

TRIUMPH GROUP INC  
Form 10-Q  
February 04, 2011  
Table of Contents

**United States**  
**Securities and Exchange Commission**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the Quarterly Period Ended December 31, 2010.**

**or**

**o 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

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(State or other jurisdiction of incorporation or organization)

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

**1550 Liberty Ridge, Suite 100, Wayne, PA**  
(Address of principal executive offices)

**19087**  
(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  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  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

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

Common Stock, par value \$0.001 per share, 24,230,964 shares outstanding as of December 31, 2010.

Table of Contents

TRIUMPH GROUP, INC.

INDEX

	<b>Page Number</b>
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets</u> <u>December 31, 2010 and March 31, 2010</u>	1
<u>Consolidated Statements of Income</u> <u>Three months ended December 31, 2010 and 2009</u> <u>Nine months ended December 31, 2010 and 2009</u>	2
<u>Consolidated Statements of Cash Flows</u> <u>Nine months ended December 31, 2010 and 2009</u>	3
<u>Consolidated Statements of Comprehensive Income</u> <u>Three months ended December 31, 2010 and 2009</u> <u>Nine months ended December 31, 2010 and 2009</u>	4
<u>Notes to Consolidated Financial Statements</u> <u>December 31, 2010</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	52
<u>Item 4. Controls and Procedures</u>	52
<u>Part II. Other Information</u>	
<u>Item 3. Legal Proceedings</u>	54
<u>Item 6. Exhibits</u>	55
<u>Signatures</u>	56

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Table of Contents

## Part I. Financial Information

## Item 1. Financial Statements.

Triumph Group, Inc.  
Consolidated Balance Sheets

(dollars in thousands, except share amounts)

	DECEMBER 31, 2010 (unaudited)	MARCH 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 33,263	\$ 157,218
Accounts receivable, less allowance for doubtful accounts of \$5,710 and \$4,276	275,719	214,497
Inventories, net of unliquidated progress payments of \$179,592 and \$12,701	805,755	351,224
Rotable assets	26,788	25,587
Prepaid and other current assets	22,429	18,455
Assets held for sale	4,828	5,051
Total current assets	1,168,782	772,032
Property and equipment, net	732,562	327,634
Goodwill	1,480,302	502,074
Intangible assets, net	960,442	79,844
Deferred income taxes and other	91,888	18,392
Total assets	\$ 4,433,976	\$ 1,699,976
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 270,554	\$ 91,929
Accounts payable	205,789	92,859
Accrued expenses	305,121	98,565
Deferred income taxes	9,811	
Liabilities related to assets held for sale	839	899
Total current liabilities	792,114	284,252
Long-term debt, less current portion	1,035,209	413,851
Accrued pension and other post-retirement benefits, noncurrent	954,331	1,397
Deferred income taxes, noncurrent		113,640
Other noncurrent liabilities	207,323	26,150
Stockholders equity:		
Common stock, \$.001 par value, 100,000,000 shares authorized, 24,347,951 and 16,817,931 shares issued; 24,230,964 and 16,673,254 outstanding	24	17
Capital in excess of par value	821,986	314,870
Treasury stock, at cost, 116,987 and 144,677 shares	(6,715)	(7,921)
Accumulated other comprehensive (loss) income	(17,064)	705

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Retained earnings	646,768	553,015
Total stockholders' equity	1,444,999	860,686
Total liabilities and stockholders' equity	\$ 4,433,976	\$ 1,699,976

SEE ACCOMPANYING NOTES.

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Table of Contents

Triumph Group, Inc.  
Consolidated Statements of Income

(in thousands, except per share data)

(unaudited)

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	2010	2009	2010	2009
Net sales	\$ 810,853	\$ 313,530	\$ 1,986,262	\$ 942,799
Operating costs and expenses:				
Cost of sales (exclusive of depreciation and amortization shown separately below)	630,612	228,988	1,522,544	676,837
Selling, general and administrative	66,930	39,119	170,913	117,168
Acquisition-related costs	1,000		19,650	
Depreciation and amortization	25,652	12,485	67,529	40,858
	724,194	280,592	1,780,636	834,863
Operating income	86,659	32,938	205,626	107,936
Interest expense and other	21,869	7,768	57,119	18,595
Gain on extinguishment of debt				(39)
Income from continuing operations before income taxes	64,790	25,170	148,507	89,380
Income tax expense	19,810	7,117	50,126	29,088
Income from continuing operations	44,980	18,053	98,381	60,292
Loss from discontinued operations, net	(336)	(12,453)	(825)	(17,202)
Net income	\$ 44,644	\$ 5,600	\$ 97,556	\$ 43,090
Earnings per share basic:				
Income from continuing operations	\$ 1.87	\$ 1.10	\$ 4.48	\$ 3.66
Loss from discontinued operations, net	(0.01)	(0.76)	(0.04)	(1.05)
Net income	\$ 1.85*	\$ 0.34	\$ 4.44	\$ 2.62*
Weighted average common shares outstanding basic				
	24,078	16,467	21,978	16,454
Earnings per share diluted:				
Income from continuing operations	\$ 1.77	\$ 1.08	\$ 4.26	\$ 3.62
Loss from discontinued operations, net	(0.01)	(0.75)	(0.04)	(1.03)
Net income	\$ 1.75*	\$ 0.34*	\$ 4.22	\$ 2.59
Weighted average common shares outstanding diluted				
	25,475	16,688	23,106	16,641
Dividends declared and paid per common share	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.12

\* Difference due to rounding

SEE ACCOMPANYING NOTES.

Table of ContentsTriumph Group, Inc.  
Consolidated Statements of Cash Flows

(dollars in thousands)

(unaudited)

	NINE MONTHS ENDED DECEMBER 31,	
	2010	2009
<b>Operating Activities</b>		
Net income	\$ 97,556	\$ 43,090
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	67,529	40,858
Amortization of acquired contract liabilities	(18,825)	
Gain on early extinguishment of debt		(39)
Accretion of debt discount	5,290	4,579
Other amortization included in interest expense	3,057	1,336
Provision for doubtful accounts receivable	251	309
Provision for deferred income taxes	61,552	1,565
Employee stock-based compensation	2,438	2,508
Changes in other current assets and liabilities, excluding the effects of acquisitions and dispositions of businesses:		
Accounts receivable	82,757	42,852
Rotable assets	(1,201)	(101)
Inventories	(37,918)	10,399
Prepaid expenses and other current assets	2,011	(2,173)
Accounts payable, accrued expenses and other current liabilities	(89,504)	(38,938)
Accrued pension and other post-retirement benefits	(58,454)	
Changes in discontinued operations	162	21,326
Other	(1,955)	(1,121)
Net cash provided by operating activities	114,746	126,450
<b>Investing Activities</b>		
Capital expenditures	(68,691)	(21,766)
Proceeds from sale of assets	3,979	529
Acquisitions, net of cash acquired	(347,912)	(6,375)
Net cash used in investing activities	(412,624)	(27,612)
<b>Financing Activities</b>		
Net increase (decrease) in revolving credit facility	104,575	(127,730)
Proceeds from issuance of long-term debt	796,104	172,878
Proceeds from equipment leasing facility and other capital leases		13,942
Repayment of debt and capital lease obligations	(702,174)	(11,205)
Payment of deferred financing costs	(22,768)	(8,277)
Dividends paid	(2,605)	(2,000)
Repurchase of restricted shares for minimum tax obligation	(1,861)	(470)
Proceeds from exercise of stock options, including excess tax benefit of \$876 and \$140 in fiscal 2011 and 2010	2,790	1,019
Net cash provided by (used in) financing activities	174,061	38,157
Effect of exchange rate changes on cash	(138)	811
Net (decrease) increase in cash and cash equivalents	(123,955)	137,806
Cash and cash equivalents at beginning of period	157,218	14,478



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Cash and cash equivalents at end of period	\$	33,263	\$	152,284
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SEE ACCOMPANYING NOTES.

Table of Contents

Triumph Group, Inc.

Consolidated Statements of Comprehensive Income

(dollars in thousands)

(unaudited)

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	2010	2009	2010	2009
Net income	\$ 44,644	\$ 5,600	\$ 97,556	\$ 43,090
Other comprehensive (loss) income				
Foreign currency translation adjustment	(1,620)	(502)	290	5,828
Pension liability adjustment, net of income taxes of \$12,093	(18,951)		(18,951)	
Unrealized gain on cash flow hedge, net of tax of \$113, \$28, \$339, and \$221, respectively	297	115	891	443
Total other comprehensive (loss) income	(20,274)	(387)	(17,770)	6,271
Total comprehensive income	\$ 24,370	\$ 5,213	\$ 79,786	\$ 49,361

SEE ACCOMPANYING NOTES.

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

1. BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited consolidated financial statements of Triumph Group, Inc. (the Company or Triumph ) have been prepared in conformity with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals, except for the preliminary allocation of the purchase price of the Company's acquisition of Vought Aircraft Industries, Inc. ( Vought ) completed on June 16, 2010 (see Note 3)) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended December 31, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2011. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2010.

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.

As discussed in Note 3, on June 16, 2010, the Company completed the acquisition of Vought. The Company's fiscal 2011 consolidated financial statements are inclusive of Vought's operations from June 16, 2010 through December 31, 2010. Management believes that the acquisition of Vought significantly advances its technical capabilities and enhances its ability to offer aerostructure systems solutions to its customers. The integration of Vought with Triumph creates a leading Tier One Capable supplier with strong positions in commercial and military platforms. Strategically, the acquisition of Vought provides further diversification across customers and programs, as well as exposure to new growth platforms.

Certain reclassifications have been made to prior-year amounts in order to conform to the current-year presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Use of Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Revenue Recognition*

Revenues are generally recognized in accordance with the contract terms when products are shipped, delivery has occurred or services have been rendered, pricing is fixed and determinable, and collection is reasonably assured. A significant portion of the Company's contracts are within the scope of the *Revenue - Construction-Type and Production-Type Contracts* topic of the Accounting Standards Codification (ASC) and revenue and costs on contracts are recognized using percentage-of-completion method of accounting. Accounting for the revenue and profit on a contract requires estimates of (1) the contract value or total contract revenue, (2) the total costs at completion, which is equal to the sum of the actual incurred costs to date on the contract and the estimated costs to complete the contract's scope of work and (3) the measurement of progress towards completion. Depending on the contract, the Company measures progress toward completion using either the cost-to-cost method or the units-of-delivery method, with the great majority measured under the units of delivery method.

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Under the cost-to-cost method, progress toward completion is measured as the ratio of total costs incurred to estimated total costs at completion. Costs are recognized as incurred. Profit is determined based on estimated profit margin on the contract multiplied by progress toward completion. Revenue represents the sum of costs and profit on the contract for the period.
- Under the units-of-delivery method, revenue on a contract is recorded as the units are delivered and accepted during the period at an amount equal to the contractual selling price of those units. The costs recorded on a contract under the units-of-delivery method are equal to the total costs at completion divided by the total units to be delivered. As contracts can span multiple years, the Company often segments the contracts into production lots for the purposes of accumulating and allocating cost. Profit is recognized as the difference between revenue for the units delivered and the estimated costs for the units delivered.

