TRIUMPH GROUP INC
Form 10-Q
August 08, 2018
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United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2018

or

¨ 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: 1-12235

TRIUMPH GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	51-0347963
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

899 Cassatt Road, Suite 210, Berwyn, PA	19312
(Address of principal executive offices)	(Zip Code)

(610) 251-1000
(Registrant's telephone number, including area code)

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 S No £

Indicate by check mark whether the registrant has submitted electronically and has 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 S No £

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act of 1934. (Check one)

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $0.001 per share, 49,812,122 shares outstanding as of August 7, 2018.

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Part I. Financial Information

Item 1. Financial Statements.

Triumph Group, Inc.
Condensed Consolidated Balance Sheets
(dollars in thousands, except per share data)

	June 30, 2018 (unaudited)	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$33,055	$35,819
Trade and other receivables, less allowance for doubtful accounts of $4,458 and $4,032	337,245	376,612
Contract assets	537,332	37,573
Inventories, net of unliquidated progress payments of $0 and $387,146	533,982	1,427,169
Prepaid and other current assets	30,753	44,428
Assets held for sale	80,719	1,324
Total current assets	1,553,086	1,922,925
Property and equipment, net	732,300	726,003
Goodwill	587,571	592,828
Intangible assets, net	493,105	507,681
Other, net	53,905	57,627
Total assets	$3,419,967	$3,807,064
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Current portion of long-term debt	$16,710	$16,527
Accounts payable	514,907	418,367
Contract liabilities	474,644	321,191
Accrued expenses	225,093	235,914
Liabilities related to assets held for sale	29,588	440
Total current liabilities	1,260,942	992,439
Long-term debt, less current portion	1,503,664	1,421,757
Accrued pension and other postretirement benefits	465,595	483,887
Deferred income taxes	16,175	16,582
Other noncurrent liabilities	400,172	441,865
Stockholders' (deficit) equity:		
Common stock, $.001 par value, 100,000,000 shares authorized, 52,460,920 and 52,460,920 shares issued; 49,764,360 and 49,669,848 shares outstanding	51	51
Capital in excess of par value	850,552	851,280
Treasury stock, at cost, 2,696,560 and 2,791,072 shares	(176,038)	(179,082)
Accumulated other comprehensive loss	(383,828)	(367,870)
(Accumulated deficit) retained earnings	(517,318)	146,155
Total stockholders' (deficit) equity	(226,581)	450,534
Total liabilities and stockholders' equity	$3,419,967	$3,807,064

SEE ACCOMPANYING NOTES.

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Triumph Group, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30, 2018	2017
Net sales	$ 832,900	$ 781,689
Operating costs and expenses:		
Cost of sales (exclusive of depreciation and amortization shown separately below)	770,214	645,778
Selling, general and administrative	81,656	80,248
Depreciation and amortization	38,812	39,131
Restructuring costs	4,047	17,500
Loss on assets held for sale	4,719	—
	899,448	782,657
Operating loss	(66,548)	(968)
Non-service defined benefit income	(16,538)	(19,377)
Interest expense and other	25,493	21,018
Loss before income taxes	(75,503)	(2,609)
Income tax expense (benefit)	1,031	(678)
Net loss	$ (76,534)	$ (1,931)
Loss per share—basic:	$ (1.54)	$ (0.04)
Weighted-average common shares outstanding—basic	49,552	49,341
Loss per share—diluted:	$ (1.54)	$ (0.04)
Weighted-average common shares outstanding—diluted	49,552	49,341
Dividends declared and paid per common share	$ 0.04	$ 0.04

SEE ACCOMPANYING NOTES.

