TransDigm Group INC
Form 10-Q
August 08, 2012
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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 30, 2012.

¨ **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

(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 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 51,458,494 as of July 27, 2012.

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TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share amounts)

(Unaudited)

	June 30, 2012	September 30, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 302,718	$ 376,183
Trade accounts receivable - Net	237,718	189,293
Inventories	328,077	265,317
Income taxes receivable	12,983	
Prepaid expenses and other	9,104	8,655
Deferred income taxes	23,651	30,844
Total current assets	914,251	870,292
PROPERTY, PLANT AND EQUIPMENT - Net	170,055	150,800
GOODWILL	3,027,446	2,595,747
TRADEMARKS AND TRADE NAMES	458,629	344,942
OTHER INTANGIBLE ASSETS - Net	655,983	483,424
DEBT ISSUE COSTS - Net	65,592	59,007
OTHER	13,986	9,424
TOTAL ASSETS	$ 5,305,942	$ 4,513,636
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 20,500	$ 15,500
Accounts payable	76,114	62,110
Accrued liabilities	86,544	120,312
Income taxes payable		8,937
Total current liabilities	183,158	206,859
LONG-TERM DEBT	3,603,750	3,122,875
DEFERRED INCOME TAXES	347,727	310,451
OTHER NON-CURRENT LIABILITIES	64,658	62,502
Total liabilities	4,199,293	3,702,687
STOCKHOLDERS EQUITY:		
Common stock - $.01 par value; authorized 224,400,000 shares; issued 51,932,179 and 50,829,276 at June 30, 2012 and September 30, 2011, respectively	519	508
Additional paid-in capital	532,626	464,700
Retained earnings	601,363	364,260
Accumulated other comprehensive loss	(11,771)	(3,277)
Treasury stock, at cost - 505,400 shares at June 30, 2012 and 494,100 shares at September 30, 2011	(16,088)	(15,242)

Total stockholders equity	1,106,649	810,949
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 5,305,942	$ 4,513,636

See notes to condensed consolidated financial statements.

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TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

FOR THE THIRTEEN AND THIRTY-NINE WEEK PERIODS ENDED

JUNE 30, 2012 AND JULY 2, 2011

(Amounts in thousands, except per share amounts)

(Unaudited)

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
NET SALES	$ 461,660	$ 325,209	$ 1,237,602	$ 863,068
COST OF SALES	208,358	142,060	548,705	394,899
GROSS PROFIT	253,302	183,149	688,897	468,169
SELLING AND ADMINISTRATIVE EXPENSES	56,097	31,549	147,421	95,240
AMORTIZATION OF INTANGIBLE ASSETS	11,341	12,445	33,119	28,184
INCOME FROM OPERATIONS	185,864	139,155	508,357	344,745
INTEREST EXPENSE - Net	55,393	49,860	156,754	136,553
REFINANCING COSTS		38		72,417
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	130,471	89,257	351,603	135,775
INCOME TAX PROVISION	40,025	30,889	114,500	47,863
INCOME FROM CONTINUING OPERATIONS	90,446	58,368	237,103	87,912
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX		(2,088)		16,827
NET INCOME	$ 90,446	$ 56,280	$ 237,103	$ 104,739
NET INCOME APPLICABLE TO COMMON STOCK	$ 90,446	$ 56,280	$ 233,804	$ 101,928
Net earnings per share - see Note 4:				
Net earnings per share from continuing operations - basic and diluted	$ 1.68	$ 1.10	$ 4.34	$ 1.60
Net earings (loss) per share from discontinued operations - basic and diluted		(0.04)		0.31
Net earnings per share	$ 1.68	$ 1.06	$ 4.34	$ 1.91

Weighted-average shares outstanding:				
Basic and diluted	53,882	53,333	53,882	53,333

See notes to condensed consolidated financial statements.

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TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE THIRTY-NINE WEEK PERIOD ENDED JUNE 30, 2012

(Amounts in thousands, except share amounts)

(Unaudited)

	Common Stock		Additional		Accumulated Other	Treasury Stock		
	Number of Shares	Par Value	Paid-In Capital	Retained Earnings	Comprehensive Loss	Number of Shares	Value	Total
BALANCE, OCTOBER 1, 2011	50,829,276	$ 508	$ 464,700	$ 364,260	$ (3,277)	(494,100)	$ (15,242)	$ 810,949
Compensation expense recognized for employee stock options			14,393					14,393
Excess tax benefits related to share- based payment arrangements			40,531					40,531
Exercise of employee stock options	1,102,292	11	12,927					12,938
Common stock issued	611		75					75
Treasury stock purchased						(11,300)	(846)	(846)
Comprehensive income (loss):								
Net income				237,103				237,103
Interest rate swaps, net of tax					(2,300)			(2,300)
Foreign currency translation adjustments					(6,194)			(6,194)
Comprehensive income								228,609
BALANCE, JUNE 30, 2012	51,932,179	$ 519	$ 532,626	$ 601,363	$ (11,771)	(505,400)	$ (16,088)	$ 1,106,649

See notes to condensed consolidated financial statements.

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TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Thirty-Nine Week Periods Ended	
	June 30, 2012	July 2, 2011
OPERATING ACTIVITIES:		
Net income	$ 237,103	$ 104,739
Net income from discontinued operations		(16,827)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	17,387	14,675
Amortization of intangible assets	33,259	28,184
Amortization of debt issue costs	9,143	7,231
Refinancing costs		72,417
Non-cash equity compensation	14,393	6,853
Excess tax benefits related to share-based payment arrangements	(40,531)	(16,632)
Deferred income taxes	1,920	7,360
Changes in assets/liabilities, net of effects from acquisitions of businesses:		
Trade accounts receivable	(6,928)	160
Inventories	(3,698)	(7,096)
Income taxes receivable/payable	36,635	(33,218)
Other assets	2,914	(2,018)
Accounts payable	(1,556)	(3,054)
Accrued and other liabilities	(42,218)	(19,731)
Net cash provided by operating activities	257,823	143,043
INVESTING ACTIVITIES:		
Capital expenditures	(16,209)	(12,221)
Cash proceeds from sale of discontinued operations		271,361
Acquisition of businesses, net of cash acquired	(833,971)	(1,361,999)
Net cash used in investing activities	(850,180)	(1,102,859)
FINANCING ACTIVITIES:		
Excess tax benefits related to share-based payment arrangements	40,531	16,632
Proceeds from exercise of stock options	12,938	7,745
Dividends paid	(3,299)	(2,811)
Treasury stock purchased	(846)	
Proceeds from new senior secured credit facility - net	484,316	1,500,048
Repayment on new senior secured credit facility	(14,125)	(7,750)
Proceeds from senior subordinated notes due 2018 - net		1,582,317
Repurchase of senior subordinated notes due 2014		(1,041,894)
Repayment of existing senior secured credit facility		(780,000)
Net cash provided by financing activities	519,515	1,274,287

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(623)	668
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(73,465)	315,139
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	376,183	234,112
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 302,718	$ 549,251
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 176,808	$ 139,680
Cash paid during the period for income taxes	$ 78,158	$ 69,313

See notes to condensed consolidated financial statements.

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TRANSDIGM GROUP INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THIRTY-NINE WEEK PERIODS ENDED JUNE 30, 2012 AND JULY 2, 2011

(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 and lighting and control technology.

Separate Financial Statements Separate financial statements of TransDigm Inc. are not presented because TransDigm Inc. s $7\frac{3}{4}$% senior subordinated notes 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, 2011 included in TD Group s Form 10-K dated November 18, 2011. 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, 2011 condensed consolidated balance sheet was derived from TD Group s audited financial statements. The results of operations for the thirty-nine week period ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year.

Certain reclassifications of prior year amounts have been made to the Condensed Consolidated Statement of Cash Flows to conform to current year classification to reflect the effect of exchange rate changes on cash and cash equivalents relating to our foreign operations.

3. ACQUISITIONS

AmSafe Global Holdings, Inc. On February 15, 2012, TransDigm Inc. acquired AmSafe Global Holdings, Inc. (AmSafe), for approximately $749.7 million in cash, which includes a purchase price adjustment of $0.5 million paid in the third quarter of fiscal 2012. AmSafe is a leading supplier of innovative, highly engineered and proprietary safety and restraint equipment used primarily in the global aerospace industry. These products fit well with TransDigm s overall business direction.

The Company financed the acquisition through a combination of new senior bank debt of $500 million and cash. See Note 7 to the Condensed Consolidated Financial Statements.

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The total purchase price was allocated to the underlying assets acquired and liabilities assumed based upon management s estimated fair values at the date of acquisition. To the extent the purchase price exceeded the estimated fair value of the net identifiable tangible and intangible assets acquired, such excess was allocated to goodwill. The following table summarizes the purchase price allocation of the estimated fair values of the assets acquired and liabilities assumed at the transaction date (in thousands).

Assets acquired:	
Current assets, excluding cash acquired	$ 94,739
Property, plant and equipment	20,794
Intangible assets	268,000
Goodwill	406,350
Other	4,239
Total assets acquired	$ 794,122
Liabilities assumed:	
Current liabilities	$ 24,783
Deferred tax liabilities	18,212
Other noncurrent liabilities	1,396
Total liabilities assumed	$ 44,391
Net assets acquired	$ 749,731

The Company expects that of the $406 million of goodwill recognized for the acquisition approximately $77 million will be deductible for tax purposes.