Adjustments to original estimates for a contract's revenues, estimated costs at completion and estimated total profit are often required as work progresses under a contract, as experience is gained and as more information is obtained, even though the scope of work required under the contract may not change, or if contract modifications occur. These estimates are also sensitive to the assumed rate of production. Generally, the longer it takes to complete the contract quantity, the more relative overhead that contract will absorb. The impact of revisions in cost estimates is recognized on a cumulative catch-up basis in the period in which the revisions are made. Provisions for anticipated losses on contracts are recorded in the period in which they become evident (forward losses) and are first offset against costs that are included in inventory, with any remaining amount reflected in accrued contract liabilities in accordance with the *Construction and Production-Type Contracts* topic. Revisions in contract estimates, if significant, can materially affect results of operations and cash flows, as well as valuation of inventory. Furthermore, certain contracts are combined or segmented for revenue recognition in accordance with the *Construction and Production-Type Contracts* topic.

Amounts representing contract change orders or claims are only included in revenue when such change orders or claims have been settled with the customer and to the extent that units have been delivered. Additionally, some contracts may contain provisions for revenue sharing, price re-determination, requests for equitable adjustments, change orders or cost and/or performance incentives. Such amounts or incentives are included in contract value when the amounts can be reliably estimated and their realization is reasonably assured.

Although fixed-price contracts, which extend several years into the future, generally permit the Company to keep unexpected profits if costs are less than projected, the Company also bears the risk that increased or unexpected costs may reduce profit or cause the Company to sustain losses on the contract. In a fixed-price contract, the Company must fully absorb cost overruns, notwithstanding the difficulty of estimating all of the costs the Company will incur in performing these contracts and in projecting the ultimate level of revenue that may otherwise be achieved.

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Failure to anticipate technical problems, estimate delivery reductions, estimate costs accurately or control costs during performance of a fixed price contract may reduce the profitability of a fixed price contract or cause a loss. The Company believes that it has recognized adequate provisions in the financial statements for losses on fixed-price contracts, but cannot be certain that the contract loss provisions will be adequate to cover all actual future losses.

Included in net sales of the Aerostructures Group is the non-cash amortization of acquired contract liabilities recognized as fair value adjustments through purchase accounting of the acquisition of Vought. For the three and nine months ended December 31, 2010, the Company recognized \$9,244 and \$18,825, respectively, into net sales in the accompanying consolidated statements of income.

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Aftermarket Services Group provides repair and overhaul services, a small portion of which services are provided under long-term power-by-the-hour contracts. The Company applies the proportional performance method to recognize revenue under these contracts. Revenue is recognized over the contract period as units are delivered based on the relative value in proportion to the total estimated contract consideration. In estimating the total contract consideration, management evaluates the projected utilization of its customer's fleet over the term of the contract, in connection with the related estimated repair and overhaul servicing requirements to the fleet based on such utilization. Changes in utilization of the fleet by customers, among other factors, may have an impact on these estimates and require adjustments to estimates of revenue to be realized.

*Accounts Receivable*

Accounts receivable include amounts billed and currently due from customers, amounts currently due but unbilled, certain estimated contract changes and amounts retained by the customer pending contract completion. Unbilled amounts are generally billed and collected within one year. The Company continuously monitors collections and payments from customers.

*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 The Boeing Company (Boeing) (representing commercial, military and space) represented approximately 33% and 26% of total accounts receivable as of December 31, 2010 and March 31, 2010, respectively. The Company had no other significant concentrations of credit risk. Sales to Boeing for the nine months ended December 31, 2010 were \$870,978, or 43.9% of net sales, of which \$799,752, \$43,267 and \$27,959 were from the Aerostructures segment, the Aerospace Systems segment and Aftermarket Services segment, respectively. Sales to Boeing for the nine months ended December 31, 2009 were \$283,034, or 30% of net sales, of which \$203,851, \$51,876 and \$27,307 were from the Aerostructures segment, Aerospace Systems segment and Aftermarket Services segment, 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, could have a material adverse effect on the Company and its operating subsidiaries.

*Inventories*

Inventoried costs primarily relate to work in process under fixed-price contracts. They represent accumulated contract costs less the portion of such costs allocated to delivered items. Accumulated contract costs include direct production costs, manufacturing and engineering overhead, and production tooling costs.

*Advance Payments and Progress Payments*

Advance payments and progress payments received on contracts-in-process are first offset against related contract costs that are included in inventory, with any remaining amount reflected in current liabilities under the Accrued expenses caption.

*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 December 31, 2010 and 2009 was \$956 and \$814, respectively. Stock-based compensation expense for the nine months ended



Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

December 31, 2010 and 2009 was \$2,438 and \$2,508, respectively. The benefits of tax deductions in excess of recognized compensation expenses were \$876 and \$140 for the nine months ended December 31, 2010 and 2009, respectively. The Company has classified share-based compensation as a corporate charge 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 will issue new shares.

*Intangible Assets*

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

	Weighted Average Life	December 31, 2010		Net
		Gross Carrying Amount	Accumulated Amortization	
Product rights and licenses	11.1 years	\$ 73,739	\$ (55,738)	\$ 18,001
Non-compete agreements, customer relationships, contracts and other	14.4 years	313,675	(40,234)	273,441
Tradename	Indefinite-lived	669,000		669,000
Total intangibles, net		\$ 1,056,414	\$ (95,972)	\$ 960,442

	Weighted Average Life	March 31, 2010		Net
		Gross Carrying Amount	Accumulated Amortization	
Product rights and licenses	11.4 years	\$ 74,082	\$ (51,762)	\$ 22,320
Non-compete agreements, customer relationships, contracts and other	9.6 years	83,606	(26,082)	57,524
Total intangibles, net		\$ 157,688	\$ (77,844)	\$ 79,844

Amortization expense for the three and nine months ended December 31, 2010 and 2009 was \$6,970 and \$18,215 and \$2,566 and \$11,110, respectively.

*Supplemental Cash Flow Information*

The Company paid \$1,383 and \$16,446 for income taxes, net of refunds received for the nine months ended December 31, 2010 and 2009, respectively. The Company made interest payments of \$34,227 and \$13,268 for the nine months ended December 31, 2010 and 2009, respectively, including \$12,401 of interest on debt assumed in the acquisition of Vought (Note 3).

During the nine months ended December 31, 2010, the Company issued 7,496,165 shares valued at \$504,867 as partial consideration for the acquisition of Vought (Note 3) and financed \$11,483 of property and equipment additions through capital leases.

3. ACQUISITIONS

*Vought Aircraft Industries, Inc.*

On June 16, 2010, the Company acquired by merger all of the outstanding shares of Vought, now operating as Triumph Aerostructures-Vought Commercial Division, Triumph Aerostructures-Vought Integrated Programs Division and Triumph Structures - Everett, for cash and stock consideration. The acquisition of Vought establishes the Company as a leading global manufacturer of aerostructures for

Table of Contents

## Triumph Group, Inc.

## Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 3. ACQUISITIONS (Continued)

commercial, military and business jet aircraft. Products include fuselages, wings, empennages, nacelles and helicopter cabins. Vought's customer base is comprised of the leading global aerospace original equipment manufacturers or OEMs and over 80% of its revenue is from sole source, long-term contracts. Vought's revenues for the year ended December 31, 2009 were \$1.9 billion and Vought employed approximately 5,900 people. The Company incurred \$19,650 in acquisition-related expenses in connection with the acquisition of Vought, including \$4,583 of bridge financing fees on undrawn commitments. Such commitments expired upon closing of the acquisition of Vought.

Fair value of consideration transferred: The following details consideration transferred to acquire Vought:

(in thousands, except share and per share amounts)	Shares	Estimated Fair Value	Form of Consideration
Number of Triumph shares issued to Vought shareholders	7,496,165		
Triumph share price as of the acquisition date	\$ 67.35	\$ 504,867	Triumph common stock
Cash consideration transferred to Vought shareholders		547,950	Cash
<b>Total fair value of consideration transferred</b>		<b>\$ 1,052,817</b>	

Recording of assets acquired and liabilities assumed: The transaction has been accounted for using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Certain estimated values are not yet finalized (see below) and are subject to change. The Company will finalize the amounts recognized as the information necessary to complete the analyses is obtained. The Company expects to finalize these amounts during the fourth quarter of fiscal 2011. Under U.S. GAAP, the measurement period shall not exceed one year from the acquisition date. The following table summarizes the provisional recording of assets acquired and liabilities assumed as of the acquisition date:

	June 16, 2010
Cash	\$ 214,833
Accounts receivable	145,471
Inventory	418,077
Prepaid expenses and other	5,144
Property and equipment	375,132
Goodwill	969,936
Intangible assets	899,000
Deferred tax assets	208,546

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Other assets		384
Total assets	\$	3,236,523
Accounts payable	\$	150,121
Accrued expenses		243,325
Debt		590,710
Acquired contract liabilities		133,000
Other noncurrent liabilities		1,066,550
Total liabilities	\$	2,183,706

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

3. ACQUISITIONS (Continued)

**Intangible assets:** The following table is a summary of the preliminary fair value estimates of the identifiable intangible assets and their weighted-average useful lives:

	Weighted - Average Life	Estimated Fair Value
Customer relationships/contracts	15.8 years	\$ 230,000
Tradenname	Indefinite-lived	669,000
<b>Total intangibles</b>		<b>\$ 899,000</b>

**Deferred taxes:** The Company provided deferred taxes and recorded other adjustments as part of the accounting for the acquisition primarily related to the estimated fair value adjustments for acquired intangible assets, as well as the elimination of previously recorded valuation allowance associated with Vought's historical operating losses.

**Debt:** Simultaneously with the closing of the acquisition of Vought, the Company repaid \$603,111 of Vought's debt and accrued interest in connection with the closing, including \$270,000 in 8% senior notes, \$320,710 in senior credit facilities and \$12,401 in accrued but unpaid interest.

**Pension obligations:** The Company assumed several defined benefit pension plans covering some of Vought's employees. Certain employee groups are ineligible to participate in the plans or have ceased to accrue additional benefits under the plans based upon their service to the Company or years of service accrued under the defined benefit pension plans. Benefits under the defined benefit plans are based on years of service and, for most non-represented employees, on average compensation for certain years. It is the Company's policy to fund at least the minimum amount required for all qualified plans, using actuarial cost methods and assumptions acceptable under U.S. Government regulations, by making payments into a trust separate from the Company. The Company also assumed certain other post-retirement benefit plans (OPEB), namely healthcare and life insurance benefits for eligible retired employees, which are unfunded.