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Triumph Group, Inc.
Condensed Consolidated Statements of Comprehensive Income
(dollars in thousands)
(unaudited)

	Three Months Ended June 30,	
	2018	2017
Net loss	$(76,534)	$(1,931)
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(14,524)	11,421
Defined benefit pension plans and other postretirement benefits:		
Reclassifications from accumulated other comprehensive income - losses (gains):		
Amortization of net loss	1,676	1,695
Recognized prior service credits	(2,075)	(3,042)
Total defined benefit pension plans and other postretirement benefits, net of taxes	(399)	(1,347)
Cash flow hedges:		
Unrealized (loss) gain arising during period, net of tax of $125 and $0	(965)	552
Reclassification of loss included in net earnings, net of tax of $35 and $0	(70)	(369)
Net unrealized (loss) gain on cash flow hedges, net of tax	(1,035)	183
Total other comprehensive (loss) income	(15,958)	10,257
Total comprehensive (loss) income	$(92,492)	$8,326

SEE ACCOMPANYING NOTES.

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Triumph Group, Inc.
Condensed Consolidated Statements of Cash Flows
(dollars in thousands) (unaudited)

	Three Months Ended June 30,	
	2018	2017
Operating Activities		
Net loss	$(76,534)	$(1,931)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	38,812	39,131
Amortization of acquired contract liabilities	(17,234)	(29,473)
Loss on assets held for sale	4,719	—
Other amortization included in interest expense	1,887	3,263
Recovery of doubtful accounts receivable	(14)	(363)
(Benefit) provision for deferred income taxes	—	(1,060)
Employee stock-based compensation	2,462	(41)
Changes in assets and liabilities, excluding the effects of acquisitions and dispositions of businesses:		
Trade and other receivables	27,598	(54,380)
Contract assets	(23,221)	24,070
Inventories	(30,833)	118,243
Prepaid expenses and other current assets	3,898	751
Accounts payable, accrued expenses and contract liabilities	23,341	(172,918)
Accrued pension and other postretirement benefits	(18,691)	(21,207)
Other	(1,904)	(3,133)
Net cash used in operating activities	(65,714)	(99,048)
Investing Activities		
Capital expenditures	(12,200)	(12,085)
Proceeds from sale of assets	664	1,351
Net cash used in investing activities	(11,536)	(10,734)
Financing Activities		
Net increase in revolving credit facility	113,186	118,961
Proceeds from issuance of long-term debt and capital leases	19,046	—
Repayment of debt and capital lease obligations	(53,762)	(33,268)
Payment of deferred financing costs	(64)	(7,160)
Dividends paid	(1,988)	(1,984)
Repurchase of restricted shares for minimum tax obligation	(532)	(296)
Net cash provided by financing activities	75,886	76,253
Effect of exchange rate changes on cash	(1,400)	864
Net change in cash	(2,764)	(32,665)
Cash and cash equivalents at beginning of period	35,819	69,633
Cash and cash equivalents at end of period	$33,055	$36,968

SEE ACCOMPANYING NOTES.

Triumph Group, Inc.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)
(unaudited)

1. BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements of Triumph Group, Inc. (the "Company") have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position and cash flows. The results of operations for the three months ended June 30, 2018, are not necessarily indicative of results that may be expected for the year ending March 31, 2019. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the fiscal 2018 audited condensed consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended March 31, 2018, filed with the Securities and Exchange Commission (the "SEC") on May 22, 2018