Harco Laboratories, Incorporated On December 9, 2011, TransDigm Inc. acquired all of the outstanding stock of Harco Laboratories, Incorporated (Harco), for approximately $83.3 million in cash, which includes a purchase price adjustment of $0.4 million paid in the second quarter of fiscal 2012. Harco designs and manufactures highly engineered thermocouples, sensors, engine cable assemblies and related products for commercial aircraft. These products fit well with TransDigm s overall business direction. The Company expects that the approximately $56 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

Schneller Holdings On August 31, 2011, TransDigm Inc. acquired all of the outstanding equity interests in Schneller Holdings LLC (Schneller) for approximately $288.6 million in cash, which includes a purchase price adjustment of $1.0 million paid in the first quarter of fiscal 2012. Schneller designs and manufactures proprietary, highly engineered laminates, thermoplastics, and non-textile flooring for use primarily on side walls, lavatories, galleys, bulkheads and cabin floors for commercial aircraft. These products fit well with TransDigm s overall business direction. The Company expects that the approximately $168 million of goodwill recognized for the acquisition will be deductible for tax purposes.

Talley Actuation On December 31, 2010, AeroControlex Group, Inc., a wholly owned subsidiary of TransDigm Inc., acquired the actuation business of Telair International Inc. (Talley Actuation), a wholly-owned subsidiary of Teleflex Incorporated, for approximately $93.6 million in cash, which includes a purchase price adjustment of $0.3 million received in the third quarter of fiscal 2011. Talley Actuation manufactures proprietary, highly engineered electro-mechanical products and other components for commercial and military aircraft. These products fit well with TransDigm s overall business direction. The Company expects that the approximately $70 million of goodwill recognized for the acquisition will be deductible for tax purposes.

McKechnie Aerospace Holdings, Inc. On December 6, 2010, TransDigm Inc. acquired all of the outstanding stock of McKechnie Aerospace Holdings Inc. (McKechnie Aerospace), for approximately $1.27 billion in cash, which includes a purchase price adjustment of $0.3 million paid in the third quarter of fiscal 2011. McKechnie Aerospace, through its subsidiaries, is a leading global designer, producer and supplier of aerospace components, assemblies and subsystems for commercial aircraft, regional/business jets, military fixed wing and rotorcraft. Some of the businesses acquired as part of McKechnie Aerospace have been divested. See Note 12 to the Condensed Consolidated Financial Statements. The remaining products fit well with TransDigm s overall business direction.

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The total purchase price was allocated to the underlying assets acquired and liabilities assumed based upon management s estimated fair values at the date of acquisition. To the extent the purchase price exceeded the estimated fair value of the net identifiable tangible and intangible assets acquired, such excess was allocated to goodwill. The following table summarizes the purchase price allocation of the estimated fair values of the assets acquired and liabilities assumed at the transaction date (in thousands).

Assets acquired:	
Current assets, excluding cash acquired	$ 109,289
Property, plant and equipment	48,901
Intangible assets	433,000
Goodwill	864,934
Total assets acquired	$ 1,456,124
Liabilities assumed:	
Current liabilities	$ 40,004
Deferred tax liabilities	118,591
Other noncurrent liabilities	31,837
Total liabilities assumed	$ 190,432
Net assets acquired	$ 1,265,692

The Company expects that the approximately $865 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

The results of operations of McKechnie Aerospace are included in the Company s consolidated financial statements from the date of the transaction. Had the McKechnie acquisition and related financing transactions occurred at the beginning of the thirty-nine week period ended July 2, 2011, unaudited pro forma consolidated results for the thirty-nine week period ended July 2, 2011 would have been as follows (in thousands, except per share data):

	Thirty-Nine Week Period Ended July 2, 2011
Net sales	$ 904,433
Net income applicable to common stock from continuing operations	$ 77,033
Net income per share from continuing operations:	
Basic and diluted	$ 1.44

The unaudited pro forma consolidated results are based on the Company s historical financial statements and those of McKechnie Aerospace and do not necessarily indicate the results of operations that would have resulted had the acquisition actually been completed at the beginning of the applicable period presented. The pro forma financial information assumes that the companies were combined as of October 1, 2010. The pro forma results for the thirty-nine week period ended July 2, 2011 reflect the business combination accounting effects from the acquisition including amortization charges from the acquired intangible assets, inventory purchase accounting adjustments charged to cost of sales as the inventory is sold and increased interest expense associated with debt incurred to fund the acquisition. The unaudited pro forma consolidated results do not give effect to the synergies of the acquisition and are not indicative of the results of operations in future periods.

The Company accounted for the acquisitions of AmSafe, Harco, Schneller, Talley Actuation and McKechnie Aerospace (collectively, 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 AmSafe, Harco and Schneller, therefore, the values attributed to those acquired assets in the condensed consolidated financial statements are subject to adjustment. Pro forma net sales and results of operations for the acquisitions of AmSafe, Harco, Schneller and Talley Actuation had they occurred at the beginning of the thirty-nine week period ended June 30, 2012 are not significant and, accordingly, are not provided.

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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, continually 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

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 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Numerator for earnings per share:				
Net income from continuing operations	$ 90,446	$ 58,368	$ 237,103	$ 87,912
Less dividends paid on participating securities			(3,299)	(2,811)
	90,446	58,368	233,804	85,101
Net income (loss) from discontinued operations		(2,088)		16,827
Net income applicable to common stock - basic and diluted	$ 90,446	$ 56,280	$ 233,804	$ 101,928
Denominator for basic and diluted earnings per share under the two-class method:				
Weighted average common shares outstanding	51,116	50,043	50,815	49,784
Vested options deemed participating securities	2,766	3,290	3,067	3,549
Total shares for basic and diluted earnings per share	53,882	53,333	53,882	53,333
Net earnings per share from continuing operations - basic and diluted	$ 1.68	$ 1.10	$ 4.34	$ 1.60
Net earnings (loss) per share from discontinued operations - basic and diluted		(0.04)		0.31
Net earnings per share	$ 1.68	$ 1.06	$ 4.34	$ 1.91

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. Approximately 5% of the inventory was valued under the LIFO method at June 30, 2012.

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Inventories consist of the following (in thousands):

	June 30, 2012	September 30, 2011
Raw materials and purchased component parts	$ 201,056	$ 160,402
Work-in-progress	104,141	85,612
Finished goods	57,279	43,192
Total	362,476	289,206
Reserve for excess and obsolete inventory and LIFO	(34,399)	(23,889)
Inventories - net	$ 328,077	$ 265,317

6. INTANGIBLE ASSETS

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

	June 30, 2012			September 30, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Technology	$ 714,217	$ 97,761	$ 616,456	$ 546,726	$ 75,426	$ 471,300
Order backlog	28,210	24,238	3,972	24,799	17,895	6,904
Other	43,139	7,584	35,555	10,973	5,753	5,220
Total	$ 785,566	$ 129,583	$ 655,983	$ 582,498	$ 99,074	$ 483,424

Intangible assets acquired during the thirty-nine week period ended June 30, 2012 were as follows (in thousands):

	Cost	Amortization Period
Intangible assets not subject to amortization:		
Goodwill	$ 461,914	
Trademarks and trade names	113,310	
	575,224	
Intangible assets subject to amortization:		
Technology	167,250	20 years
Order backlog	5,910	1 year
Other	3,000	15 years
	176,160	19.3 years
Total	$ 751,384	

The aggregate amortization expense on identifiable intangible assets for the thirty-nine week periods ended June 30, 2012 and July 2, 2011 was approximately $33.3 million and $28.2 million, respectively. The estimated amortization expense for fiscal 2012 is $44.4 million and for each of the five succeeding years 2013 through 2017 is $37.6 million, $35.6 million, $35.6 million, $35.6 million and $35.6 million, respectively.

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The following is a summary of changes in the carrying value of goodwill from September 30, 2011 through June 30, 2012 (in thousands):

Balance, September 30, 2011	$ 2,595,747
Goodwill acquired during the year	461,914
Purchase price allocation adjustments	(26,671)
Other	(3,544)
Balance, June 30, 2012	$ 3,027,446

7. DEBT

Amendment No. 1 to the New Senior Secured Credit Facility In accordance with the terms of the credit agreement dated February 14, 2011 (the New Senior Secured Credit Facility), TD Group s wholly-owned subsidiary, TransDigm Inc., entered into Amendment No.1 and an Incremental Term Loan Assumption Agreement (the Amendment) on February 15, 2012. The Amendment provides for an additional term loan facility in the aggregate principal amount of $500 million. The additional term loan facility was fully drawn on February 15, 2012. The proceeds of the additional term loan facility were used to pay a portion of the purchase price of and related transaction expenses associated with the acquisition of AmSafe.

The additional term loan under the New Senior Secured Credit Facility matures in February 2017 and requires quarterly principal payments of $1.3 million that began on March 31, 2012.

The terms and conditions that apply to the additional term loan facility are substantially the same as the terms and conditions that apply to the existing term loan under the February 14, 2011 New Senior Secured Credit Facility.

Assumption Agreement to Revolving Credit Facility On February 15, 2012 TransDigm Inc. entered into an Incremental Revolving Credit Assumption Agreement (the Assumption Agreement) to its credit agreement dated as of December 6, 2010, as amended (collectively, the Existing Senior Secured Credit Facility). The Assumption Agreement provides for additional revolving commitments to TransDigm in an aggregate principal amount of $65 million, which results in a total revolving credit amount of $310 million. No borrowings, other than the issuance of certain letters of credit, were made under the Existing Senior Secured Credit Facility as of June 30, 2012.

