ended			
	December 28, 2013	% of Sales	December 29, 2012	% of Sales
Net sales	$ 529,322	100.0%	$ 430,418	100.0%
Cost of sales	245,186	46.3	191,871	44.6
Selling and administrative expenses	57,127	10.8	55,161	12.8
Amortization of intangible assets	16,383	3.1	10,540	2.4
Income from operations	210,626	39.8	172,846	40.2
Interest expense, net	80,853	15.3	62,876	14.6
Income tax provision	43,650	8.2	35,800	8.4
Net income	$ 86,123	16.3%	$ 74,170	17.2%

Changes in Results of Operations

Thirteen week period ended December 28, 2013 compared with the thirteen week period ended December 29, 2012.

Total Company

Net Sales**.** Net organic sales and acquisition sales and the related dollar and percentage changes for the thirteen week periods ended December 28, 2013 and December 29, 2012 were as follows (amounts in millions):

	Thirteen Week Periods Ended			% Change
	December 28, 2013	December 29, 2012	Change	Total Sales
Organic sales	$ 469.5	$ 430.4	$ 39.1	9.1%
Acquisition sales	59.8		59.8	13.9%
	$ 529.3	$ 430.4	$ 98.9	23.0%

Commercial OEM sales increased $12.7 million, or an increase of 10.4%, commercial aftermarket sales increased $11.4 million, or an increase of 6.2%, and defense sales increased $16.1 million, or an increase of 16.3%, for the quarter ended December 28, 2013 compared to the quarter ended December 29, 2012.

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

Table of Contents

Cost of Sales and Gross Profit. Cost of sales increased by $53.3 million, or 27.8%, to $245.2 million for the quarter ended December 28, 2013 compared to $191.9 million for the quarter ended December 29, 2012. Cost of sales and the related percentage of total sales for the thirteen week periods ended December 28, 2013 and December 29, 2012 were as follows (amounts in millions):

	Thirteen Week Periods Ended			
	December 28, 2013	December 29, 2012	Change	% Change
Cost of sales - excluding acquisition-related costs below	$ 240.5	$ 188.1	$ 52.4	27.9%
% of total sales	45.4%	43.7%		
Inventory purchase accounting adjustments	2.4	0.9	1.5	166.7%
% of total sales	0.5%	0.2%		
Acquisition integration costs	1.7	1.8	(0.1)	-5.6%
% of total sales	0.3%	0.4%		
Stock compensation expense	0.6	1.1	(0.5)	-45.5%
% of total sales	0.1%	0.3%		
Total cost of sales	$ 245.2	$ 191.9	$ 53.3	27.8%
% of total sales	46.3%	44.6%		
Gross profit	$ 284.1	$ 238.5	$ 45.6	19.1%
Gross profit percentage	53.7%	55.4%		

The increase in the dollar amount of cost of sales during the thirteen week period ended December 28, 2013 was primarily due to increased volume associated with the sales from acquisitions and organic sales growth as well as higher acquisition-related costs as shown in the table above.

Gross profit as a percentage of sales decreased by 1.7 percentage points to 53.7% for the thirteen week period ended December 28, 2013 from 55.4% for the thirteen week period ended December 29, 2012. The dollar amount of gross profit increased by $45.6 million, or 19.1%, for the quarter ended December 28, 2013 compared to the comparable quarter last year due to the following items:

Gross profit on the sales from the acquisitions indicated above (excluding acquisition-related costs) was approximately $23 million for the quarter ended December 28, 2013, which represented gross profit of approximately 38% of the acquisition sales.

Organic sales growth described above, application of our three core value-driven operating strategies (obtaining profitable new business, continually improving our cost structure, and providing highly engineered value-added products to customers), and positive leverage on our fixed overhead costs spread over a higher production volume, resulted in a net increase in gross profit of approximately $24 million for the quarter ended December 28, 2013.

The gross profit increase described above was partially offset by higher inventory purchase accounting adjustments and acquisition integration costs charged to cost of sales of approximately $1 million for the quarter ended December 28, 2013.

Selling and Administrative Expenses. Selling and administrative expenses increased by $1.9 million to $57.1 million, or 10.8% of sales, for the thirteen week period ended December 28, 2013 from $55.2 million, or 12.8% of sales, for the thirteen week period ended

December 29, 2012. Selling and administrative expenses and the related percentage of total sales for the thirteen week periods ended December 28, 2013 and December 29, 2012 were as follows (amounts in millions):

Table of Contents

	Thirteen Week Periods Ended			
	December 28, 2013	December 29, 2012	Change	% Change
Selling and administrative expenses - excluding costs below	$ 52.9	$ 48.4	$ 4.5	9.3%
% of total sales	10.0%	11.2%		
Stock compensation expense	3.5	6.1	(2.6)	-42.6%
% of total sales	0.7%	1.4%		
Acquisition related expenses	0.7	0.7		0.0%
% of total sales	0.1%	0.2		