The Company designs, engineers, manufactures, repairs and overhauls a broad portfolio of aerostructures, aircraft components, accessories, subassemblies and systems. The Company serves a broad, worldwide spectrum of the aviation industry, including original equipment manufacturers of commercial, regional, business, and military aircraft and aircraft components, as well as commercial and regional airlines and air cargo carriers.
For the fiscal year ended March 31, 2018, the Company has reclassified certain assets and liabilities within the condensed consolidated balance sheets for comparability purposes with the presentation for the period ended June 30, 2018.
Standards Recently Implemented
Adoption of ASU 2014-09
In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”) that supersedes ASC 605 (“legacy GAAP”). Subsequently, the FASB issued several updates to ASU 2014-09, which are pending content or otherwise codified in Accounting Standards Codification (“ASC”) Topic 606 (“ASC 606”). ASU 2014-09 includes new guidance on costs related to a contract, which is codified in ASC Subtopic 340-40 (“ASC 340-40”). The Company adopted ASC 606 using the modified retrospective method (“method”) effective as of April 1, 2018 (“date of initial application”). Under this method, the cumulative effect of the adoption of ASC 606 is recognized as an adjustment to retained earnings on the date of initial application (“Transition Adjustment”), and the comparative financial statements for prior periods are not adjusted and continue to be reported under legacy GAAP. The Transition Adjustment was a decrease to retained earnings of $584,900. Financial information for fiscal years 2019 and 2018 is presented under ASC 606 and under legacy GAAP, respectively. The tables below reflect adjusted fiscal year 2019 financial statement amounts as if the Company had been reporting under legacy GAAP for items that are materially different.
The adoption of ASC 606 does not impact the Company's cash flows or the underlying economics of the Company's contracts with customers. However, the pattern and timing of revenue and profit recognition, as well as financial statement presentation and disclosures, has changed.
The significant changes and the qualitative and quantitative impact of the adoption of ASC 606 are noted below:
a.Revenue from Contracts with Customers
Generally, the Company no longer uses the units-of-delivery method, and the historical use of contract blocks to define contracts for accounting purposes has been replaced by accounting contracts as identified under ASC 606. The Company's accounting contracts under ASC 606 are for the specific number of units for which orders have been received, which is typically for fewer units than what was used to define contract blocks under legacy GAAP. In most of the Company's contracts, the customer has options or requirements to purchase additional products and services that

do not represent material rights since the options are at their stand alone pricing.

The primary effect of the Company's adoption of ASC 606 (outside of the Aerospace Structures segment) was to recognize revenue over time for certain of its contracts, which is a change from recognition based on shipping terms under the legacy GAAP accounting policy.

Triumph Group, Inc.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)
(unaudited)

b.Capitalized Pre-Production Costs

Under legacy GAAP, certain capitalized pre-production costs were deferred over the life of the contract block, in certain situations this is not permitted under ASC 606. Accordingly, capitalized pre-production costs of $865,843 (pre-tax), net of previously recognized forward loss reserves of $343,983 (pre-tax), were eliminated, resulting in a decrease to retained earnings in the Transition Adjustment.

c.Contract Assets and Contract Liabilities

Contract assets primarily represent revenues recognized for performance obligations that have been satisfied but for which amounts have not been billed. Contract assets in the amount of $565,414 were established in the Transition Adjustment.

Contract liabilities primarily represent cash received that is in excess of revenues recognized and is contingent upon the satisfaction of performance obligations. Contract liabilities in the amount of $288,287 were established in the Transition Adjustment, which reflects consideration received prior to the date of initial application that previously represented customer advances and additional forward losses due to change in block sizes. This liability will be recognized as revenue earlier if the options are not fully exercised, or immediately if the contract is terminated prior to the options being fully exercised.

d.Contract Costs

The Company's accounting for pre-production, tooling and certain other costs has not changed since these costs generally do not fall within the scope of ASC 340-40, however certain related assets have been reclassified from inventory to property and equipment as they are costs to fulfill obligations beyond 1 year. Incurred production costs for anticipated contracts (satisfaction of performance obligations, which have commenced because the Company expects the customer to exercise options) continue to be classified as inventory.

e.Practical expedients

The Company has adopted ASC 606 only for contracts that were not substantially completed under legacy GAAP on the date of initial application. For these contracts, the Company has reflected the aggregate effect of all modifications executed prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, for determining the transaction price and for allocating the transaction price.

The following tables summarize the impacts of adopting ASC 606 on the Company's consolidated financial statements for the three months and period ended June 30, 2018.

	For the Three Months Ended		
	As Reported June 30, 2018	Impact of Adoption of ASC Topic 606	As Adjusted June 30, 2018
Net Sales	$832,900	$(56,238)	$776,662
Cost of sales (exclusive of depreciation and amortization)	770,214	26,853	797,067
Selling, general and administrative	81,656	1,352	83,008
Interest expense and other	25,493	(2,288)	23,205
Net loss *	(76,534)	(82,155)	(158,689)
(Loss) earnings per share			
Basic	$(1.54)	$(1.66)	$(3.20)
Diluted	$(1.54)	$(1.66)	$(3.20)

* The Company did not have a net tax effect on the Transition Adjustment due to its valuation allowance position.