The following is an estimate of the funded position of the assumed pension and OPEB plans as of the acquisition date, as well as the associated weighted-average assumptions used to determine benefit obligations:

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	<b>Estimated Fair Value</b>
Projected benefit obligation	\$ 2,394,169
Fair value of plan assets	1,360,211
Net Unfunded Status	\$ 1,033,958

Amounts recognized in the Consolidated Balance Sheet as of the date of acquisition:

	<b>Estimated Fair Value</b>
Accrued expenses	\$ 40,769
Accrued pension and other post-retirement benefits, noncurrent	993,189
Net Unfunded Status	\$ 1,033,958

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

3. ACQUISITIONS (Continued)

Weighted average assumption used to determine benefit obligations at the acquisition date and net period benefit cost from the acquisition date through March 31, 2011:

	Pension Benefits	Other Post-Retirement Benefits
Discount rate	6.03%	5.58%
Expected rate of return on plan assets	8.50%	N/A
Rate of compensation increase	4.00%	N/A

The pension plan assets are invested in various asset classes that are expected to produce a sufficient level of diversification and investment return over the long-term. The investment goals are to exceed the assumed actuarial rate of return over the long-term within reasonable and prudent levels of risk and to preserve the real purchasing power of assets to meet future obligations. The allocation guidelines of the pension plan assets are as follows: public equity - 53% to 61%; alternative investment funds - 2% to 12%; fixed income investments - 28% to 34% and real estate funds - 3% to 7%.

Goodwill: Goodwill in the amount of \$969,936 was recognized for this acquisition and is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Specifically, goodwill recorded as part of the acquisition of Vought includes:

- the expected synergies and other benefits that the Company believes will result from combining the operations of Vought with the operations of Triumph;
- any intangible assets that do not qualify for separate recognition such as assembled workforce; and
- the value of the going-concern element of Vought's existing businesses (the higher rate of return on the assembled collection of net assets versus acquiring all of the net assets separately).

The Goodwill is not deductible for tax purposes.

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The recorded amounts for assets and liabilities are provisional and subject to change. The measurement period adjustments recorded in the third quarter of fiscal 2011 did not have a significant impact on the Company's consolidated statements of income, balance sheet, or cash flows. The following items still are subject to change:

- amounts for intangibles pending finalization of valuation efforts;
- amounts for acquired contract liabilities pending finalization of valuation efforts;
- amounts for contingent liabilities pending completion of the assessment of these matters; and
- amounts for income tax assets, receivables and liabilities pending the filing of Vought's pre-acquisition tax returns and the receipt of information from the taxing authorities which may change certain estimates and assumptions used.

A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. Judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed as well as asset lives can materially impact results of operations.



Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

3. ACQUISITIONS (Continued)

Actual and pro forma impact of the Vought acquisition: The following table presents information for Vought that is included in the Company's consolidated statement of income from June 16, 2010 through the end of the quarter:

	Three months ended December 31, 2010		Nine months ended December 31, 2010	
Net sales	\$	470,110	\$	983,105
Operating income		47,048		99,351

The unaudited pro forma results presented below include the effects of the acquisition of Vought as if it had been consummated as of April 1, 2009. The pro forma results include the amortization associated with an estimate for acquired intangible assets and interest expense associated with debt used to fund the acquisition, as well as fair value adjustments for property & equipment, off market contracts and favorable leases. To better reflect the combined operating results, material nonrecurring charges directly attributable to the transaction have been excluded. In addition, the pro forma results do not include any anticipated synergies or other expected benefits of the acquisition. Accordingly, the unaudited pro forma results are not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been consummated as of April 1, 2009.

	Three months ended December 31, 2009		Nine months ended December 31 2010		December 31 2009		
Net sales	\$	861,776	\$	2,343,262	\$	2,404,291	
Income from continuing operations		49,929		101,881		140,957	
Income from continuing operations	basic	\$	2.09	\$	4.23	\$	5.89
Income from continuing operations	diluted	\$	2.07	\$	4.04	\$	5.84

FISCAL 2010 ACQUISITIONS

*Acquisition of DCL Avionics, Inc.*

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Effective January 29, 2010, the Company's wholly-owned subsidiary Triumph Instruments Burbank, Inc. acquired the assets and business of DCL Avionics, Inc. ( DCL ). DCL operated a Federal Aviation Administration ( FAA ) approved avionics repair station and components dealership. DCL provides Triumph Instruments Burbank, Inc. with additional capacity as well as a strategic location on the Van Nuys, California, airport. The results for Triumph Instruments Burbank, Inc. continue to be included in the Company's Aftermarket Services segment.

### *Acquisition of Fabritech, Inc.*

Effective March 1, 2010, the Company acquired all of the outstanding shares of Fabritech, Inc. ( Fabritech ), renamed Triumph Fabrications St. Louis, Inc. Triumph Fabrications St. Louis, Inc. is a component manufacturer and repair station for critical military rotary-wing platforms. Fabritech provides the Company with high-end maintenance and manufactured solutions focused on aviation drive train, mechanical, hydraulic and electrical hardware items including gearboxes, cargo hooks and vibration absorbers. The results for Triumph Fabrications St. Louis, Inc. were included in the Company's Aftermarket Services segment as of March 31, 2010, have been reclassified to the Company's Aerospace Systems segment as of and during the quarter ended June 30, 2010.

Table of Contents

## Triumph Group, Inc.

## Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 3. ACQUISITIONS (Continued)

The acquisitions of DCL and Fabritech are herein referred to as the fiscal 2010 acquisitions. The combined purchase price for the fiscal 2010 acquisitions of \$34,547 includes cash paid at closing, deferred payments and estimated contingent payments. The estimated contingent payments represent an earnout contingent upon the achievement of certain earnings levels during the earnout period. The maximum amounts payable in respect of fiscal 2011, 2012 and 2013 are \$6,400, \$5,000 and \$4,600, respectively. The estimated fair value of the earnout note at the date of acquisition of \$10,500 is classified as a Level 3 liability in the fair value hierarchy (Note 8). The excess of the purchase price over the estimated fair value of the net assets acquired of \$22,323 was recorded as goodwill, which is not deductible for tax purposes. The Company has also identified intangible assets valued at approximately \$4,100 with a weighted-average life of 10.0 years. The Company is awaiting final appraisal of tangible and intangible assets related to the fiscal 2010 acquisitions. Accordingly, the Company has recorded its best estimate of the value of intangible assets, property and equipment and contingent consideration. Therefore, the allocation of purchase price for the fiscal 2010 acquisitions is not complete.

The following condensed balance sheet represents the amounts assigned to each major asset and liability caption in the aggregate for the fiscal 2010 acquisitions:

Cash	\$	532
Accounts receivable		640
Inventory		6,379
Prepaid expenses and other		79
Property and equipment		2,620
Goodwill		22,323
Intangible assets		4,100
Total assets	\$	36,673
Accounts payable	\$	298
Accrued expenses		1,828
Other noncurrent liabilities		10,500
Total liabilities	\$	12,626

The fiscal 2010 acquisitions have been accounted for under the acquisition method and, accordingly, are included in the consolidated financial statements from the effective date of acquisition. The fiscal 2010 acquisitions were funded by the Company's cash and cash equivalents at the date of acquisition. The Company incurred \$406 in acquisition-related costs in connection with the fiscal 2010 acquisitions recorded in selling, general and administrative expenses in the accompanying consolidated statement of income.

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The following unaudited pro forma information for the three and nine months ended December 31, 2009 has been prepared assuming the fiscal 2010 acquisitions had occurred on April 1, 2009.

	<b>Three months ended December 31, 2009</b>		<b>Nine months ended December 31, 2009</b>	
Net sales	\$	317,424	\$	954,102
Income from continuing operations		18,013		59,204
Income from continuing operations basic	\$	1.09	\$	3.60
Income from continuing operations diluted	\$	1.08	\$	3.56

The unaudited pro forma information includes adjustments for interest expense that would have been incurred to finance the purchase, additional depreciation based on the estimated fair market value of the property and equipment acquired, and the amortization of the intangible assets arising from the transactions.

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

3. ACQUISITIONS (Continued)

The unaudited pro forma financial information is not necessarily indicative of the results of operations of the Company as it would have been had the transaction been effected on the assumed date.

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

In September 2007, the Company decided to sell Triumph Precision Castings Co., a casting facility in its Aftermarket Services segment that specializes in producing high-quality hot gas path components for aero and land-based gas turbines. The Company recognized a pretax loss of \$3,500 in the first quarter of fiscal 2008 based upon a write-down of the carrying value of the business to estimated fair value less costs to sell. The write-down was applied to inventory and long-lived assets, consisting primarily of property, plant and equipment.

Due to failed negotiations with certain potential buyers of the business occurring during fiscal 2010, the Company reassessed its estimated fair value of the business based on current viable offers to purchase the business, recent performance results and overall market conditions, resulting in a write-down, which was applied to accounts receivable, inventory and property, plant and equipment. The Company recognized a pretax loss of \$17,383 in the third quarter of fiscal 2010. Included in the loss from discontinued operations for the fiscal year ended March 31, 2010 is an impairment charge of \$2,512 recorded during the first quarter of fiscal 2010.

Revenues of discontinued operations were \$281 and \$1,239, and \$(236) and \$1,258 for the three and nine months ended December 31, 2010 and 2009, respectively. The loss from discontinued operations was \$336 and \$825, and \$12,453 and \$17,202, net of income tax benefit of \$179 and \$443, and \$6,648 and \$9,205 for the three and nine months ended December 31, 2010 and 2009, respectively. Included in the loss from discontinued operations for the nine months ended December 31, 2009 is an impairment charge of \$19,895. Interest expense of \$67 and \$194, and \$669 and \$2,274 was allocated to discontinued operations for the three and nine months ended December 31, 2010 and 2009, respectively, based upon the actual borrowings of the operations, and such interest expense is included in the loss from discontinued operations.

Assets and liabilities held for sale are comprised of the following:

DECEMBER 31,

MARCH 31,

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	2010	2010
Assets held for sale:		
Accounts receivable, net	\$ 1,448	\$ 1,656
Inventories	358	372
Property, plant and equipment	3,000	3,000
Other	22	23
Total assets held for sale	\$ 4,828	\$ 5,051
Liabilities held for sale:		
Accounts payable	\$ 310	\$ 227
Accrued expenses	181	324
Other noncurrent liabilities	348	348
Total liabilities held for sale	\$ 839	\$ 899

In December 2010, the Company sold certain contracts and related assets of the Milwaukee sales office of Triumph Accessory Services Wellington at net book value for total proceeds of \$2,458.