8. 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 June 30, 2012 and July 2, 2011, the effective income tax rate was 30.7% and 34.6%, respectively. The lower effective tax rate for the thirteen week period ended June 30, 2012 was primarily due to the settlement of an IRS audit for the September 30, 2009 and 2010 year ends and adjustments resulting from the filing of the Company s September 30, 2011 federal income tax return. During the thirty-nine week periods ended June 30, 2012 and July 2, 2011, the effective income tax rate was 32.6% and 35.3%, respectively. The lower effective tax rate for the thirty-nine week period ended June 30, 2012 was primarily due to the factors noted above and a non-recurring adjustment (benefit of $2.8 million) to state income tax expense due to changes in state tax laws.

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, Malaysia, Mexico, France, Singapore, China, 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 2010.

At June 30, 2012 and September 30, 2011, TD Group had $8.0 million and $7.6 million in unrecognized tax benefits, the recognition of which would have an effect of approximately $7.3 million and $7.0 million on the effective tax rate at June 30, 2012 and September 30, 2011, 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.

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9. 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):

		June 30, 2012		September 30, 2011	
	Level	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets:					
Cash and cash equivalents	1	$ 302,718	$ 302,718	$ 376,183	$ 376,183
Liabilities:					
Interest rate swaps (1)	2	9,000	9,000	5,600	5,600
Foreign currency exchange contracts	2				
Long-term debt:					
Term loans	2	2,024,250	2,044,000	1,538,375	1,496,000
7 3/4% Senior Subordinated Notes due 2018	1	1,600,000	1,696,000	1,600,000	1,616,000

(1) 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. Foreign exchange contracts were measured at fair value using the quoted currency exchange rate 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 New Senior Secured Credit Facility. The estimated fair values of the Company s 7 3/4% senior subordinated notes due 2018 were based upon quoted market prices.

10. DERIVATIVES AND HEDGING ACTIVITIES

The Company is exposed to, among other things, the impact of changes in interest and foreign currency exchange 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.

Interest rate swap agreements are used to manage interest rate risk associated with floating-rate borrowings under our New Senior Secured 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 qualify as effective cash flow hedges under GAAP. For these hedges, the effective portion of the gain or loss from the financial instruments is 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 affects earnings.

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At June 30, 2012, three forward-starting interest rate swap agreements were in place to swap variable rates on the New Senior Secured Credit Facility for a fixed rate based on an aggregate notional amount of $353 million. Beginning December 31, 2012, these interest rate swap agreements will effectively convert the variable interest rate on the aggregate notional amount of the New Senior Secured Credit Facility to a fixed rate of 5.17% (2.17% plus the 3% margin percentage) through June 30, 2015.

Foreign currency exchange contracts are used to manage the impact of changes in foreign exchange rates on our consolidated results of operations and future foreign currency-denominated cash flows. These contracts effectively reduce exposure to currency movements affecting foreign currency-denominated expenditures by fixing the foreign currency exchange rate over the term of the agreement. These derivative instruments qualify as effective cash flow hedges under GAAP. For these hedges, changes in the fair value of the hedge are initially recorded as a component of accumulated other comprehensive income (loss) in stockholders equity and are subsequently reclassified into earnings in the same period the forecasted transaction affects earnings.

As of June 30, 2012, the Company had outstanding foreign currency exchange contracts totaling $0.7 million in the form of forward contracts with varying maturity dates ranging from July 2012 to September 2012. The fair value of these contracts approximated their carrying value as of June 30, 2012.

11. COMPREHENSIVE INCOME

Comprehensive income, which primarily includes adjustments for changes in the fair values of the interest rate swap agreements on a net of tax basis and foreign currency translation adjustments, was approximately $228.6 million and $111.1 million for the thirty-nine week periods ended June 30, 2012 and July 2, 2011, respectively.

12. DISCONTINUED OPERATIONS

On March 9, 2011, the Company completed the divestiture of its fastener business for approximately $239.6 million in cash, which includes a preliminary working capital adjustment of $0.4 million paid in the third quarter of fiscal 2011. The Company recorded a gain on sale of the fastener business of approximately $21.0 million, net of tax of $59.5 million.

On April 7, 2011, the Company completed the divestiture of Aero Quality Sales (AQS) to Satair A/S for approximately $31.8 million in cash, which includes a $1.8 million working capital adjustment received in the third quarter of fiscal 2011. The Company recorded a loss on sale of AQS of approximately $1.6 million, net of tax of $6.2 million. The Company s Chairman and Chief Executive Officer, W. Nicholas Howley, was a director of Satair A/S from 2006 through October 2011.

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The sales of the fastener business and AQS have been accounted for as discontinued operations and accordingly the condensed consolidated statements of income have classified the operating results to reflect discontinued operations presentation. The following is the summarized operating results for the fastener business and AQS for the thirteen and thirty-nine week periods ended June 30, 2012 and July 2, 2011 (in thousands).

	Thirteen Week Period Ended July 2, 2011	Thirty-Nine Week Period Ended July 2, 2011
Net sales	$ 255	$ 24,058
Loss from discontinued operations before income taxes	$ (82)	$ (2,917)
Income tax benefit		794
Loss from discontinued operations	(82)	(2,123)
Gain (loss) on sale of discontinued operations, net of tax	(2,006)	18,950
Income (loss) from discontinued operations	$ (2,088)	$ 16,827

13. SUPPLEMENTAL GUARANTOR INFORMATION

TransDigm s 7 $^{3}/_{4}$% senior subordinated notes due 2018 are jointly and severally guaranteed, on a senior subordinated basis, by TD Group and TransDigm Inc. s 100% owned Domestic Restricted Subsidiaries, as defined in the indenture. The following supplemental condensed consolidating financial information presents, in separate columns, the balance sheets of the Company as of June 30, 2012 and September 30, 2011 and its statements of income and cash flows for the thirty-nine week periods ended June 30, 2012 and July 2, 2011 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 after December 14, 2010 and (v) the Company on a consolidated basis.

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TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2012

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 3,915	$ 280,305	$ 10,864	$ 7,634	$	$ 302,718
Trade accounts receivable - Net		11,846	204,118	24,489	(2,735)	237,718
Inventories		23,080	273,440	32,041	(484)	328,077
Income taxes receivable		13,727		(744)		12,983
Prepaid expenses and other		894	6,054	2,156		9,104
Deferred income taxes		23,651				23,651
Total current assets	3,915	353,503	494,476	65,576	(3,219)	914,251
INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES	1,102,734	4,707,627	1,936,208	22,989	(7,769,558)	
PROPERTY, PLANT AND EQUIPMENT - Net		15,538	141,064	13,453		170,055
GOODWILL		86,453	2,865,703	75,290		3,027,446
TRADEMARKS AND TRADE NAMES		19,376	408,290	30,963		458,629
OTHER INTANGIBLE ASSETS - Net		8,310	614,447	33,226		655,983
DEBT ISSUE COSTS - Net		65,592				65,592
OTHER		2,356	11,364	266		13,986
TOTAL ASSETS	$ 1,106,649	$ 5,258,755	$ 6,471,552	$ 241,763	$ (7,772,777)	$ 5,305,942
LIABILITIES AND STOCKHOLDERS EQUITY						
CURRENT LIABILITIES:						
Current portion of long-term debt	$	$ 20,500	$	$	$	$ 20,500
Accounts payable		11,085	52,921	14,843	(2,735)	76,114
Accrued liabilities		23,223	57,672	5,649		86,544
Total current liabilities		54,808	110,593	20,492	(2,735)	183,158
LONG-TERM DEBT		3,603,750				3,603,750
DEFERRED INCOME TAXES		347,727				347,727
OTHER NON-CURRENT LIABILITIES		31,734	33,067	(143)		64,658
Total liabilities		4,038,019	143,660	20,349	(2,735)	4,199,293
STOCKHOLDERS EQUITY	1,106,649	1,220,736	6,327,892	221,414	(7,770,042)	1,106,649
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,106,649	$ 5,258,755	$ 6,471,552	$ 241,763	$ (7,772,777)	$ 5,305,942

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TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2011

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 5,695	$ 360,074	$ 2,115	$ 8,299	$	$ 376,183
Trade accounts receivable - Net		11,183	170,420	8,484	(794)	189,293
Inventories		23,311	233,726	8,264	16	265,317
Prepaid expenses and other		2,571	5,451	633		8,655
Deferred income taxes		23,248	7,596			30,844
Total current assets	5,695	420,387	419,308	25,680	(778)	870,292
INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES	805,254	3,746,531	1,557,736	(8,494)	(6,101,027)	
PROPERTY, PLANT AND EQUIPMENT - Net		15,903	129,566	5,331		150,800
GOODWILL		81,736	2,478,780	35,231		2,595,747
TRADEMARKS AND TRADE NAMES		19,376	313,280	12,286		344,942
OTHER INTANGIBLE ASSETS - Net		8,760	459,615	15,049		483,424
DEBT ISSUE COSTS - Net		59,007				59,007
OTHER		2,415	7,010	(1)		9,424
TOTAL ASSETS	$ 810,949	$ 4,354,115	$ 5,365,295	$ 85,082	$ (6,101,805)	$ 4,513,636
LIABILITIES AND STOCKHOLDERS EQUITY						
CURRENT LIABILITIES:						
Current portion of long-term debt	$	$ 15,500	$	$	$	$ 15,500
Accounts payable		8,071	49,944	4,889	(794)	62,110
Accrued liabilities		52,525	65,178	2,609		120,312
Income taxes payable		5,561	3,155	221		8,937
Total current liabilities		81,657	118,277	7,719	(794)	206,859
LONG-TERM DEBT		3,122,875				3,122,875
DEFERRED INCOME TAXES		199,610	110,841			310,451
OTHER NON-CURRENT LIABILITIES		26,717	35,785			62,502
Total liabilities		3,430,859	264,903	7,719	(794)	3,702,687
STOCKHOLDERS EQUITY	810,949	923,256	5,100,392	77,363	(6,101,011)	810,949
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 810,949	$ 4,354,115	$ 5,365,295	$ 85,082	$ (6,101,805)	$ 4,513,636