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(dollars in thousands, except per share data)

	As Reported June 30, 2018	Impact of Adoption of ASC Topic 606	As Adjusted June 30, 2018
Assets			
Trade and other receivables	$337,245	$(23,667)	$313,578
Contract assets, short term	537,332	(512,258)	25,074
Inventories, net	533,982	797,105	1,331,087
Property and equipment, net	732,300	(37,850)	694,450
Total assets	3,419,967	223,330	3,643,297
Liabilities			
Contract liabilities	474,644	(288,747)	185,897
Other noncurrent liabilities	400,172	9,327	409,499
Stockholders' (Deficit) Equity			
Accumulated other comprehensive loss	(383,828)	6	(383,822)
Accumulated (deficit) retained earnings	(517,318)	502,744	(14,574)
Total liabilities and stockholders' (deficit) equity	3,419,967	223,330	3,643,297

Adoption of ASU 2017-07

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"). ASU 2017-07 requires an employer to report the service cost component of net periodic pension benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, with other cost components presented separately from the service cost component and outside of income from operations. ASU 2017-07 also allows only the service cost component of net periodic pension benefit cost to be eligible for capitalization when applicable. ASU 2017-07 was effective for years beginning after December 15, 2017. The Company adopted this standard on April 1, 2018, applying the presentation requirements retrospectively. We elected to apply the practical expedient, which allows us to reclassify amounts disclosed previously in the employee benefit plans note as the basis for applying retrospective presentation for comparative periods as it is impracticable to determine the disaggregation of the cost components for amounts capitalized and amortized in those periods. Provisions related to presentation of the service cost component eligibility for capitalization were applied prospectively.

The effect of the retrospective presentation change related to the net periodic benefit cost of our defined benefit pension and postretirement plans on our condensed consolidated statements of operations was as follows:

	For the Three Months Ended		
	As Previously Reported June 30, 2017	Impact of Adoption of ASU 2017-07	As Adjusted June 30, 2017
Cost of sales	$627,346	$18,432	$645,778
Selling, general and administrative	79,303	945	80,248
Non-service defined benefit income	—	(19,377)	(19,377)

For the three months ended June 30, 2018, the Company recorded a non-cash charge related to the adoption of ASU 2017-07 of $87,241 due to an inseparable change in estimate from a change in accounting principles, which is presented on the accompanying condensed consolidated statements of operations within "Cost of sales."

Adoption of ASU 2017-12
In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"), which expands component and fair value hedging, specifies the presentation of the effects of hedging instruments, and eliminates the separate measurement and presentation of hedge

ineffectiveness. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company adopted ASU 2017-12 as of April 1, 2018. The adoption of ASU 2017-12 did not have a material impact on the Company's condensed consolidated financial statements.

Standards Issued Not Yet Implemented

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"). The guidance in ASU 2018-02 allows an entity to elect to reclassify the stranded tax effects related to the Tax Cuts and Jobs Act of 2017 (the "Act") from accumulated other comprehensive income into retained earnings. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company does not expect the adoption of this standard to have a material effect on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). This update requires recognition of lease right of use assets and lease liabilities on the balance sheet of lessees. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim reporting periods within those years. Early adoption is permitted. ASU 2016-02 requires a modified retrospective transition approach and provides certain optional transition relief. The Company is currently evaluating the guidance to determine the impact it will have on the Company's condensed consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed financial statements and accompanying notes. Actual results could differ from those estimates.

Management may make significant judgments when assessing the standalone selling prices of the Company's products and services, the estimated amounts of variable consideration and related constraints, and the number of options likely to be exercised. The Company also estimates the cost of satisfying the performance obligations in its contracts and options that may extend over many years. Cost estimates reflect currently available information and the impact of any changes to cost estimates, based upon the facts and circumstances, are recorded in the period in which they become known.