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

5. INVENTORIES

Inventories are stated at the lower of cost (average-cost or specific-identification methods) or market. The components of inventories are as follows:

	DECEMBER 31, 2010		MARCH 31, 2010
Raw materials	\$ 75,123	\$	51,028
Manufactured and purchased components	175,578		162,281
Work-in-process	689,874		111,975
Finished goods	44,772		38,641
Less: unliquidated progress payments	(179,592)		(12,701)
Total inventories	\$ 805,755	\$	351,224

6. LONG-TERM DEBT

Long-term debt consists of the following:

	DECEMBER 31, 2010		MARCH 31, 2010
Revolving credit facility	\$ 104,575	\$	
Receivable securitization facility	75,000		75,000
Equipment leasing facility and other capital leases	70,855		69,560
Term loan credit agreement	347,533		
Secured promissory notes	5,100		11,107
Senior subordinated notes due 2017	172,739		172,561
Senior notes due 2018	347,566		
Convertible senior subordinated notes	174,417		169,584
Other debt	7,978		7,968
	1,305,763		505,780
Less current portion	270,554		91,929
	\$ 1,035,209	\$	413,851

**Revolving Credit Facility**

On May 10, 2010, the Company entered into a credit agreement (the Credit Facility ). The Credit Facility became available on June 16, 2010 in connection with the consummation of the acquisition of Vought. The obligations under the Credit Facility and related documents are secured by liens on substantially all assets of the Company and its domestic subsidiaries pursuant to a Guarantee and Collateral Agreement, dated as of June 16, 2010, among the Company and the subsidiaries of the Company party thereto. Such liens are pari passu to the liens securing the Company's obligations under the Term Loan described below pursuant to an intercreditor agreement dated June 16, 2010 among the agents under the Credit Facility and the Term Loan, the Company and its domestic subsidiaries that are borrowers and/or guarantors under the Credit Facility and the Term Loan (the Interc Creditor Agreement ). In connection with entering into the Credit Facility, the Company incurred approximately \$2,917 of financing costs. These costs, along with the \$3,763 of unamortized financing costs prior to the closing, are being amortized over the remaining term of the Credit Facility.



Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

6. LONG-TERM DEBT (Continued)

The Credit Facility replaced and refinanced the Company's Amended and Restated Credit Agreement dated as of August 14, 2009 (the 2009 Credit Agreement), which agreement was terminated and all obligations thereunder paid in full upon the consummation of the acquisition of Vought.

Pursuant to the Credit Facility, the Company can borrow, repay and re-borrow revolving credit loans, and cause to be issued letters of credit, in an aggregate principal amount not to exceed \$535,000 outstanding at any time. The comparable limit under the 2009 Credit Agreement was \$485,000. Approximately \$148,600 in loans were drawn under the Credit Facility in connection with the consummation of the acquisition of Vought. The Credit Facility bears interest at either: (i) LIBOR plus between 2.25% and 3.50%; (ii) the prime rate; or (iii) an overnight rate at the option of the Company. The applicable interest rate is based upon the Company's ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization. In addition, the Company is required to pay a commitment fee of between 0.300% and 0.500% on the unused portion of the Credit Facility. The Company's obligations under the Credit Facility are guaranteed by the Company's domestic subsidiaries.

At December 31, 2010, there were \$104,575 in borrowings and \$41,038 in letters of credit outstanding under the facility. At March 31, 2010, there were no borrowings and \$6,123 in letters of credit outstanding under the 2009 Credit Agreement. The level of unused borrowing capacity under the Credit Facility varies from time to time depending in part upon its compliance with financial and other covenants set forth in the related agreement. The Company is currently in compliance with all such covenants. As of December 31, 2010, the Company had borrowing capacity under this facility of \$389,387 after reductions for borrowings and letters of credit outstanding under the facility.

**Receivables Securitization Program**

In June 2010, the Company entered into an amended receivable securitization facility (the Securitization Facility), increasing the purchase limit from \$125,000 to \$175,000. In connection with the Securitization Facility, the Company sells on a revolving basis certain accounts receivable to Triumph Receivables, LLC, a wholly-owned special-purpose entity, which in turn sells a percentage ownership interest in the receivables to commercial paper conduits sponsored by financial institutions. The Company is the servicer of the accounts receivable under the Securitization Facility. As of December 31, 2010, the maximum amount available under the Securitization Facility was \$126,500. The Securitization Facility is due to expire in June 2011 and is subject to annual renewal through August 2013. Interest rates are based on prevailing market rates for short-term commercial paper plus a program fee and a commitment fee. The program fee is 0.50% on the amount outstanding under the Securitization Facility. Additionally, the commitment fee is 0.65% on 102% of the maximum amount available under the Securitization Facility. At December 31, 2010, there was \$75,000 outstanding under the Securitization Facility. In connection with amending the Securitization Facility, the Company incurred approximately \$653 of financing costs. These costs, along with the \$540 of unamortized financing costs prior to the amendment, are being amortized over the life of the Securitization Facility. The Company securitizes its accounts receivable,

which are generally non-interest bearing, in transactions that are accounted for as borrowings pursuant to the *Transfers and Servicing* topic of the ASC.

The agreement governing the Securitization Facility contains restrictions and covenants which include limitations on the making of certain restricted payments, creation of certain liens, and certain corporate acts such as mergers, consolidations and the sale of substantially all assets.

**Equipment Leasing Facility and Other Capital Leases**

During March 2009, the Company entered into a 7-year Master Lease Agreement (the Leasing Facility ) creating a capital lease of certain existing property and equipment, resulting in net proceeds of \$58,546 after

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

6. LONG-TERM DEBT (Continued)

deducting debt issuance costs of approximately \$188. During the nine months ended December 31, 2009, the Company added additional capital leases resulting in proceeds of \$13,942. The net proceeds from the Leasing Facility were used to repay a portion of the outstanding indebtedness under the Company's then existing credit facility. The debt issuance costs have been recorded as other assets in the accompanying consolidated balance sheets and are being amortized over the term of the Leasing Facility. The Leasing Facility bears interest at a weighted-average fixed rate of 6.2% per annum.

During the nine months ended December 31, 2010, the Company entered into new capital leases in the amount of \$11,483 to finance a portion of the Company's capital additions for the period.

**Term Loan Credit Agreement**

The Company entered into a term loan credit agreement dated as of June 16, 2010 (the "Term Loan"), which proceeds were used to partially finance the acquisition of Vought. The Term Loan provides for a six-year term loan in a principal amount of \$350,000, repayable in equal quarterly installments at a rate of 1.00% of the original principal amount per year, with the balance payable on the final maturity date. The proceeds of the loans under the Term Loan, which were 99.500% of the principal amount, were used to consummate the acquisition of Vought. In connection with the closing on the Term Loan, the Company incurred approximately \$7,133 of costs, which were deferred and are being amortized into expense over the term of the Term Loan.

The obligations under the Term Loan are guaranteed by substantially all of the Company's domestic subsidiaries and secured by liens on substantially all of the Company's and the guarantors' assets pursuant to a Guarantee and Collateral Agreement (the "Term Loan Guarantee and Collateral Agreement") and certain other collateral agreements, in each case subject to the Intercreditor Agreement. Borrowings under the Term Loan bear interest, at the Company's option, at either the base rate (subject to a 2.50% floor), plus a margin between 1.750% and 2.000%, or at the Eurodollar Rate (subject to a 1.50% floor), plus a margin driven by net leverage between 2.750% and 3.000%.

The Term Loan contains certain covenants, restrictions and events of default, in each case substantially similar to those under the Credit Facility including, but not limited to, a maximum total leverage ratio, a maximum senior leverage ratio, and a minimum interest coverage ratio. The Company is currently in compliance with all such covenants. In addition, the Term Loan provides for mandatory principal prepayments on the term loans outstanding thereunder under certain circumstances.

**Senior Subordinated Notes Due 2017**

On November 16, 2009, the Company issued \$175,000 principal amount of 8% Senior Subordinated Notes due 2017 (the 2017 Notes ). The 2017 Notes were sold at 98.558% of principal amount and have an effective interest yield of 8.25%. Interest on the 2017 Notes is payable semiannually in cash in arrears on May 15 and November 15 of each year. In connection with the issuance of the 2017 Notes, the Company incurred approximately \$4,410 of costs, which were deferred and are being amortized on the effective interest method over the term of the 2017 Notes.

The 2017 Notes are senior subordinated unsecured obligations of the Company and rank subordinated to all of the existing and future senior indebtedness of the Company and the Guarantor Subsidiaries (as defined below), including borrowings under the Company's existing Credit Facility, and *pari passu* with the Company's and the Guarantor Subsidiaries' existing and future senior subordinated indebtedness. The 2017 Notes are guaranteed, on a full, joint and several basis, by each of the Company's domestic restricted subsidiaries that guarantees any of the Company's debt or that of any of the Company's restricted subsidiaries

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

6. LONG-TERM DEBT (Continued)

under the Credit Facility, and in the future by any domestic restricted subsidiaries that guarantee any of the Company's debt or that of any of the Company's domestic restricted subsidiaries incurred under any credit facility (collectively, the Guarantor Subsidiaries), in each case on a senior subordinated basis. If the Company is unable to make payments on the 2017 Notes when they are due, each of the Guarantor Subsidiaries would be obligated to make such payments.

The Company has the option to redeem all or a portion of the 2017 Notes at any time prior to November 15, 2013 at a redemption price equal to 100% of the principal amount of the 2017 Notes redeemed, plus an applicable premium set forth in the Indenture and accrued and unpaid interest, if any. The 2017 Notes are also subject to redemption, in whole or in part, at any time on or after November 15, 2013, at redemption prices equal to (i) 104% of the principal amount of the 2017 Notes redeemed, if redeemed prior to November 15, 2014, (ii) 102% of the principal amount of the 2017 Notes redeemed, if redeemed prior to November 15, 2015, and (iii) 100% of the principal amount of the Notes redeemed, if redeemed thereafter, plus accrued and unpaid interest. In addition, at any time prior to November 15, 2012, the Company may redeem up to 35% of the principal amount of the 2017 Notes with the net cash proceeds of qualified equity offerings at a redemption price equal to 108% of the aggregate principal amount plus accrued and unpaid interest, if any, subject to certain limitations set forth in the indenture governing the 2017 Notes (the 2017 Indenture).

Upon the occurrence of a change of control, the Company must offer to purchase the 2017 Notes from holders at 101% of their principal amount plus accrued and unpaid interest, if any, to the date of purchase. This change of control feature represents an embedded derivative. Since it is in the control of the Company to call the 2017 Notes at any time after November 15, 2013, the value of the derivative was determined to be *de minimis*. Accordingly, no value has been assigned at issuance or at December 31, 2010.

The 2017 Indenture contains covenants that, among other things, limit the Company's ability and the ability of any of the Guarantor Subsidiaries to (i) grant liens on its assets, (ii) make dividend payments, other distributions or other restricted payments, (iii) incur restrictions on the ability of the Guarantor Subsidiaries to pay dividends or make other payments, (iv) enter into sale and leaseback transactions, (v) merge, consolidate, transfer or dispose of substantially all of their assets, (vi) incur additional indebtedness, (vii) use the proceeds from sales of assets, including capital stock of restricted subsidiaries, and (viii) enter into transactions with affiliates.

**Senior Notes due 2018**

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On June 16, 2010, in connection with the acquisition of Vought, the Company issued \$350,000 principal amount of 8.625% Senior Notes due 2018 (the 2018 Notes ). The 2018 Notes were sold at 99.270% of principal amount and have an effective interest yield of 8.75%. Interest on the Notes accrues at the rate of 8.625% per annum and is payable semi-annually in cash in arrears on January 15 and July 15 of each year, commencing on January 15, 2011. In connection with the issuance of the 2018 Notes, the Company incurred approximately \$7,307 of costs, which were deferred and are being amortized on the effective interest method over the term of the 2018 Notes.