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TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATING STATEMENT OF INCOME

FOR THE THIRTY-NINE WEEK PERIOD ENDED JUNE 30, 2012

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET SALES	$	$ 77,073	$ 1,100,839	$ 70,229	$ (10,539)	$ 1,237,602
COST OF SALES		45,161	455,134	58,450	(10,040)	548,705
GROSS PROFIT		31,912	645,705	11,779	(499)	688,897
SELLING AND ADMINISTRATIVE EXPENSES		44,946	92,170	10,305		147,421
AMORTIZATION OF INTANGIBLE ASSETS		468	31,412	1,239		33,119
INCOME (LOSS) FROM OPERATIONS		(13,502)	522,123	235	(499)	508,357
INTEREST EXPENSE - Net		154,107	1,483	1,164		156,754
EQUITY IN INCOME OF SUBSIDIARIES	(237,103)	(341,170)			578,273	
INCOME (LOSS) BEFORE INCOME TAXES	237,103	173,561	520,640	(929)	(578,772)	351,603
INCOME TAX PROVISION (BENEFIT)		(63,542)	178,098	(56)		114,500
NET INCOME (LOSS)	$ 237,103	$ 237,103	$ 342,542	$ (873)	$ (578,772)	$ 237,103

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TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATING STATEMENT OF INCOME

FOR THE THIRTY-NINE WEEK PERIOD ENDED JULY 2, 2011

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET SALES	$	$ 58,384	$ 788,475	$ 20,182	$ (3,973)	$ 863,068
COST OF SALES		33,638	349,671	15,418	(3,828)	394,899
GROSS PROFIT		24,746	438,804	4,764	(145)	468,169
SELLING AND ADMINISTRATIVE EXPENSES		29,874	63,350	2,016		95,240
AMORTIZATION OF INTANGIBLE ASSETS		468	26,550	1,166		28,184
INCOME (LOSS) FROM OPERATIONS		(5,596)	348,904	1,582	(145)	344,745
INTEREST EXPENSE - Net		134,990	652	911		136,553
REFINANCING COSTS		72,417				72,417
EQUITY IN INCOME OF SUBSIDIARIES	(104,739)	(245,601)			350,340	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	104,739	32,598	348,252	671	(350,485)	135,775
INCOME TAX PROVISION (BENEFIT)		(72,141)	118,386	1,618		47,863
INCOME (LOSS) FROM CONTINUING OPERATIONS	104,739	104,739	229,866	(947)	(350,485)	87,912
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX			4,883	11,944		16,827
NET INCOME	$ 104,739	$ 104,739	$ 234,749	$ 10,997	$ (350,485)	$ 104,739

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TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE THIRTY-NINE WEEK PERIOD ENDED JUNE 30, 2012

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$	$ (98,665)	$ 348,628	$ 5,122	$ 2,738	$ 257,823
INVESTING ACTIVITIES:						
Capital expenditures		(1,164)	(14,301)	(744)		(16,209)
Acquisition of businesses, net of cash acquired		(833,971)				(833,971)
Net cash used in investing activities		(835,135)	(14,301)	(744)		(850,180)
FINANCING ACTIVITIES:						
Intercompany activities	(51,104)	383,840	(325,578)	(4,420)	(2,738)	
Excess tax benefits related to share-based payment arrangements	40,531					40,531
Proceeds from exercise of stock options	12,938					12,938
Dividends paid	(3,299)					(3,299)
Treasury stock purchased	(846)					(846)
Proceeds from new senior secured credit facility-net		484,316				484,316
Repayment on new senior secured credit facility		(14,125)				(14,125)
Net cash provided by (used in) financing activities	(1,780)	854,031	(325,578)	(4,420)	(2,738)	519,515
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				(623)		(623)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,780)	(79,769)	8,749	(665)		(73,465)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,695	360,074	2,115	8,299		376,183
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,915	$ 280,305	$ 10,864	$ 7,634	$	$ 302,718

TRANSDIGM GROUP INCORPORATED

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE THIRTY-NINE WEEK PERIOD ENDED JULY 2, 2011

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$	$ (165,349)	$ 302,645	$ 10,626	$ (4,879)	$ 143,043
INVESTING ACTIVITIES:						
Capital expenditures		(2,070)	(10,059)	(92)		(12,221)
Cash proceeds from sale of discontinued operations		271,361				271,361
Acquisition of businesses, net of cash acquired		(1,361,999)				(1,361,999)
Net cash used in investing activities		(1,092,708)	(10,059)	(92)		(1,102,859)
FINANCING ACTIVITIES:						
Intercompany activities	(20,713)	311,211	(292,723)	(2,654)	4,879	
Excess tax benefits related to share-based payment arrangements	16,632					16,632
Proceeds from exercise of stock options	7,745					7,745
Dividends paid	(2,811)					(2,811)
Proceeds from new senior secured credit facility - net		1,500,048				1,500,048
Repayment on new senior secured credit facility		(7,750)				(7,750)
Proceeds from 2018 senior subordinated notes - net		1,582,317				1,582,317
Repurchase of 2014 senior subordinated notes		(1,041,894)				(1,041,894)
Repayment of previous senior secured credit facility		(780,000)				(780,000)
Net cash provided by (used in) financing activities	853	1,563,932	(292,723)	(2,654)	4,879	1,274,287
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				668		668
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	853	305,875	(137)	8,548		315,139
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,884	226,200	3,028			234,112
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 5,737	$ 532,075	$ 2,891	$ 8,548	$	$ 549,251

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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: 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 and lighting and control technology. 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 third quarter of fiscal 2012, we generated net sales of $461.7 million and net income of $90.4 million. EBITDA As Defined was $216.7 million, or 46.9% 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.

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Certain Acquisitions and Divestitures

AmSafe Global Holdings, Inc. Acquisition

On February 15, 2012, TransDigm Inc. acquired AmSafe Global Holdings, Inc. (AmSafe), for approximately $749.7 million in cash, which includes a purchase price adjustment of $0.5 million paid in the third quarter of fiscal 2012. AmSafe is a leading supplier of innovative, highly engineered and proprietary safety and restraint equipment used primarily in the global aerospace industry. These products fit well with TransDigm s overall business direction. The Company is in the process of obtaining information to value certain tangible and intangible assets of AmSafe, and therefore the condensed consolidated financial statements at June 30, 2012 reflect a preliminary purchase price allocation for the business.

Harco Laboratories Acquisition

On December 9, 2011, TransDigm Inc. acquired all of the outstanding stock of Harco Laboratories, Incorporated (Harco), for approximately $83.3 million in cash, which includes a purchase price adjustment of $0.4 million paid in the second quarter of fiscal 2012. Harco designs and manufactures highly engineered thermocouples, sensors, engine cable assemblies and related products for commercial aircraft. These products fit well with TransDigm s overall business direction. The Company is in the process of obtaining information to value certain tangible and intangible assets of Harco, and therefore the condensed consolidated financial statements at June 30, 2012 reflect a preliminary purchase price allocation for the business.

Schneller Holdings Acquisition

On August 31, 2011, TransDigm Inc. acquired all of the outstanding equity interests in Schneller Holdings LLC (Schneller) for approximately $288.6 million in cash, which includes a purchase price adjustment of $1.0 million paid in the first quarter of fiscal 2012. Schneller designs and manufactures proprietary, highly engineered laminates, thermoplastics, and non-textile flooring for use primarily on side walls, lavatories, galleys, bulkheads and cabin floors for commercial aircraft. These products fit well with TransDigm s overall business direction. The Company is in the process of obtaining information to value certain tangible and intangible assets of Schneller, and therefore the condensed consolidated financial statements at June 30, 2012 reflect a preliminary purchase price allocation for the business.

Talley Actuation Acquisition

On December 31, 2010, AeroControlex Group, Inc., a wholly owned subsidiary of TransDigm Inc., acquired the actuation business of Telair International Inc. (Talley Actuation), a wholly-owned subsidiary of Teleflex Incorporated, for approximately $93.6 million in cash, which includes a purchase price adjustment of $0.3 million received in the third quarter of fiscal 2011. Talley Actuation manufactures proprietary, highly engineered electro-mechanical products and other components for commercial and military aircraft. These products fit well with TransDigm s overall business direction.