The transaction price for a contract reflects the consideration the Company expects to receive for fully satisfying the performance obligations in the contract. The Company's contracts with customers are typically for products and services to be provided at fixed stated prices but may also include variable consideration. Variable consideration may include, but is not limited to, unpriced contract modifications; cost sharing provisions; incentives and awards; non-warranty claims and assertions; provisions for non-conformance and rights to return; or other payments to, or receipts from, customers. The Company estimates the variable consideration using the expected value or the most likely amount based upon the facts and circumstances, available data and trends, and the history of resolving variability with specific customers.

The Company regularly commences work and incorporates customer-directed changes prior to negotiating pricing terms for engineering work, product modifications, and other statements of work. The Company's contractual terms typically provide for price negotiations after certain customer-directed changes have been accepted by the Company. Prices are estimated and related costs are deferred until they are contractually agreed upon with the customer. When a contract is modified, the Company evaluates whether additional distinct products and services have been promised and whether allocation of consideration is necessary. If not, the modification is treated as a change to the performance

obligations within the existing contract, or otherwise accounted for as a new contract prospectively.
The Company allocates the consideration for a contract to the performance obligations on the basis of their relative standalone selling price. The Company estimates the likelihood of the amount of options that the customer is going to exercise when assessing the existence of performance obligations with respect to this allocation or for assessing the impact of loss contracts. The Company typically provides warranties on all the Company's products and services. Warranties are typically not priced separately, since customers cannot purchase them independently of the products or services under contract so they do not create performance obligations. Triumph's warranties generally provide assurance to the Company's customers that the products or services meet the specifications in the contract. In the event that there is a warranty claim because of a covered

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Triumph Group, Inc.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)
(unaudited)

material or workmanship issue, the Company may be required to pay the customer for repairs or perform the repair. Provisions for estimated expenses related to service and product warranties and certain extraordinary rework are made at the time products are sold. These costs are accrued at the time of the sale and are recorded as cost of sales. These estimates are established using historical information on the nature, frequency, and the cost experience of warranty claims. In the case of new development products or new customers, the Company also considers factors, including management judgment and the type and nature of the new product or new customer, among others. Actual results could differ from those estimates and assumptions.

For the three months ended June 30, 2018, cumulative catch-up adjustments from changes in estimates, including changes in forward loss estimates, decreased net sales, operating income, net income and earnings per share by approximately $(6,423), $(3,626), $(3,626) and $(0.07), net of tax, respectively. In addition, the Company recorded a non-cash charge related to the adoption of ASU 2017-07 of $87,241 due to a change in estimate from a change in accounting principles, which is presented on the accompanying condensed consolidated statements of operations within "Cost of sales." For the three months ended June 30, 2017, cumulative catch-up adjustments from changes in estimates decreased operating income, net income and earnings per share by approximately $(5,289), $(3,915) and $(0.08), net of tax, respectively.

Revenue Recognition

A significant majority of the Company’s revenues are from long-term supply agreements with various aerospace manufacturers. The Company participates in its customers’ programs by providing design, development, manufacturing, and support services across its various segments. During the early stages of a program, this frequently involves non-recurring design and development services, including tooling. As the program matures, the Company provides recurring manufacturing of products in accordance with customer design and schedule requirements. Many contracts include clauses that provide sole supplier status to the Company for the duration of the program’s life. The Company's long-term supply agreements typically include fixed price volume-based terms and require the satisfaction of performance obligations for the duration of the program’s life.