The 2018 Notes are the Company's senior unsecured obligations and rank equally in right of payment with all of its other existing and future senior unsecured indebtedness and senior in right of payment to all of its existing and future subordinated indebtedness. The 2018 Notes are guaranteed on a full, joint and several basis by each of the Guarantor Subsidiaries.

The Company may redeem some or all of the 2018 Notes prior to July 15, 2014 by paying a make-whole premium. The Company may redeem some or all of the 2018 Notes on or after July 15, 2014 at

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

6. LONG-TERM DEBT (Continued)

specified redemption prices. In addition, prior to July 15, 2013, the Company may redeem up to 35% of the 2018 Notes with the net proceeds of certain equity offerings at a redemption price equal to 108.625% of the aggregate principal amount plus accrued and unpaid interest, if any, subject to certain limitations set forth in the indenture governing the 2018 Notes (the "2018 Indenture").

The Company is obligated to offer to repurchase the 2018 Notes at a price of (a) 101% of their principal amount plus accrued and unpaid interest, if any, as a result of certain change of control events and (b) 100% of their principal amount plus accrued and unpaid interest, if any, in the event of certain asset sales. These restrictions and prohibitions are subject to certain qualifications and exceptions. This change of control feature represents an embedded derivative. Since it is in the control of the Company to call the 2018 Notes at any time after July 15, 2014, the value of the derivative was determined to be *de minimis*. Accordingly, no value has been assigned at issuance or at December 31, 2010.

The 2018 Indenture contains covenants that, among other things, limit the Company's ability and the ability of any of the Guarantor Subsidiaries to (i) grant liens on its assets, (ii) make dividend payments, other distributions or other restricted payments, (iii) incur restrictions on the ability of the Guarantor Subsidiaries to pay dividends or make other payments, (iv) enter into sale and leaseback transactions, (v) merge, consolidate, transfer or dispose of substantially all of their assets, (vi) incur additional indebtedness, (vii) use the proceeds from sales of assets, including capital stock of restricted subsidiaries, and (viii) enter into transactions with affiliates.

**Convertible Senior Subordinated Notes**

On September 18, 2006, the Company issued \$201,250 in convertible senior subordinated notes (the "Notes"). The Notes are direct, unsecured, senior subordinated obligations of the Company, and rank (i) junior in right of payment to all of the Company's existing and future senior indebtedness, (ii) equal in right of payment with any other future senior subordinated indebtedness, and (iii) senior in right of payment to all subordinated indebtedness. During fiscal 2009, the Company paid \$15,420 to purchase \$18,000 in principal amount of the Notes, resulting in a reduction in the carrying amount of the Notes of \$16,283 and a gain on extinguishment of \$880.

The Company received net proceeds from the sale of the Notes of approximately \$194,998 after deducting debt issuance expenses of approximately \$6,252. The use of the net proceeds from the sale was for prepayment of the Company's outstanding senior notes, including a make-whole premium, fees and expenses in connection with the prepayment, and to repay a portion of the outstanding indebtedness under the Company's then existing credit facility. Debt issuance costs have been recorded as other assets in the accompanying consolidated balance sheets and are being amortized over a period of five years.

The Notes bear interest at a fixed rate of 2.625% per annum, payable in cash semi-annually in arrears on each April 1 and October 1. During the period commencing on October 6, 2011 and ending on, but excluding, April 1, 2012 and for each six-month period from October 1 to March 31 or from April 1 to September 30 thereafter, the Company will pay contingent interest during the applicable interest period if the average trading price of a Note for the five consecutive trading days ending on the third trading day immediately preceding the first day of the relevant six-month period equals or exceeds 120% of the principal amount of the Notes. The contingent interest payable per Note in respect of any six-month period will equal 0.25% per annum, calculated on the average trading price of a Note for the relevant five trading day period. This contingent interest feature represents an embedded derivative. Since it is within the control of the Company to call the Notes at any time after October 6, 2011, the value of the derivative was determined to be *de minimis*. Accordingly, no value has been assigned at issuance or at December 31, 2010.



Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

6. LONG-TERM DEBT (Continued)

The Notes mature on October 1, 2026, unless earlier redeemed, repurchased or converted. The Company may redeem the Notes for cash, either in whole or in part, at any time on or after October 6, 2011 at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest, including contingent interest and additional amounts, if any, up to but not including the date of redemption. In addition, holders of the Notes will have the right to require the Company to repurchase for cash all or a portion of their Notes on October 1, 2011, 2016 and 2021, at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, including contingent interest and additional amounts, if any, up to, but not including, the date of repurchase. The Notes are convertible into the Company's common stock at a rate equal to 18.3655 shares per \$1,000 principal amount of the Notes (equal to an initial conversion price of approximately \$54.45 per share), subject to adjustment as described in the Indenture. Upon conversion, the Company will deliver to the holder surrendering the Notes for conversion, for each \$1,000 principal amount of Notes, an amount consisting of cash equal to the lesser of \$1,000 and the Company's total conversion obligation and, to the extent that the Company's total conversion obligation exceeds \$1,000, at the Company's election, cash or shares of the Company's common stock in respect of the remainder.

The Notes are eligible for conversion upon meeting certain conditions as provided in the indenture governing the Notes. In January 2011, the Company delivered a notice to holders of the Notes to the effect that, for at least 20 trading days during the 30 consecutive trading days preceding December 31, 2010, the closing price of the Company's common stock was greater than or equal to 130% of the conversion price of such notes on the last trading day. Under the terms of the Convertible Notes, the increase in the Company's stock price triggered a provision, which gave holders of the notes a put option through March 31, 2011. Accordingly, the balance sheet classification of the notes will be short term for as long as the put option remains in effect.

To be included in the calculation of diluted earnings per share, the average price of the Company's common stock for the quarter must exceed the conversion price per share of \$54.45. The average price of the Company's common stock for the fiscal quarters ended December 31, 2010 and December 31, 2009 was \$84.62 and \$48.73, respectively. Therefore, 1,172,410 and zero additional shares were included in the diluted earnings per share calculation for the fiscal quarters ended December 31, 2010 and December 31, 2009, respectively. The average price of the Company's common stock for the nine months ended December 31, 2010 and December 31, 2009 was \$75.25 and \$43.94, respectively. Therefore, as of the nine months ended December 31, 2010 and December 31, 2009, there were 908,937 and zero additional shares, respectively, included in the diluted earnings per share. If the Company undergoes a fundamental change, holders of the Notes will have the right, subject to certain conditions, to require the Company to repurchase for cash all or a portion of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, including contingent interest and additional amounts, if any.

Table of Contents

## Triumph Group, Inc.

## Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 6. LONG-TERM DEBT (Continued)

Effective April 1, 2009, the Company changed its method of accounting for its convertible debt instruments in order to separately account for the liability and equity components of the Notes in a manner that reflects the Company's nonconvertible debt borrowing rate when interest and amortization cost is recognized in subsequent periods. The excess of the principal amount of the liability component over its carrying amount has been recognized as debt discount and amortized using the effective interest method. As of December 31, 2010, the remaining discount of \$4,633 will be amortized on the effective interest method through October 1, 2011. The debt and equity components recognized for the Notes as of December 31, 2010 were as follows:

Principal amount of convertible notes	\$	179,050
Unamortized discount (1)		4,633
Net carrying amount		174,417

(1) Remaining recognition period of 0.75 year as of December 31, 2010.

The amount of interest expense recognized and the effective rate for the Notes were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2010	2009	2010	2009
Contractual coupon interest	\$ 1,175	\$ 1,175	\$ 3,525	\$ 3,587
Amortization of discount on convertible notes	1,637	1,535	4,833	4,552
Interest expense	\$ 2,812	\$ 2,710	\$ 8,358	\$ 8,139
Effective interest rate	6.5%	6.5%	6.5%	6.5%

## 7. DERIVATIVES

**Interest Rate Swap**

The Company follows the *Derivatives and Hedging* topic of the ASC to account for its interest rate swaps, which requires that all derivatives be recorded on the consolidated balance sheet at fair value. The standards also require that changes in the fair value be recorded each period in current earnings or other comprehensive income, depending on the effectiveness of the hedge transaction. Interest rate swaps are designated as cash flow hedges. Changes in the fair value of a cash flow hedge, to the extent the hedge is effective, are recorded, net of tax, in other comprehensive income (loss), a component of stockholders' equity, until earnings are affected by the variability of the hedged cash flows. Cash flow hedge ineffectiveness, defined as the extent that the changes in the fair value of the derivative exceed the variability of cash flows of the forecasted transaction, is recorded currently in earnings.

In March 2008, the Company entered into an interest rate swap agreement (the Swap), maturing June 2011, involving the receipt of floating rate amounts in exchange for fixed rate interest payments over the life of the agreement, without exchange of the underlying principal amount. Under the Swap, the Company receives interest equivalent to the one-month LIBOR and pays a fixed rate of interest of 2.925 percent with settlements occurring monthly. The objective of the hedge is to eliminate the variability of cash flows in interest payments for \$85,000 of floating rate debt. To maintain hedge accounting for the Swap, the Company is committed to maintaining at least \$85,000 in borrowings at an interest rate based on one-month LIBOR, plus an applicable margin, through June 2011.

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

7. DERIVATIVES (Continued)

In December 2009, the Company elected to de-designate the Swap as a hedge prospectively. As a result, changes in fair value from the date of de-designation are recognized through interest expense and other in the consolidated statement of income. For the nine months ended December 31, 2010, \$1,401 was recognized as a reduction to interest expense and other for the change in fair value of the Swap.

As of December 31, 2010, the total notional amount of the Company's receive-variable/pay-fixed interest rate swap was \$85,000. For the nine months ended December 31, 2010, \$891 of losses were reclassified into earnings from accumulated other comprehensive income.

The fair value of the interest rate swap of \$1,131 and \$2,527 as of December 31, 2010 and March 31, 2010, respectively, were included in Other noncurrent liabilities.

The effect of derivative instruments in the consolidated statements of income is as follows:

Cash Flow Hedges	Reclassification Adjustment Gain (Loss) Location (Effective Portion)	Amount of Gain (Loss) in OCI (Effective Portion) Period ended December 31,		Reclassification Adjustment Gain (Loss) Amount Period ended December 31,	
		2010	2009	2010	2009
Interest rate swap	Interest expense and other	\$	\$ 328	\$ (594)	\$ (1,104)

The amount of ineffectiveness on the interest rate swap is not significant. The Company estimates that approximately \$564 of losses presently in accumulated other comprehensive income (loss) will be reclassified into earnings during the remainder of fiscal 2011.

8. FAIR VALUE MEASUREMENTS

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The Company follows the *Fair Value Measurement and Disclosures* topic of the ASC, which requires additional disclosures about the Company's assets and liabilities that are measured at fair value and establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability

Level 3 Unobservable inputs for the asset or liability

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

8. FAIR VALUE MEASUREMENTS (Continued)

The following table provides the assets reported at fair value and measured on a recurring basis as of December 31, 2010:

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements Using:	
			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap, net of tax of \$413	\$ (718)	\$	\$ (718)	\$
Contingent earnout	\$ (11,111)	\$	\$	\$ (11,111)

The fair value of the interest rate swap contract is determined using observable current market information as of the reporting date such as the prevailing LIBOR-based interest rate. The fair value of the contingent earnout at the date of acquisition was \$10,500 which was estimated using the income approach based on significant inputs that are not observable in the market. Key assumptions included a discount rate and probability assessments of each milestone payment being made. The assumptions used to develop the estimate have not changed since the date of acquisition, with the exception of the present value factor.