McKechnie Aerospace Holdings, Inc. Acquisition

On December 6, 2010, TransDigm Inc. acquired all of the outstanding stock of McKechnie Aerospace Holdings Inc. (McKechnie Aerospace), for approximately $1.27 billion in cash, which includes a purchase price adjustment of $0.3 million paid in the third quarter of fiscal 2011. McKechnie Aerospace, through its subsidiaries, is a leading global designer, producer and supplier of aerospace components, assemblies and subsystems for commercial aircraft, regional/business jets, military fixed wing and rotorcraft. Some of the businesses acquired as part of McKechnie Aerospace have since been divested (see below). The remaining products fit well with TransDigm s overall business direction.

Aero Quality Sales Divestiture

On April 7, 2011, the Company completed the divestiture of Aero Quality Sales (AQS) to Satair A/S for approximately $31.8 million in cash, which includes a $1.8 million working capital adjustment received in the third quarter of fiscal 2011. AQS, which was acquired as part of the McKechnie Aerospace acquisition, is a distributor and service center of aircraft batteries and battery support equipment. The Company s Chairman and Chief Executive Officer, W. Nicholas Howley was a director of Satair A/S from 2006 through October 2011. Mr. Howley disclosed his relationship with Satair A/S to the Company s board of directors and abstained from the related vote.

Fastener Business Divestiture

On March 9, 2011, the Company completed the divestiture of its fastener business for approximately $239.6 million in cash, which includes a preliminary working capital adjustment of $0.4 million paid in the third quarter of fiscal 2011. This business, which was acquired as part of the McKechnie Aerospace acquisition, is made up of Valley-Todeco, Inc. and Linread Ltd. The business designs and manufactures fasteners, fastening systems and bearings for commercial, military and general aviation aircraft.

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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 our revolving credit facility under our senior secured credit facility requires compliance, 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. 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 (and such an event of default could, in turn, result in an event of default under the indentures governing our 7 $^{3}/4$% senior subordinated notes).

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.

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

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net income	$ 90,446	$ 56,280	$ 237,103	$ 104,739
Less income (loss) from discontinued operations		(2,088)		16,827
Income from continuing operations	90,446	58,368	237,103	87,912
Adjustments:				
Depreciation and amortization expense	17,616	17,559	50,645	42,859
Interest expense, net	55,393	49,860	156,754	136,553
Income tax provision	40,025	30,889	114,500	47,863
EBITDA, excluding discontinued operations	203,480	156,676	559,002	315,187
Adjustments:				
Inventory purchase accounting adjustments (1)	4,274	2,468	12,733	16,069
Acquisition integration costs (2)	2,458	2,233	5,842	8,218
Acquisition transaction-related expenses (3)	611	162	4,759	2,256
Stock option expense (4)	5,858	2,778	14,393	6,832
Acquisition earn-out adjustment (5)		(3,000)		(3,000)
Other acquisition accounting adjustments			(2,792)	
Refinancing costs (6)		38		72,417
EBITDA As Defined	$ 216,681	$ 161,355	$ 593,937	$ 417,979

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

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

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

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

(5) Represents the reversal of a portion of the earn-out liability related to the Dukes Aerospace acquisition based on lower growth projections relative to the required growth targets for the last three years of the four-year earn-out arrangement.

(6) Represents costs incurred in connection with the refinancing in December 2010, including the premium paid to redeem our 7 $^{3}/_{4}$% senior subordinated notes due 2014, the write off of debt issue costs and unamortized note premium and discount and settlement of the interest rate swap agreement and other expenses.

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

	Thirty-Nine Week Periods Ended	
	June 30, 2012	July 2, 2011
Net Cash Provided by Operating Activities	$ 257,823	$ 143,043
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions of businesses	14,851	(1,645)
Interest expense, net (1)	147,610	129,322
Income tax provision - current	112,580	105,382
Non-cash equity compensation (2)	(14,393)	(6,853)
Excess tax benefit from exercise of stock options	40,531	16,632
Refinancing costs (3)		(72,417)
EBITDA	559,002	313,464
Adjustments:		
Inventory purchase accounting adjustments (4)	12,733	19,824
Acquisition integration costs (5)	5,842	8,218
Acquisition transaction-related expenses (6)	4,759	2,256
Stock option expense (7)	14,393	6,832
Acquisition earn-out adjustment (8)		(3,000)
Other acquisition accounting adjustments	(2,792)	
Refinancing costs (3)		72,417
EBITDA from discontinued operations		(2,032)
EBITDA As Defined	$ 593,937	$ 417,979

(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 plans.
(3) Represents costs incurred in connection with the refinancing in December 2010, including the premium paid to redeem our 7 $^{3}/_{4}$% senior subordinated notes due 2014, the write off of debt issue costs and unamortized note premium and discount and settlement of the interest rate swap agreement and other expenses.
(4) 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.
(5) Represents costs incurred to integrate acquired businesses and product lines into TD Group s operations, facility relocation costs and other acquisition-related costs.
(6) 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.
(7) Represents the compensation expense recognized by TD Group under our stock option plans.
(8) Represents the reversal of a portion of the earn-out liability related to the Dukes Aerospace acquisition based on lower growth projections relative to the required growth targets for the last three years of the four-year earn-out arrangement.

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, 2011. There have been no significant changes to our critical accounting policies during the thirty-nine week period ended June 30, 2012.

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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			
	June 30, 2012	% of Sales	July 2, 2011	% of Sales
Net sales	$ 461,660	100.0%	$ 325,209	100.0%
Cost of sales	208,358	45.1	142,060	43.7
Selling and administrative expenses	56,097	12.2	31,549	9.7
Amortization of intangible assets	11,341	2.5	12,445	3.8
Income from operations	185,864	40.3	139,155	42.8
Interest expense, net	55,393	12.0	49,860	15.4
Refinancing costs			38	0.0
Income tax provision	40,025	8.7	30,889	9.5
Income from continuing operations	90,446	19.6	58,368	17.9
Loss from discontinued operations, net of tax			(2,088)	(0.6)
Net income	$ 90,446	19.6%	$ 56,280	17.3%

	Thirty-Nine Week Periods Ended			
	June 30, 2012	% of Sales	July 2, 2011	% of Sales
Net sales	$ 1,237,602	100.0%	$ 863,068	100.0%
Cost of sales	548,705	44.3	394,899	45.8
Selling and administrative expenses	147,421	11.9	95,240	11.0
Amortization of intangible assets	33,119	2.7	28,184	3.3
Income from operations	508,357	41.1	344,745	39.9
Interest expense, net	156,754	12.7	136,553	15.8
Refinancing costs			72,417	8.4
Income tax provision	114,500	9.3	47,863	5.5
Income from continuing operations	237,103	19.2	87,912	10.2
Income from discontinued operations, net of tax			16,827	1.9
Net income	$ 237,103	19.2%	$ 104,739	12.1%

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Changes in Results of Operations

Thirteen week period ended June 30, 2012 compared with the thirteen week period ended July 2, 2011.

Net Sales. Net organic and acquisition sales and the related dollar and percentage changes for the thirteen week periods ended June 30, 2012 and July 2, 2011 were as follows (amounts in millions):

	Thirteen Week Periods Ended			% Change
	June 30, 2012	July 2, 2011	Change	Total Sales
Organic sales	$ 356.1	$ 325.2	$ 30.9	9.5%
Acquisition sales	105.6		105.6	32.5%
	$ 461.7	$ 325.2	$ 136.5	42.0%

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 resulted from the acquisitions of Schneller in fiscal 2011 and Harco and AmSafe in fiscal 2012.

The organic sales growth was due to an increase of $15.4 million, or a 16.5% increase in commercial OEM sales, an increase of $5.0 million, or a 3.8% increase in commercial aftermarket sales, and an increase of $10.4 million, or an 11.6% increase in defense sales, for the quarter ended June 30, 2012 compared to the quarter ended July 2, 2011.

Cost of Sales and Gross Profit. Cost of sales increased by $66.3 million, or 46.7%, to $208.4 million for the quarter ended June 30, 2012 compared to $142.1 million for the quarter ended July 2, 2011. Cost of sales and the related percentage of total sales for the thirteen week periods ended June 30, 2012 and July 2, 2011 were as follows (amounts in millions):

	Thirteen Week Periods Ended			
	June 30, 2012	July 2, 2011	Change	% Change
Cost of sales - excluding acquisition-related costs below	$ 201.6	$ 137.4	$ 64.2	46.7%
% of total sales	43.6%	42.2%		
Inventory purchase accounting adjustments	4.3	2.5	1.8	72.0%
% of total sales	0.9%	0.8%		
Acquisition integration costs	2.5	2.2	0.3	13.6%
% of total sales	0.6%	0.7%		
Total cost of sales	$ 208.4	$ 142.1	$ 66.3	46.7%
% of total sales	45.1%	43.7%		
Gross profit	$ 253.3	$ 183.1	$ 70.2	38.3%
Gross profit percentage	54.9%	56.3%		

The increase in the dollar amount of cost of sales during the thirteen week period ended June 30, 2012 was primarily due to increased volume associated with organic sales growth and the sales from acquisitions and higher acquisition-related costs as shown in the table above.

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Gross profit as a percentage of sales decreased by 1.4 percentage points to 54.9% for the thirteen week period ended June 30, 2012 from 56.3% for the thirteen week period ended July 2, 2011. The dollar amount of gross profit increased by $70.2 million, or 38.3%, from the quarter ended June 30, 2012 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 $53 million for the quarter ended June 30, 2012, which represented gross profit of approximately 50% of the acquisition sales.