The identification of an accounting contract with a customer and the related promises requires an assessment of each party’s rights and obligations regarding the products or services to be transferred, including an evaluation of termination clauses and presently enforceable rights and obligations. In general, these long-term supply agreements are legally governed by Master Supply Agreements (or General Terms & Agreement) under which special business provisions (or work package agreements) define specific program requirements. Purchase orders (or authorizations to proceed) are issued under these agreements to reflect presently enforceable rights and obligations for the units of products and services being purchased. The units for accounting purposes (“accounting contract”) are typically determined by the purchase orders. Revenue is recognized when the Company has a contract with presently enforceable rights and obligations, including an enforceable right to payment for work performed. Customers generally contract with the Company for requirements in a segment relating to a specific program, and the Company’s performance obligations consist of a wide range of engineering design services and manufactured components, as well as spare parts and repairs for OEMs. A single program may result in multiple contracts for accounting purposes, and within the respective contracts, non-recurring work elements and recurring work elements may result in multiple performance obligations. The Company generally contracts directly with its customers and is the principal in all current contracts.

Management considers a number of factors when determining the existence of a contract and the related performance obligations that include, but are not limited to, the nature and substance of the business exchange; the contractual terms and conditions; the promised products and services; the termination provisions in the contract; including the presently enforceable rights and obligations of the parties to the contract; the nature and execution of the customer’s ordering process and how the Company is authorized to perform work; whether the promised products and services are capable of being distinct and are distinct within the context of the contract; as well as how and when products and services are transferred to the customer.

Revenue is recognized when, or as, control of promised products or services transfers to a customer and is recognized in an amount that reflects the consideration that the Company expects to receive in exchange for those products or services. Revenue is recognized over time as work progresses, when the Company is entitled to the reimbursement of costs plus a reasonable profit for work performed for which the Company has no alternate use or when performing work on a customer-owned asset. For these performance obligations that are satisfied over time, the Company generally recognizes revenue using an input method with revenue amounts being recognized proportionately as costs are incurred relative to the total expected costs to satisfy the performance obligation. The Company believes that costs incurred as a portion of total estimated costs is an appropriate measure of progress toward satisfaction of the performance obligation since this measure reasonably depicts the progress of the work effort.

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(dollars in thousands, except per share data)
(unaudited)

Revenues for performance obligations that are not recognized over time are recognized at the point in time when control transfers to the customer (which is generally based on shipping terms). For performance obligations that are satisfied at a point in time, the Company evaluates the point in time when the customer can direct the use of and obtain the benefits from the products and services. Shipping and handling costs are not considered performance obligations and are included in cost of sales as incurred.

The transaction price for a contract reflects the consideration the Company expects to receive for fully satisfying the performance obligations in the contract. A subset of the Company's current contracts include significant financing components because the timing of the transfer of the underlying products and services under contract are at the customers' discretion. The Company's contracts with customers generally require payment under normal commercial terms after delivery. Payment terms are typically within 30 to 120 days of delivery. The total transaction price is allocated to each of the identified performance obligations using the relative standalone selling price to reflect the amount the Company expects to be entitled for transferring the promised products and services to the customer. A majority of the Company's agreements with customers include options for future purchases. As allowed by ASC 606, for all of its contracts the Company has elected to exclude sales and other similar taxes from the transaction price, since the Company generally is not subject to collecting sales tax. As a result, the Company collections from customers for these taxes are on a net basis.

Standalone selling price is the price at which the Company would sell a promised good or service separately to a customer. Standalone selling prices are established at contract inception, and subsequent changes in transaction price are allocated on the same basis as at contract inception. When standalone selling prices for the Company's products and services are generally not observable, the Company uses either the "Expected Cost plus a Margin" or "Adjusted Market Assessment" approaches to determine standalone selling price. Expected costs are typically derived from the available periodic forecast information. If a contract modification changes the overall transaction price of an existing contract, the Company allocates the new transaction price on the basis of the relative standalone selling prices of the performance obligations and cumulative adjustments, if any, are recorded in the current period.

The Company also identifies and estimates variable consideration for contractual provisions such as unpriced contract modifications, cost sharing provisions, and other receipts or payments to customers. The timing of satisfaction of performance obligations and actual receipt of payment from a customer may differ and affects the balances of the contract assets and liabilities.

For contracts that are deemed to be loss contracts, the Company establishes forward loss reserves for total estimated costs that are in excess of total estimated consideration in the period in which they become known. The Company records forward loss reserves for all performance obligations in the aggregate for the accounting contract.