The *Financial Instruments* topic of the ASC requires disclosure of the estimated fair value of certain financial instruments. These estimated fair values as of December 31, 2010 and March 31, 2010 have been determined using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop estimates of fair value. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange. The use of alternative market assumptions and estimation methodologies could have had a material effect on these estimates of fair value.

Carrying amounts and the related estimated fair values of the Company's financial instruments not recorded at fair value in the financial statements are as follows:

	December 31, 2010		March 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 1,305,763	\$ 1,474,084	\$ 505,780	\$ 582,199

The fair value of the long-term debt was calculated based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements, unless quoted market prices were available.

Except for long-term debt, the Company's financial instruments are highly liquid or have short-term maturities. Therefore, the recorded value is approximately equal to the fair value. The financial instruments held by the Company could potentially expose it to a concentration of credit risk. The Company invests its excess cash in money market funds and other deposit instruments placed with major banks and financial institutions. The Company has established guidelines related to diversification and maturities to maintain safety and liquidity.

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

9. EARNINGS PER SHARE

The following is a reconciliation between the weighted average outstanding shares used in the calculation of basic and diluted earnings per share:

	THREE MONTHS ENDED DECEMBER 31, (in thousands)		NINE MONTHS ENDED DECEMBER 31, (in thousands)	
	2010	2009	2010	2009
Weighted average common shares outstanding basic	24,078	16,467	21,978	16,454
Net effect of dilutive stock options	225	221	219	187
Potential common shares - convertible debt	1,172		909	
Weighted average common shares outstanding diluted	25,475	16,688	23,106	16,641

The weighted average common shares outstanding basic includes the 7,496,165 shares issued as partial consideration in the acquisition of Vought for the pro rata portion of the quarter ended June 30, 2010 (See Note 3). The period to date weighted average calculations will continue to be impacted by the issuance of the shares for the remainder of fiscal 2011.

10. INCOME TAXES

The Company follows the *Income Taxes* topic of the ASC, which prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, as well as guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company has classified uncertain tax positions as noncurrent income tax liabilities unless expected to be paid in one year. Penalties and tax-related interest expense are reported as a component of income tax expense. As of December 31, 2010 and March 31, 2010, the total amount of accrued income tax-related interest and penalties was \$199 and \$403, respectively.



As of December 31, 2010 and March 31, 2010, the total amount of unrecognized tax benefits was \$6,961 and \$4,434, respectively, of which \$6,961 and \$3,331, respectively, would impact the effective rate, if recognized. The total amount of unrecognized tax benefits was reduced in the previous quarter by \$2,232 as a result of the resolution of prior years' tax examinations. The Company increased unrecognized tax benefits by \$1,783 in the previous quarter in connection with purchase accounting adjustments associated with the acquisition of Vought. The Company does not anticipate that total unrecognized tax benefits will be reduced due to the expiration of statutes of limitation for various tax issues in the next 12 months.

The Company has filed appeals in a prior state tax examination jurisdiction related to fiscal years ended March 31, 1999 through March 31, 2005. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

The effective income tax rate for the nine months ended December 31, 2010 was 33.7% reflecting the non-deductibility of certain acquisition-related expenses in the first quarter, offset by the retroactive reinstatement of the Federal Research and Development tax credit back to January 1, 2010.

With few exceptions, the Company is no longer subject to U.S. federal income tax examinations for fiscal years ended before March 31, 2009, state or local examinations for fiscal years ended before March 31, 2007, or foreign income tax examinations by tax authorities for fiscal years ended before March 31, 2008. During the quarter ended September 30, 2010, the Company was notified of an income tax examination by one state for the tax years ended March 31, 2007 through March 31, 2009.

Table of Contents

## Triumph Group, Inc.

## Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 11. GOODWILL

The following is a summary of the changes in the carrying value of goodwill by reportable segment, from March 31, 2010 through December 31, 2010:

	Aerostructures	Aerospace Systems	Aftermarket Services	Total
Balance, March 31, 2010 *	\$ 249,715	\$ 199,982	\$ 52,377	\$ 502,074
Goodwill recognized in connection with acquisitions	969,936			969,936
Purchase price allocation adjustments	8,000	(48)	93	8,045
Effect of exchange rate changes and other		247		247
Balance, December 31, 2010	\$ 1,227,651	\$ 200,181	\$ 52,470	\$ 1,480,302

\* The March 31, 2010 segment balances have been revised to give effect to the adjustment of Triumph Fabrications St. Louis (acquired March 2010) from the Aftermarket Services segment to the Aerospace Systems segment.

## 12. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

The Company sponsors several defined benefit pension plans covering some of its employees. Certain employee groups are ineligible to participate in the plans or have ceased to accrue additional benefits under the plans based upon their service to the Company or years of service accrued under the defined benefit pension plans. Benefits under the defined benefit plans are based on years of service and, for most non-represented employees, on average compensation for certain years. It is the Company's policy to fund at least the minimum amount required for all qualified plans, using actuarial cost methods and assumptions acceptable under U.S. Government regulations, by making payments into a trust separate from us.

In addition to the defined benefit pension plans, the Company provides certain healthcare and life insurance benefits for eligible retired employees. Such benefits are unfunded as of December 31, 2010. Employees achieve eligibility to participate in these contributory plans upon retirement from active service if they meet specified age and years of service requirements. Election to participate for some employees must be made at the date of retirement. Qualifying dependents at the date of retirement are also eligible for medical coverage. Current plan documents reserve the right to amend or terminate the plans at any time, subject to applicable collective bargaining requirements for represented employees. From time to time, changes have been made to the benefits provided to various groups of plan participants. Premiums charged to most retirees

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for medical coverage prior to age 65 are based on years of service and are adjusted annually for changes in the cost of the plans as determined by an independent actuary. In addition to this medical inflation cost-sharing feature, the plans also have provisions for deductibles, co-payments, coinsurance percentages, out-of-pocket limits, schedules of reasonable fees, preferred provider networks, coordination of benefits with other plans and a Medicare carve-out.

In accordance with the *Compensation Retirement Benefits* topic of the ASC, the Company has recognized the funded status of the benefit obligation as of the date of the last remeasurement, in the accompanying consolidated balance sheet. The funded status is measured as the difference between the fair value of the plan's assets and the PBO or accumulated post-retirement benefit obligation of the plan. In order to recognize the funded status, the Company determined the fair value of the plan assets. The majority of the plan assets are publicly traded investments which were valued based on the market price as of the date of

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

12. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS (Continued)

remeasurement. Investments that are not publicly traded were valued based on the estimated fair value of those investments based on our evaluation of data from fund managers and comparable market data.

**Net Periodic Benefit Plan Costs**

The components of net periodic benefit costs for our post-retirement benefit plans are shown in the following table:

	Pension benefits			
	Three months ended December 31,		Nine months ended December 31,	
	2010	2009	2010	2009
Components of net periodic benefit cost:				
Service cost	\$ 5,499	\$ 20	\$ 11,525	\$ 61
Interest cost	29,327	189	63,587	566
Expected return on plan assets	(29,419)	(110)	(63,702)	(330)
Amortization of prior service costs	18	41	54	123
Amortization of net loss	787	38	879	114
Net periodic pension cost	\$ 6,212	\$ 178	\$ 12,343	\$ 534

	Other post-retirement benefits			
	Three months ended December 31,		Nine months ended December 31,	
	2010	2009	2010	2009
Components of net periodic benefit cost:				
Service cost	\$ 990	\$	\$ 2,145	\$
Interest cost	5,326		11,540	
Expected return on plan assets				
Net periodic pension cost	\$ 6,316	\$	\$ 13,685	\$

In October 2010, our largest union-represented group of production and maintenance employees ratified a new collective bargaining agreement. The agreement provided for an increase in the pension benefits payable to covered employees who retire on or after November 1, 2010. The aforementioned changes led to remeasurement of affected plan's assets and obligations as of October 2010, which resulted in a \$31.8 million increase in unfunded liability for pension plans.

**Pension Plan Funding**

We estimate that our total pension plan contributions during the remainder of fiscal year ended March 31, 2011 will be approximately \$61,400. This amount reflects the effects of relevant pension legislation. No plan assets are expected to be returned to us in fiscal 2011.

13. SEGMENTS

As further described below, beginning with this Quarterly Report on Form 10-Q, the Company has modified its segment reporting in accordance with ASC Topic 280, *Segment Reporting*.

Through the first quarter of fiscal 2011, the Company had been organized based on the products and services that it provided. Under this organizational structure, the Company had two reportable segments: the Aerospace Systems Group and the Aftermarket Services Group. The Company evaluated performance and allocated resources based on operating income of each reportable segment. The Company's Chief Operating Decision Maker (CODM) evaluated performance and allocated resources based upon review of segment information. The CODM utilized operating income as a primary measure of profitability.

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

13. SEGMENTS (Continued)

During the second quarter of fiscal 2011, the Company implemented certain internal organizational changes in an effort to align the operations reporting units. Our reportable segments are aligned with how we manage the business and view the markets we serve. We now report our financial performance based on the following three reportable segments: the Aerostructures Group, the Aerospace Systems Group and the Aftermarket Services Group. These changes affected how results are reported internally for management review, but did not change any of the chief operating decision makers. As required by ASC Topic 280, all prior period information has been recast to reflect the realignment of reportable segments.

The Company's Aerostructures Group consists of 22 operating locations, the Aerospace Systems Group segment consists of 23 operating locations and the Aftermarket Services segment consists of 13 operating locations at December 31, 2010.

The Aerostructures segment consists of the Company's operations that manufacture products primarily for the aerospace OEM market. The Aerostructures segment's revenues are derived from the design, manufacture, assembly and integration of metallic and composite aerostructures and structural components, including aircraft wings, fuselage sections, tail assemblies, engine nacelles, flight control surfaces as well as helicopter cabins. Further, the segment's operations also design and manufacture composite assemblies for floor panels and environmental control system ducts. These products are sold to various aerospace OEMs on a global basis.

The Aerospace Systems segment consists of the Company's operations that also manufacture products primarily for the aerospace OEM market. The segment's operations design and engineer mechanical and electromechanical controls, such as hydraulic systems, main engine gearbox assemblies, accumulators, mechanical control cables and non-structural cockpit components. These products are sold to various aerospace OEMs on a global basis.

The Aftermarket Services segment consists of the Company's operations that provide maintenance, repair and overhaul services to both commercial and military markets on components and accessories manufactured by third parties. Maintenance, repair and overhaul revenues are derived from services on auxiliary power units, airframe and engine accessories, including constant-speed drives, cabin compressors, starters and generators, and pneumatic drive units. In addition, the segment's operations repair and overhaul thrust reversers, nacelle components and flight control surfaces. The segment's operations also perform repair and overhaul services and supply spare parts for various types of cockpit instruments and gauges for a broad range of commercial airlines on a worldwide basis.