Organic sales growth, 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, partially offset by unfavorable OEM versus aftermarket sales mix, resulted in a net increase in gross profit of approximately $19 million for the quarter ended June 30, 2012.

The gross profit increase described above was partially offset by the impact of higher inventory purchase accounting adjustments and acquisition integration costs charged to cost of sales of approximately $2 million.

Selling and Administrative Expenses. Selling and administrative expenses increased by $24.6 million to $56.1 million, or 12.2% of sales, for the thirteen week period ended June 30, 2012 from $31.5 million, or 9.7% of sales, for the thirteen week period ended July 2, 2011. Selling and administrative expenses and the related percentage of total sales for the thirteen week periods ended June 30, 2012 and July 2, 2011 were as follows (amounts in millions):

	Thirteen Week Periods Ended			
	June 30, 2012	**July 2, 2011**	**Change**	**% Change**
Selling and administrative expenses - excluding costs below	$ 50.6	$ 31.9	$ 18.7	58.6%
% of total sales	11.0%	9.8%		
Stock compensation expense	5.0	2.4	2.6	108.3%
% of total sales	1.1%	0.7%		
Acquisition earn-out adjustment		(3.0)	3.0	-100.0%
% of total sales	0.0%	-0.9%		
Acquisition transaction-related expenses	0.5	0.2	0.3	150.0%
% of total sales	0.1%	0.1%		
Total selling and administrative expenses	$ 56.1	$ 31.5	$ 24.6	77.8%
% of total sales	12.2%	9.7%		

The increase in the dollar amount of selling and administrative expenses during the thirteen week period ended June 30, 2012 is primarily due to higher selling and administrative expenses relating to recent acquisitions of approximately $17 million, which was approximately 16% of the acquisition sales.

Amortization of Intangibles. Amortization of intangibles decreased to $11.3 million for the quarter ended June 30, 2012 from $12.4 million for the comparable quarter last year. The net decrease of $1.1 million was primarily due to order backlog relating to prior acquisitions becoming fully amortized in the first quarter of fiscal 2012 offset by amortization expense related to the additional identifiable intangible assets recognized in connection with acquisitions during the last twelve months.

Interest Expense-net. Interest expense-net includes interest on outstanding borrowings, amortization of debt issue costs and revolving credit facility fees offset by interest income. Interest expense increased $5.5 million, or 11.1%, to $55.4 million for the quarter ended June 30, 2012 from $49.9 million for the comparable quarter last year. The net increase in interest expense-net was primarily due to an increase in the weighted average level of outstanding borrowings, which was approximately $3.63 billion for the quarter ended June 30, 2012 and approximately $3.15 billion for the quarter ended July 2, 2011 slightly offset by a decrease in the weighted average interest rate during the quarter ended June 30, 2012 of 6.1% compared to the weighted average interest rate during the comparable period of 6.3%. The increase in borrowings was due to the additional term loan facility under the Amendment to our New Senior Secured Credit Facility related to the AmSafe acquisition which occurred in February 2012.

Income Taxes. Income tax expense as a percentage of income before income taxes was approximately 30.7% for the quarter ended June 30, 2012 compared to 34.6% for the quarter ended July 2, 2011. The decrease in the effective tax rate for the thirteen week period ended June 30, 2012 was primarily due to the settlement of an IRS audit for the September 30, 2009 and 2010 year ends and adjustments resulting from the filing of the Company s September 30, 2011 federal income tax return.

Income from Continuing Operations. Income from continuing operations increased by $32.1 million, or 55.0%, to $90.4 million for the quarter ended June 30, 2012 from $58.4 million for the comparable period last year. Income from continuing operations increased by a higher percentage than the overall increase in sales of 42.0% due to the factors described above and summarized as follows: lower amortization of intangible assets; leverage on interest expense-net (increased by only 11.1%); and a lower effective income tax rate partially offset by higher acquisition related costs.

Loss from Discontinued Operations. Loss from discontinued operations comprises the net loss from discontinued operations and the after-tax net loss on sale of AQS of $1.6 million and an adjustment to reduce the after tax gain on the sale of the fastener business by $0.4 million during the thirteen week period ended July 2, 2011.

Net Income. Net income increased $34.2 million, or 60.7%, to $90.4 million for the quarter ended June 30, 2012 compared to net income of $56.3 million for the quarter ended July 2, 2011, primarily as a result of the factors referred to above.

Earnings per Share. The basic and diluted earnings per share were $1.68 for the quarter ended June 30, 2012 and $1.06 per share for the quarter ended July 2, 2011. The quarter ended July 2, 2011 comprises basic and diluted earnings per share from continuing operations of $1.10 and basic and diluted loss per share from discontinued operations of $0.04. The increase in earnings per share from continuing operations of $1.10 per share to $1.68 per share is due to the increase in income from continuing operations of $32.1 million, which is a result of the factors referred to above.

Thirty-nine week period ended June 30, 2012 compared with the thirty-nine week period ended July 2, 2011.

Net Sales. Net organic and acquisition sales and the related dollar and percentage changes for the thirty-nine week periods ended June 30, 2012 and July 2, 2011 were as follows (amounts in millions):

	Thirty-Nine Week Periods Ended			% Change
	June 30, 2012	July 2, 2011	Change	Total Sales
Organic sales	$ 982.3	$ 863.1	$ 119.2	13.8%
Acquisition sales	255.3		255.3	29.6%
	$ 1,237.6	$ 863.1	$ 374.5	43.4%

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 resulted from the acquisitions of McKechnie Aerospace, Talley Actuation and Schneller in fiscal 2011 and Harco and AmSafe in fiscal 2012.

The organic sales growth was due to an increase of $62.5 million, or a 26.5% increase in commercial OEM sales, an increase of $29.5 million, or an 8.4% increase in commercial aftermarket sales, and an increase of $24.5 million, or a 9.9% increase in defense sales, for the thirty-nine week period ended June 30, 2012 compared to the thirty-nine week period ended July 2, 2011.

Commercial OEM sales for the thirty-nine week period ended June 30, 2012 were favorably impacted by the robust commercial transport OEM production cycle and retroactive contract pricing adjustments (approximately $11 million).

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***Cost of Sales and Gross Profit*.** Cost of sales increased by $153.8 million, or 38.9%, to $548.7 million for the thirty-nine week period ended June 30, 2012 compared to $394.9 million for the thirty-nine week period ended July 2, 2011. Cost of sales and the related percentage of total sales for the thirty-nine week periods ended June 30, 2012 and July 2, 2011 were as follows (amounts in millions):

	Thirty-Nine Week Periods Ended			
	June 30, 2012	July 2, 2011	Change	% Change
Cost of sales - excluding acquisition-related costs below	$ 531.7	$ 374.1	$ 157.6	42.1%
% of total sales	42.9%	43.4%		
Inventory purchase accounting adjustments	12.7	16.1	(3.4)	-21.1%
% of total sales	1.0%	1.9%		
Acquisition integration costs	4.3	4.7	(0.4)	-8.5%
% of total sales	0.4%	0.5%		
Total cost of sales	$ 548.7	$ 394.9	$ 153.8	38.9%
% of total sales	44.3%	45.8%		
Gross profit	$ 688.9	$ 468.2	$ 220.7	47.1%
Gross profit percentage	55.7%	54.2%		

The increase in the dollar amount of cost of sales during the thirty-nine week period ended June 30, 2012 was primarily due to increased volume associated with organic sales growth and the sales from acquisitions partially offset by lower acquisition-related costs as shown in the table above.

Gross profit as a percentage of sales increased by 1.5 percentage points to 55.7% for the thirty-nine week period ended June 30, 2012 from 54.2% for the thirty-nine week period ended July 2, 2011. The dollar amount of gross profit increased by $220.7 million, or 47.1%, from the thirty-nine week period ended June 30, 2012 compared to the comparable period last year due to the following items:

Gross profit on the sales from the acquisitions indicated above (excluding acquisition-related costs) was approximately $132 million for the thirty-nine week period ended June 30, 2012, which represented gross profit of approximately 52% of the acquisition sales.

Impact of OEM retroactive contract pricing adjustments of approximately $11 million.

Impact of lower inventory purchase accounting adjustments and acquisition integration costs charged to cost of sales of approximately $4 million.

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, partially offset by unfavorable OEM versus aftermarket sales mix, resulted in a net increase in gross profit of approximately $74 million for the thirty-nine week period ended June 30, 2012.

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Selling and Administrative Expenses. Selling and administrative expenses increased by $52.2 million to $147.4 million, or 11.9% of sales, for the thirty-nine week period ended June 30, 2012 from $95.2 million, or 11.0% of sales, for the comparable period last year. Selling and administrative expenses and the related percentage of total sales for the thirty-nine week periods ended June 30, 2012 and July 2, 2011 were as follows (amounts in millions):

	Thirty-Nine Week Periods Ended			
	June 30, 2012	July 2, 2011	Change	% Change
Selling and administrative expenses - excluding costs below	$ 131.7	$ 86.7	$ 45.0	51.9%
% of total sales	10.6%	9.9%		
Stock compensation expense	12.2	5.8	6.4	110.3%
% of total sales	1.0%	0.7%		
Acquisition earn-out adjustment		(3.0)	3.0	-100.0%
% of total sales	0.0%	-0.3%		
Other acquisition accounting adjustments	(2.8)		(2.8)	
% of total sales	-0.2%	0.0%		
Acquisition transaction-related expenses	6.3	5.7	0.6	10.5%
% of total sales	0.5%	0.7%		
Total selling and administrative expenses	$ 147.4	$ 95.2	$ 52.2	54.8%
% of total sales	11.9%	11.0%		

The increase in the dollar amount of selling and administrative expenses during the thirty-nine week period ended June 30, 2012 is primarily due to higher selling and administrative expenses relating to recent acquisitions of approximately $39 million, which was approximately 15% of the acquisition sales.