Included in net sales of Integrated Systems and Aerospace Structures, is the non-cash amortization of acquired contract liabilities that were recognized as fair value adjustments through purchase accounting from various acquisitions. For the three months ended June 30, 2018 and 2017, the Company recognized $17,234 and $29,473 of non-cash amortization, respectively, into net sales on the accompanying condensed consolidated statements of operations.

Disaggregation of Revenue

The Company disaggregates revenue based on the method of measuring satisfaction of the performance obligation either over time or at a point in time. Additionally, the Company disaggregates revenue based upon the end market where products and services are transferred to the customer. The Company's principal operating segments and related revenue are noted in Note 13, Segments.

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Triumph Group, Inc.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)
(unaudited)

The following table shows disaggregated revenues satisfied overtime and point in time (excluding intercompany sales) for the three months ended June 30, 2018:

	Integrated Systems	Aerospace Structures	Product Support	Total
Revenue from contracts with performance obligations:				
Satisfied over time	$64,359	$461,664	$59,425	$585,448
Satisfied at a point in time	174,027	68,684	4,741	247,452
	$238,386	$530,348	$64,166	$832,900

The following tables shows disaggregated revenues by end market (excluding intercompany sales) for the three months ended June 30, 2018:

	Integrated Systems	Aerospace Structures	Product Support	Total
Sales by end market:				
Commercial aerospace	$127,876	$282,164	$49,468	$459,508
Military	83,054	57,922	9,385	150,361
Business jets	13,243	175,832	1,395	190,470
Regional	7,398	6,402	3,918	17,718
Non-aviation	6,815	8,028	—	14,843
Total	$238,386	$530,348	$64,166	$832,900

Concentration of Credit Risk

The Company’s trade accounts receivable are exposed to credit risk. However, the risk is limited due to the diversity of the customer base and the customer base’s wide geographical area. Trade accounts receivable from Boeing (representing commercial, military and space) represented approximately 21% and 10% of total trade accounts receivable as of June 30, 2018 and March 31, 2018, respectively. Trade accounts receivable from Gulfstream (representing commercial, military and space) represented approximately 8% and 16% of total trade accounts receivable as of June 30, 2018 and March 31, 2018, respectively. The Company had no other concentrations of credit risk of more than 10%.

Sales to Boeing for the three months ended June 30, 2018, were $274,296, or 33% of net sales, of which $51,593, $219,461, and $3,242 were from the Integrated Systems, Aerospace Structures and Product Support, respectively. Sales to Boeing for the three months ended June 30, 2017, were $257,311, or 33% of net sales, of which $53,530, $201,688 and $2,093 were from the Integrated Systems, Aerospace Structures and Product Support, respectively. Sales to Gulfstream for the three months ended June 30, 2018, were $90,771, or 11% of net sales, of which $595, $90,128, and $48 were from the Integrated Systems, Aerospace Structures and Product Support, respectively. Sales to Gulfstream for the three months ended June 30, 2017, were $116,026, or 15% of net sales, of which $306, $115,710, and $10 were from the Integrated Systems, Aerospace Structures and Product Support, respectively.

No other single customer accounted for more than 10% of the Company’s net sales. However, the loss of any significant customer, including Boeing and Gulfstream, could have a material adverse effect on the Company and its operating subsidiaries.

Stock-Based Compensation

The Company recognizes compensation expense for share-based awards based on the fair value of those awards at the date of grant. Stock-based compensation expense for the three months ended June 30, 2018 and 2017, was $2,462 and $(41), respectively. The Company has classified share-based compensation within selling, general and administrative expenses to correspond with the same line item as the majority of the cash compensation paid to employees. Upon the exercise of stock options or vesting of restricted stock, the Company first transfers treasury stock, then issues new shares.

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Triumph Group, Inc.
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)
(unaudited)

Intangible Assets
The components of intangible assets, net, are as follows:

June 30, 2018			
Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net