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Segment operating income is total segment revenue reduced by operating expenses identifiable with that segment. Corporate includes general corporate administrative costs and any other costs not identifiable with one of the Company's segments. The Company does not accumulate net sales information by product or service or groups of similar products and services, and therefore the Company does not disclose net sales by product or service because to do so would be impracticable.

Table of Contents

## Triumph Group, Inc.

## Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 13. SEGMENTS (Continued)

Selected financial information for each reportable segment is as follows:

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	2010	2009	2010	2009
<b>Net sales:</b>				
Aerostructures	\$ 613,544	\$ 152,440	\$ 1,422,580	\$ 434,440
Aerospace systems	124,693	111,769	365,626	348,771
Aftermarket services	74,709	51,409	203,191	166,506
Elimination of inter-segment sales	(2,093)	(2,088)	(5,135)	(6,918)
	\$ 810,853	\$ 313,530	\$ 1,986,262	\$ 942,799
<b>Income from continuing operations before income taxes:</b>				
<b>Operating income (expense):</b>				
Aerostructures	\$ 70,606	\$ 24,201	\$ 176,637	\$ 67,969
Aerospace systems	17,436	14,889	52,933	52,052
Aftermarket services	9,494	1,390	21,778	7,294
Corporate	(10,877)	(7,542)	(45,722)	(19,379)
	86,659	32,938	205,626	107,936
Interest expense and other	21,869	7,768	57,119	18,556
	\$ 64,790	\$ 25,170	\$ 148,507	\$ 89,380
<b>Depreciation and amortization:</b>				
Aerostructures	\$ 18,071	\$ 5,286	\$ 44,889	\$ 18,171
Aerospace systems	4,336	3,798	12,738	12,503
Aftermarket services	2,400	3,211	8,486	9,650
Corporate	845	190	1,416	534
	\$ 25,652	\$ 12,485	\$ 67,529	\$ 40,858
<b>Capital expenditures:</b>				
Aerostructures	\$ 20,020	\$ 2,754	\$ 42,580	\$ 7,235
Aerospace systems	2,363	1,896	8,625	8,886
Aftermarket services	854	1,474	3,202	3,234
Corporate	4,225	1,597	14,284	2,411
	\$ 27,462	\$ 7,721	\$ 68,691	\$ 21,766



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	DECEMBER 31, 2010	MARCH 31, 2010
Total Assets:		
Aerostructures	\$ 3,555,829	\$ 648,953
Aerospace systems	543,580	557,404
Aftermarket services	302,260	300,777
Corporate	27,479	187,791
Discontinued operations	4,828	5,051
	\$ 4,433,976	\$ 1,699,976

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

13. SEGMENTS (Continued)

During the three months ended December 31, 2010 and 2009, the Company had international sales of \$111,435 and \$58,253, respectively. During the nine month period ended December 31, 2010 and 2009, the Company had international sales of \$281,302 and \$183,778, respectively.

14. SELECTED CONSOLIDATING FINANCIAL STATEMENTS OF PARENT, GUARANTORS AND NON-GUARANTORS

The 2017 Notes and the 2018 Notes are fully and unconditionally guaranteed on a joint and several basis by Guarantor Subsidiaries. The total assets, stockholder's equity, revenue, earnings and cash flows from operating activities of the Guarantor Subsidiaries exceeded a majority of the consolidated total of such items as of and for the periods reported. The only consolidated subsidiaries of the Company that are not guarantors of the 2017 Notes and the 2018 Notes (the Non-Guarantor Subsidiaries) are: (a) the receivables securitization special purpose entity and (b) the international operating subsidiaries. The following tables present condensed consolidating financial statements including the Company (the Parent), the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries. Such financial statements include summary consolidating balance sheets as of December 31, 2010 and March 31, 2010, condensed consolidating statements of income for the three and nine months ended December 31, 2010 and 2009, and condensed consolidating statements of cash flows for the nine months ended December 31, 2010 and 2009.

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

14. SELECTED CONSOLIDATING FINANCIAL STATEMENTS OF PARENT, GUARANTORS AND NON-GUARANTORS

**SUMMARY CONSOLIDATING BALANCE SHEETS:**

	Parent	Guarantor Subsidiaries	December 31, 2010 Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
<b>Current assets:</b>					
Cash and cash equivalents	\$ 13,553	\$ 423	\$ 19,287	\$	\$ 33,263
Accounts receivable, net	5,985	96,435	173,299		275,719
Inventories		779,318	26,437		805,755
Rotable assets		22,193	4,595		26,788
Prepaid expenses and other	14,406	7,359	664		22,429
Assets held for sale		4,828			4,828
Total current assets	33,944	910,556	224,282		1,168,782
Property and equipment, net	33,978	682,471	16,113		732,562
Goodwill and other intangible assets, net	1,863	2,391,329	47,552		2,440,744
Other, net	54,412	37,257	219		91,888
Intercompany investments and advances	783,449	(208,852)	2,469	(577,066)	
Total assets	\$ 907,646	\$ 3,812,761	\$ 290,635	\$ (577,066)	\$ 4,433,976
<b>Current liabilities:</b>					
Current portion of long-term debt	\$ 178,618	\$ 16,930	\$ 75,006	\$	\$ 270,554
Accounts payable	3,017	196,218	6,554		205,789
Accrued expenses	36,975	259,004	9,142		305,121
Deferred income taxes	5,137	4,674			9,811
Liabilities related to assets held for sale		839			839
Total current liabilities	223,747	477,665	90,702		792,114
Long-term debt, less current portion	975,364	59,845			1,035,209
Intercompany debt	(1,840,344)	1,713,930	126,414		
Other noncurrent liabilities	23,628	1,139,441	(1,415)		1,161,654
Total stockholders' equity	1,525,251	421,880	74,934	(577,066)	1,444,999
Total liabilities and stockholders' equity	\$ 907,646	\$ 3,812,761	\$ 290,635	\$ (577,066)	\$ 4,433,976



Table of Contents

## Triumph Group, Inc.

## Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 14. SELECTED CONSOLIDATING FINANCIAL STATEMENTS OF PARENT, GUARANTORS AND NON-GUARANTORS (Continued)

**SUMMARY CONSOLIDATING BALANCE SHEETS:**

	Parent	Guarantor Subsidiaries	March 31, 2010 Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
<b>Current assets:</b>					
Cash and cash equivalents	\$ 148,437	\$ 1,712	\$ 7,069	\$	\$ 157,218
Accounts receivable, net	1,571	29,995	182,931		214,497
Inventories		322,615	28,609		351,224
Rotable assets		22,456	3,131		25,587
Prepaid expenses and other	12,728	5,176	551		18,455
Assets held for sale		5,051			5,051
Total current assets	162,736	387,005	222,291		772,032
Property and equipment, net	9,854	301,568	16,212		327,634
Goodwill and other intangible assets, net		533,640	48,278		581,918
Other, net	16,489	1,690	213		18,392
Intercompany investments and advances	410,733	(1,563)	2,853	(412,023)	
Total assets	\$ 599,812	\$ 1,222,340	\$ 289,847	\$ (412,023)	\$ 1,699,976
<b>Current liabilities:</b>					
Current portion of long-term debt	\$ 469	\$ 14,915	\$ 76,545	\$	\$ 91,929
Accounts payable	2,560	83,885	6,414		92,859
Accrued expenses	32,208	60,507	5,850		98,565
Liabilities related to assets held for sale		899			899
Total current liabilities	35,237	160,206	88,809		284,252
Long-term debt, less current portion	342,550	71,301			413,851
Intercompany debt	(771,776)	636,409	135,367		
Accrued pension and other post-retirement benefits, noncurrent		1,397			1,397
Deferred income taxes and other	133,115	7,979	(1,304)		139,790
Total stockholders' equity	860,686	345,048	66,975	(412,023)	860,686
Total liabilities and stockholders' equity	\$ 599,812	\$ 1,222,340	\$ 289,847	\$ (412,023)	\$ 1,699,976



Table of Contents

## Triumph Group, Inc.

## Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 14. SELECTED CONSOLIDATING FINANCIAL STATEMENTS OF PARENT, GUARANTORS AND NON-GUARANTORS (Continued)

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME:**

	Three months ended December 31, 2010				Consolidated Total
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Net sales	\$	\$ 787,664	\$ 24,134	\$ (945)	\$ 810,853
Operating costs and expenses:					
Cost of sales		615,063	16,494	(945)	630,612
Selling, general and administrative	9,031	54,462	3,437		66,930
Acquisition-related	1,000				1,000
Depreciation and amortization	846	23,993	813		25,652
	10,877	693,518	20,744	(945)	724,194
Operating income (loss)	(10,877)	94,146	3,390		86,659
Intercompany interest and charges	(34,399)	33,585	814		
Interest expense and other	20,998	1,795	(924)		21,869
Income from continuing operations, before income taxes	2,524	58,766	3,500		64,790
Income tax expense (benefit)	(1,931)	21,369	372		19,810
Income from continuing operations	4,455	37,397	3,128		44,980
Loss on discontinued operations, net		(336)			(336)
Net income	\$ 4,455	\$ 37,061	\$ 3,128	\$	\$ 44,644

Table of Contents

## Triumph Group, Inc.

## Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 14. SELECTED CONSOLIDATING FINANCIAL STATEMENTS OF PARENT, GUARANTORS AND NON-GUARANTORS (Continued)

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME:**

	<b>Three months ended December 31, 2009</b>					
	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated Total</b>	
Net sales	\$	\$ 301,348	\$ 15,568	\$ (3,386)	\$	313,530
<b>Operating costs and expenses:</b>						
Cost of sales		218,349	14,025	(3,386)		228,988
Selling, general and administrative	7,352	29,091	2,676			39,119
Depreciation and amortization	190	11,897	398			12,485
	7,542	259,337	17,099	(3,386)		280,592
Operating income (loss)	(7,542)	42,011	(1,531)			32,938
Intercompany interest and charges	(21,487)	21,484	3			
Interest expense and other	6,414	856	498			7,768
Income from continuing operations, before income taxes	7,531	19,671	(2,032)			25,170
Income tax expense (benefit)	907	6,212	(2)			7,117
Income from continuing operations	6,624	13,459	(2,030)			18,053
Loss on discontinued operations, net		(12,453)				(12,453)
Net income	\$ 6,624	\$ 1,006	\$ (2,030)	\$	\$	5,600



Table of Contents

## Triumph Group, Inc.

## Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 14. SELECTED CONSOLIDATING FINANCIAL STATEMENTS OF PARENT, GUARANTORS AND NON-GUARANTORS (Continued)