Amortization of Intangibles. Amortization of intangibles increased to $33.1 million for the thirty-nine week period ended June 30, 2012 from $28.2 million for the comparable period last year. The net increase of $4.9 million was primarily due to amortization expense related to the additional identifiable intangible assets recognized in connection with acquisitions during the last twelve months.

Refinancing Costs. Refinancing costs were recorded as a result of the refinancing of TransDigm s entire debt structure in December 2010. The charge of $72.4 million consisted of the premium of $41.9 million paid to redeem our 7 $^{3}/4$% senior subordinated notes, the write-off of debt issue costs and unamortized note premium and discount of $25.7 million, and the settlement of the interest rate swap agreement and other expenses of $4.8 million.

Interest Expense-net. Interest expense-net includes interest on outstanding borrowings, amortization of debt issue costs and revolving credit facility fees offset by interest income. Interest expense increased $20.2 million, or 14.8%, to $156.8 million for the thirty-nine week period ended June 30, 2012 from $136.6 for the comparable period last year. The net increase in interest expense-net was primarily due to an increase in the weighted average level of outstanding borrowings, which was approximately $3.62 billion for the thirty-nine week period ended June 30, 2012 and approximately $2.82 billion for the thirty-nine week period ended July 2, 2011 slightly offset by a decrease in the weighted average interest rate during the thirty-nine week period ended June 30, 2012 of 6.2% compared to the weighted average interest rate during the comparable period of 6.5%. The increase in borrowings was due to the debt refinancing transactions and the acquisition financing related to McKechnie Aerospace which occurred in December 2010 and the additional term loan facility under the Amendment to our New Senior Secured Credit Facility related to the AmSafe acquisition which occurred in February 2012.

Income Taxes. Income tax expense as a percentage of income before income taxes was approximately 32.6% for the thirty-nine week period ended June 30, 2012 compared to 35.3% for the thirty-nine week period ended July 2, 2011. The decrease in the effective tax rate for the thirteen week period ended June 30, 2012 was primarily due to the settlement of an IRS audit for the September 30, 2009 and 2010 year ends, adjustments resulting from the filing of the Company s September 30, 2011 federal income tax return and a reduction in state taxes and a non-recurring adjustment (benefit of $2.8 million) to state income tax expense due to changes in state tax laws.

Income from Continuing Operations. Income from continuing operations increased by $149.2 million, or 169.7%, to $237.1 million for the thirty-nine week period ended June 30, 2012 from $87.9 million for the comparable period last year. Income from continuing operations increased by a higher percentage than the overall increase in sales of 43.4% due to the factors described above and summarized as follows: lower acquisition-related costs and acquisition accounting adjustments; refinancing costs incurred in fiscal 2011; leverage on interest expense-net (increased by only 14.8%); and a lower effective income tax rate partially offset by higher amortization of intangible assets.

Income from Discontinued Operations. Income from discontinued operations includes results of operations through the dates of sale of the fastener business and AQS and the after-tax net gain on sales of $19.0 million for the thirty-nine week period ended July 2, 2011.

Net Income. Net income increased $132.4 million, or 126.4%, to $237.1 million for the thirty-nine week ended June 30, 2012 compared to net income of $104.7 million for the thirty-nine week period ended July 2, 2011, primarily as a result of the factors referred to above.

Earnings per Share. The basic and diluted earnings per share were $4.34 for the thirty-nine week period ended June 30, 2012 and $1.91 per share for the thirty-nine week period ended July 2, 2011. Net income for the thirty-nine week period ended June 30, 2012 of $237.1 million was decreased by an allocation of dividends to participating securities of $3.3 million resulting in net income available to common shareholders of $233.8 million. The thirty-nine week period ended July 2, 2011 comprises basic and diluted earnings per share from continuing operations of $1.60 and basic and diluted earnings per share from discontinued operations of $0.31. Net income for the thirty-nine week period ended July 2, 2011 of $104.7 million was decreased by an allocation of dividends to participating securities of $2.8 million resulting in net income available to shareholders of $101.9 million. The increase in earnings per share from continuing operations of $1.60 per share to $4.34 per share is due to the increase in income from continuing operations of $149.2 million, which is a result of the factors referred to above.

Backlog

As of June 30, 2012, the Company estimated its sales order backlog at $824 million compared to an estimated sales order backlog of $710 million as of July 2, 2011 (excluding businesses accounted for as discontinued operations). The increase in backlog is primarily due to the acquisitions of Schneller, Harco and AmSafe discussed above, totaling approximately $91 million and an increase in orders across existing product lines in both the OEM and aftermarket. The majority of the purchase orders outstanding as of June 30, 2012 are scheduled for delivery within the next twelve months. Purchase orders may be subject to cancellation or deferral by the customer prior to shipment. The level of unfilled purchase orders at any given date during the year will be materially affected by the timing of the Company s receipt of purchase orders and the speed with which those orders are filled. Accordingly, the Company s backlog as of June 30, 2012 may not necessarily represent the actual amount of shipments or sales for any future period.

Foreign Operations

Although we manufacture substantially all of our products in the United States, we manufacture some products in the United Kingdom, Belgium, Malaysia, Mexico, China and Sri Lanka. We sell our products in the United States, as well as in foreign countries. A number of risks inherent in international operations could have a material adverse effect on our results of operations, including currency fluctuations, difficulties in staffing and managing multi-national operations, general economic and political uncertainties and potential for social unrest in countries in which we operate, limitations on our ability to enforce legal rights and remedies, restrictions on the repatriation of funds, change in trade policies, tariff regulation, difficulties in obtaining export and import licenses and the risk of government financed competition.

There can be no assurance that foreign governments will not adopt regulations or take other action that would have a direct or indirect adverse impact on the business or market opportunities of the Company within such governments countries. Furthermore, there can be no assurance that the political, cultural and economic climate outside the United States will be favorable to our operations and growth strategy.

Liquidity and Capital Resources

Operating Activities. The Company generated $257.8 million of cash from operating activities during the thirty-nine week period ended June 30, 2012 compared to $143.0 million during the thirty-nine week period ended July 2, 2011. The net increase of $114.8 million was due primarily to an increase in income from operations partially offset by higher interest payments due the Company s current debt structure and higher income tax payments.

Investing Activities. Cash used in investing activities was $850.2 million during the thirty-nine week period ended June 30, 2012 consisting primarily of the acquisition of AmSafe and Harco and capital expenditures of $16.2 million. Cash used in investing activities was $1,102.9 million during the thirty-nine week period ended July 2, 2011 consisting primarily of the acquisitions of McKechnie Aerospace and Talley Actuation and capital expenditures of $12.2 million offset by the cash proceeds on the sale of the fastener business and AQS of $271.4 million.

Financing Activities. Cash provided by financing activities during the thirty-nine week period ended June 30, 2012 was $519.5 million, which comprised $484.3 million of additional net proceeds from the Amendment under our New Senior Secured Credit Facility and $53.4 million of cash for tax benefits related to share-based payment arrangements and from the exercise of stock options offset by $14.1 million repayment on our New Senior Secured Credit Facility, $3.3 million of dividend equivalent payments and $0.8 million of treasury stock purchased. Cash provided by financing activities during the thirty-nine week period ended July 2, 2011 was $1,274.3 million, which comprised $1,260.5 million of net proceeds from the refinancing of our entire debt structure and $24.4 million of cash for tax benefits related to share-based payment arrangements and from the exercise of stock options offset by $7.8 million repayment on our New Senior Secured Credit Facility and $2.8 million of dividend equivalent payments.

Description of New Senior Secured Credit Facility and Indentures

In December 2010, TransDigm entered into a senior secured credit facility, which consisted of a $1.55 billion term loan facility and a $245 million revolving credit facility, as amended as discussed below (collectively, the Existing Senior Secured Credit Facility). The proceeds of the term loan were used to pay the purchase price of and related transaction expenses associated with the acquisition of McKechnie Aerospace and repay a portion of the amounts outstanding under the previous senior secured credit facility.

On February 14, 2011, TransDigm Inc. entered into a new senior secured credit facility which provides for $1.55 billion term loan facility, as amended as discussed below (the New Senior Secured Credit Facility), which was fully drawn on February 14, 2011. The New Senior Secured Credit Facility replaced the term loan under the Existing Senior Secured Credit Facility and modified certain terms of the original agreement including extending the maturity date of the term loan and modifying the interest rate provisions.

On March 25, 2011, TransDigm entered into Amendment No. 1 to the Existing Senior Secured Credit Facility. The amendment provides for a modification to certain terms of the permitted indebtedness covenant contained in the Existing Senior Secured Credit Facility to modify the requirements for incurring certain additional senior indebtedness.

On February 15, 2012, TransDigm entered into Amendment No. 1 and an Incremental Term Loan Assumption Agreement to the New Senior Secured Credit Facility. The amendment provides for an additional term loan facility in the aggregate principal amount of $500 million. The additional term loan facility was fully drawn on February 15, 2012. The proceeds of the additional term loan facility were used to pay a portion of the purchase price of and related transaction expenses associated with the acquisition of AmSafe.

On February 15, 2012 TransDigm also entered into an Incremental Revolving Credit Assumption Agreement (the Assumption Agreement) to the Existing Senior Secured Credit Facility, as amended. The Assumption Agreement provides for additional revolving commitments to TransDigm in an aggregate principal amount of $65 million, which results in a total revolving credit amount of $310 million. No borrowings, other than the issuance of certain letters of credit discussed below, were outstanding under the Existing Senior Secured Credit Facility as of June 30, 2012.

Under the Existing Senior Secured Credit Facility, the revolving credit facility matures in December 2015. At June 30, 2012, the Company had $6.6 million letters of credit outstanding and $303.4 million of borrowings available under the Existing Senior Secured Credit Facility.

Under the New Senior Secured Credit Facility, the term loans mature in February 2017. The term loans under the New Senior Secured Credit Facility require quarterly principal payments totaling $5.1 million.

The interest rates per annum applicable to the term loans under the New Senior Secured Credit Facility will be, at TransDigm s option, equal to either an alternate base rate or an adjusted LIBO rate for one, two, three or six-month (or to the extent agreed to by each relevant lender, nine or twelve-month) interest periods chosen by TransDigm, in each case plus an applicable margin percentage. The applicable interest rate on the term loans at June 30, 2012 was 4.0%.

On June 27, 2011, the Company entered into three forward-starting interest rate swap agreements beginning December 31, 2012 to hedge the variable interest rates on the New Senior Secured Credit Facility for a fixed rate based on an aggregate notional amount of $353 million through June 30, 2015. These forward-starting interest rate swap agreements will effectively convert the variable interest rate on the aggregate notional amount of the New Senior Secured Credit Facility to a fixed rate of 5.17% over the term of the interest rate swap agreements.

All of the indebtedness outstanding under the credit facilities is guaranteed by TD Group and all of TransDigm s current and future domestic restricted subsidiaries (other than immaterial subsidiaries), and is secured by a first priority security interest in substantially all of the existing and future property and assets, including inventory, equipment, general intangibles, intellectual property, investment property and other personal property (but excluding leasehold interests and certain other assets) of TransDigm and all of TransDigm s existing and future domestic restricted subsidiaries (other than immaterial subsidiaries), and a first priority pledge of the capital stock of TransDigm and its domestic subsidiaries and 65% of the voting capital stock of certain of TransDigm s foreign subsidiaries.

The credit facilities contain certain covenants that limit the ability of TD Group, TransDigm and TransDigm s restricted subsidiaries to, among other things, incur or guarantee additional indebtedness or issue preferred stock, pay distributions on, redeem or repurchase capital stock or redeem or repurchase subordinated debt, make investments, sell assets, enter into agreements that restrict distributions or other payments from restricted subsidiaries to TransDigm, incur or suffer to exist liens securing indebtedness, consolidate, merge or transfer all or substantially all of their assets, and engage in transactions with affiliates. At June 30, 2012, TransDigm was in compliance with all of the covenants contained in the credit facilities.

The term loan under the New Senior Secured Credit Facility requires mandatory prepayments of principal based on certain percentages of Excess Cash Flow (as therein defined), commencing 90 days after the end of each fiscal year, commencing with the fiscal year ending September 30, 2012, subject to certain exceptions. In addition, subject to certain exceptions (including, with respect to asset sales, the reinvestment in productive assets), TransDigm will be required to prepay the loans outstanding under the term loan facility at 100% of the principal amount thereof, plus accrued and unpaid interest, with the net cash proceeds of certain asset sales and issuance or incurrence of certain indebtedness.

In December 2010, TransDigm issued $1.6 billion in aggregate principal amount of its 7 $^{3}/_{4}$% Senior Subordinated Notes due 2018 (the 2018 Notes) at an issue price of 100% of the principal amount. The 2018 Notes represent unsecured obligations of TransDigm Inc. ranking subordinate to TransDigm Inc. s senior debt, as defined in the indenture governing the 2018 Notes (the Indenture). Such notes do not require principal payments prior to their maturity in December 2018. Interest under the 2018 Notes is payable semi-annually.

Certain Restrictive Covenants in Our Debt Documents

The credit facilities and the Indenture contain restrictive covenants that, among other things, limit the incurrence of additional indebtedness, the payment of dividends, transactions with affiliates, asset sales, acquisitions, mergers and consolidations, liens and encumbrances, and prepayments of other indebtedness. A breach of any of the covenants or an inability to comply with the required leverage ratio could result in a default under the credit facilities or the Indenture. If any such default occurs, the lenders under the credit facilities and the holders of the 2018 Notes may elect to declare all outstanding borrowings, together with accrued interest and other amounts payable thereunder, to be immediately due and payable. The lenders under the credit facilities also have the right in these circumstances to terminate any commitments they have to provide further borrowings. In addition, following an event of default under the credit facilities, the lenders thereunder will have the right to proceed against the collateral granted to them to secure the debt, which includes our available cash, and they will also have the right to prevent us from making debt service payments on the 2018 Notes.

Stock Repurchase

On August 22, 2011 we announced a program permitting us to repurchase a portion of our outstanding shares not to exceed $100 million in the aggregate. During the thirty-nine week period ended June 30, 2012, the Company repurchased 11,300 shares of its common stock at a gross cost of approximately $0.8 million.

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 30, 2012, we had borrowings under our New Senior Secured Credit Facility of $2.02 billion that were subject to interest rate risk. Borrowings under our New 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 New Senior Secured Credit Facility. The effect of a hypothetical one percentage point increase in interest rates would increase the annual interest costs under our New Senior Secured Credit Facility by approximately $20.2 million based on the amount of outstanding borrowings at June 30, 2012. The weighted average interest rate on the $2.02 billion of borrowings under our New Senior Secured Credit Facility on June 30, 2012 was 4.0%.

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At June 30, 2012, three forward-starting interest rate swap agreements were in place to swap variable rates on the New Senior Secured Credit Facility for a fixed rate based on an aggregate notional amount of $353 million. Beginning December 31, 2012, these interest rate swap agreements will effectively convert the variable interest rate on the aggregate notional amount of the new senior secured credit facility to a fixed rate of 5.17% through June 30, 2015.

The fair value of the $2.02 billion aggregate principal amount of borrowings under our New Senior Secured Credit Facility is exposed to the market risk of interest rates. The estimated fair value of such term loans approximated $2.04 billion at June 30, 2012 based upon information provided to the Company from its agent under the credit facility. The fair value of the $1.60 billion aggregate principal amount of our 7 $^{3}/_{4}$% senior subordinated notes due 2018 is exposed to the market risk of interest rate changes. The estimated fair value of such notes approximated $1.70 billion at June 30, 2012 based upon quoted market rates.

ITEM 4. CONTROLS AND PROCEDURES

As of June 30, 2012, TD Group carried out an evaluation, under the supervision and with the participation of TD Group s management, including its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer), of the effectiveness of the design and operation of TD Group s disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that TD Group s disclosure controls and procedures are effective to ensure that information required to be disclosed by TD Group in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to TD Group s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, TD Group s management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures. There have been no significant changes in TD Group s internal controls or other factors that could significantly affect the internal controls subsequent to the date of TD Group s evaluations.

Changes in Internal Control over Financial Reporting

On February 15, 2012, we acquired AmSafe. AmSafe operated under its own set of systems and internal controls and we are currently maintaining those systems and much of that control environment until we are able to incorporate AmSafe s processes into our own systems and control environment. We currently expect to complete the incorporation of AmSafe s operations into our systems and control environment in fiscal 2013. There were no other changes to our internal controls over financial reporting that could have a material effect on our financial reporting during the quarter ended June 30, 2012.

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, 2011. There have been no material changes to the risk factors set forth therein.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS: PURCHASES OF EQUITY SECURITIES BY THE ISSUER

On August 22, 2011, the Board of Directors authorized a common share repurchase program, which was announced on August 23, 2011. Under the terms of the program, the Company may purchase up to a maximum aggregate value of $100 million of its shares of common stock. During the thirteen week period ended June 30, 2012, the Company did not repurchase any shares under the program.

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ITEM 6. EXHIBITS

10.1	Employment Agreement, dated April 20, 2012, between TransDigm Group Incorporated and Peter Palmer.*
10.2	Employment Agreement, dated April 20, 2012, between TransDigm Group Incorporated and James Skulina.*
10.3	Amendment to Employment Agreement, dated April 20, 2012, between TransDigm Group and Robert Henderson.*
10.4	Amendment to Employment Agreement, dated April 20, 2012, between TransDigm Group and Bernt Iverson.*
31.1	Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financial Statements and Notes to the Condensed Consolidated Financial Statements formatted in XBRL.

* Indicates management contract or compensatory plan contract or arrangement.

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SIGNATURES

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

TRANSDIGM GROUP INCORPORATED

SIGNATURE	TITLE	DATE
/s/ W. Nicholas Howley W. Nicholas Howley	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	August 8, 2012
/s/ Gregory Rufus Gregory Rufus	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	August 8, 2012

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EXHIBIT INDEX

TO FORM 10-Q FOR THE PERIOD ENDED JUNE 30, 2012

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