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME:**

	Nine months ended December 31, 2010				Consolidated Total
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Net sales	\$	\$ 1,920,064	\$ 69,829	\$ (3,631)	\$ 1,986,262
Operating costs and expenses:					
Cost of sales		1,476,963	49,212	(3,631)	1,522,544
Selling, general and administrative	24,656	136,376	9,881		170,913
Acquisition-related	19,650				19,650
Depreciation and amortization	1,415	63,743	2,371		67,529
	45,721	1,677,082	61,464	(3,631)	1,780,636
Operating income(loss)	(45,721)	242,982	8,365		205,626
Intercompany interest and charges	(88,591)	86,187	2,404		
Interest expense and other	52,803	6,756	(2,440)		57,119
Income (loss) from continuing operations, before income taxes	(9,933)	150,039	8,401		148,507
Income tax expense (benefit)	(5,056)	54,323	859		50,126
Income from continuing operations	(4,877)	95,716	7,542		98,381
Loss on discontinued operations, net		(825)			(825)
Net income	\$ (4,877)	\$ 94,891	\$ 7,542	\$	\$ 97,556

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

14. SELECTED CONSOLIDATING FINANCIAL STATEMENTS OF PARENT, GUARANTORS AND NON-GUARANTORS (Continued)

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME:**

	Nine months ended December 31, 2009				Consolidated
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	\$	\$ 906,023	\$ 46,318	\$ (9,542)	\$ 942,799
<b>Operating costs and expenses:</b>					
Cost of sales		648,582	37,797	(9,542)	676,837
Selling, general and administrative	18,845	90,930	7,393		117,168
Depreciation and amortization	534	38,004	2,320		40,858
	19,379	777,516	47,510	(9,542)	834,863
Operating income(loss)	(19,379)	128,507	(1,192)		107,936
Intercompany interest and charges	(67,705)	67,831	(126)		
Interest expense and other	15,153	2,053	1,350		18,556
Income from continuing operations, before income taxes	33,173	58,623	(2,416)		89,380
Income tax expense	8,721	19,445	922		29,088
Income from continuing operations	24,452	39,178	(3,338)		60,292
Loss on discontinued operations, net		(17,202)			(17,202)
Net income	\$ 24,452	\$ 21,976	\$ (3,338)	\$	\$ 43,090

Table of Contents

## Triumph Group, Inc.

## Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 14. SELECTED CONSOLIDATING FINANCIAL STATEMENTS OF PARENT, GUARANTORS AND NON-GUARANTORS (Continued)

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:**

	Nine months ended December 31, 2010					Consolidated Total
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations		
Net income (loss)	\$ (4,877)	\$ 94,891	\$ 7,542	\$	\$	\$ 97,556
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities	19,265	(17,788)	15,713			17,190
Net cash provided by operating activities	14,388	77,103	23,255			114,746
Capital expenditures	(14,284)	(53,470)	(937)			(68,691)
Proceeds from sale of assets and businesses		3,957	22			3,979
Acquisitions, net of cash acquired		(346,362)	(1,550)			(347,912)
Net cash used in investing activities	(14,284)	(395,875)	(2,465)			(412,624)
Net increase in revolving credit facility	104,575					104,575
Proceeds on issuance of debt	695,694	10	100,400			796,104
Retirements and repayments of debt	(592,057)	(9,686)	(100,431)			(702,174)
Payments of deferred financing costs	(22,768)					(22,768)
Dividends paid	(2,605)					(2,605)
Withholding of restricted shares for minimum tax obligation	(1,861)					(1,861)
Proceeds from exercise of stock options, including excess tax benefit	2,790					2,790
Intercompany financing and advances	(318,756)	327,159	(8,403)			
Net cash (used in) provided by financing activities	(134,988)	317,483	(8,434)			174,061
Effect of exchange rate changes on cash			(138)			(138)
Net change in cash and cash equivalents	(134,884)	(1,289)	12,218			(123,955)
Cash and cash equivalents at beginning of period	148,437	1,712	7,069			157,218
Cash and cash equivalents at end of period	\$ 13,553	\$ 423	\$ 19,287	\$	\$	\$ 33,263

Table of Contents

## Triumph Group, Inc.

## Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 14. SELECTED CONSOLIDATING FINANCIAL STATEMENTS OF PARENT, GUARANTORS AND NON-GUARANTORS (Continued)

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:**

	Nine months ended December 31, 2009					Consolidated Total
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations		
Net income	\$ 24,452	\$ 21,976	\$ (3,338)	\$	\$	43,090
Adjustments to reconcile net income to net cash provided by operating activities	7,040	41,498	34,822			83,360
Net cash provided by operating activities	31,492	63,474	31,484			126,450
Capital expenditures	(1,335)	(18,634)	(1,797)			(21,766)
Proceeds from sale of assets and businesses	1	527	1			529
Cash used for businesses and intangible assets acquired		(4,896)	(1,479)			(6,375)
Net cash used in investing activities	(1,334)	(23,003)	(3,275)			(27,612)
Net decrease in revolving credit facility	(127,730)					(127,730)
Proceeds from issuance of debt	172,477	14,343				186,820
Retirements and repayments of debt	(4,332)	(6,782)	(91)			(11,205)
Payments of deferred financing costs	(8,277)					(8,277)
Dividends paid	(2,000)					(2,000)
Repurchase of restricted shares for minimum tax obligation	(470)					(470)
Proceeds from exercise of stock options, including excess tax benefit	1,019					1,019
Intercompany financing and advances	79,627	(53,261)	(26,366)			
Net cash used in financing activities	110,314	(45,700)	(26,457)			38,157
Effect of exchange rate changes on cash			811			811
Net change in cash and cash equivalents	140,472	(5,229)	2,563			137,806
Cash and cash equivalents at beginning of period	3,821	5,457	5,200			14,478
Cash and cash equivalents at end of period	\$ 144,293	\$ 228	\$ 7,763	\$	\$	152,284

Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

15. RELATED PARTIES

The Company has a commercial relationship with Wesco Aircraft Hardware Corp. ( Wesco ), a distributor of aerospace hardware and provider of inventory management services under which Wesco provides aerospace hardware to us pursuant to long-term contracts. The Carlyle Group owns a majority stake in Wesco and is the Company's largest shareholder. The Carlyle Group may indirectly benefit from its economic interest in Wesco from its contractual relationships with us. The total amount paid to Wesco pursuant to the Company's contracts with Wesco for the nine months ended December 31, 2010 was approximately \$24,364.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(The following discussion should be read in conjunction with the Consolidated Financial Statements contained elsewhere herein.)

**OVERVIEW**

We are a major supplier to the aerospace industry and have three operating segments: (i) Triumph Aerostructures Group, whose companies revenues are derived from the design, manufacture, assembly and integration of metallic and composite aerostructures and structural components for the global aerospace original equipment manufacturers, or OEM, market; (ii) Triumph Aerospace Systems Group, whose companies design, engineer and manufacture a wide range of proprietary and build-to-print components, assemblies and systems also for the OEM market; and (iii) Triumph Aftermarket Services Group, whose companies serve aircraft fleets, notably commercial airlines, the U.S. military and cargo carriers, through the maintenance, repair and overhaul of aircraft components and accessories manufactured by third parties.

On June 16, 2010, we announced the completion of the acquisition of Vought Aircraft Industries, Inc. ( Vought ) from The Carlyle Group. The acquired business is operating as Triumph Aerostructures-Vought Commercial Division and Triumph Aerostructures-Vought Integrated Programs Division.

Financial highlights for the three and nine months ended December 31, 2010 include:

- Net sales for the third quarter of the fiscal year ending March 31, 2011 increased 158.6% to \$810.9 million, including 9.9% increase due to organic growth.
  
- Operating income in the third quarter of fiscal 2011 increased 163.1% to \$86.7 million, which included 17.5% increase due to organic growth, offset by \$1.0 million of acquisition-related expenses associated with the acquisition of Vought.
  
- Income from continuing operations for the third quarter of fiscal 2011 increased 149.2% to \$45.0 million.
  
- Backlog increased to \$3.9 billion due to the acquisition of Vought, having an organic increase of 17.0% from the prior year period.
  
- Income from continuing operations was \$1.77 per diluted common share.

- For the nine months ended December 31, 2010, we generated \$114.7 million of cash flow from operating activities.

## **RESULTS OF OPERATIONS**

The following includes a discussion of our consolidated and business segment results of operations. The Company's diverse structure and customer base do not provide for precise comparisons of the impact of price and volume changes to our results. However, we have disclosed the significant variances between the respective periods.

### **Non-GAAP Financial Measures**

We prepare and publicly release quarterly unaudited financial statements prepared in accordance with accounting standards generally accepted in the United States ( GAAP ). In accordance with Securities and Exchange Commission (the SEC ) guidance on Compliance and Disclosure Interpretations, we also disclose and discuss certain non-GAAP financial measures in our public releases. Currently, the non-GAAP financial measures that we disclose are EBITDA, which is our income from continuing operations before interest, income taxes, amortization of acquired contract liabilities, depreciation and amortization, and Adjusted EBITDA, which is EBITDA adjusted for acquisition-related costs associated with the acquisition of Vought. We disclose EBITDA and Adjusted EBITDA on a consolidated and an operating segment basis in our earnings releases, investor conference calls and filings with the SEC. The non-GAAP financial measures that we use may not be comparable to similarly titled

Table of Contents

measures reported by other companies. Also, in the future, we may disclose different non-GAAP financial measures in order to help our investors more meaningfully evaluate and compare our future results of operations to our previously reported results of operations.

We view EBITDA as an operating performance measure and as such we believe that the GAAP financial measure most directly comparable to it is income from continuing operations. In calculating EBITDA, we exclude from income from continuing operations the financial items that we believe should be separately identified to provide additional analysis of the financial components of the day-to-day operation of our business. We have outlined below the type and scope of these exclusions and the material limitations on the use of these non-GAAP financial measures as a result of these exclusions. EBITDA is not a measurement of financial performance under GAAP and should not be considered as a measure of liquidity, as an alternative to net income (loss), income from continuing operations, or as an indicator of any other measure of performance derived in accordance with GAAP. Investors and potential investors in our securities should not rely on EBITDA as a substitute for any GAAP financial measure, including net income (loss) or income from continuing operations. In addition, we urge investors and potential investors in our securities to carefully review the reconciliation of EBITDA to income from continuing operations set forth below, in our earnings releases and in other filings with the SEC and to carefully review the GAAP financial information included as part of our Quarterly Reports on Form 10-Q and our Annual Reports on Form 10-K that are filed with the SEC, as well as our quarterly earnings releases, and compare the GAAP financial information with our EBITDA.

EBITDA is used by management to internally measure our operating and management performance and by investors as a supplemental financial measure to evaluate the performance of our business that, when viewed with our GAAP results and the accompanying reconciliation, we believe provides additional information that is useful to gain an understanding of the factors and trends affecting our business. We have spent more than 15 years expanding our product and service capabilities partially through acquisitions of complementary businesses. Due to the expansion of our operations, which included acquisitions, our income from continuing operations has included significant charges for depreciation and amortization. EBITDA excludes these charges and provides meaningful information about the operating performance of our business, apart from charges for depreciation and amortization. We believe the disclosure of EBITDA helps investors meaningfully evaluate and compare our performance from quarter to quarter and from year to year. We also believe EBITDA is a measure of our ongoing operating performance because the isolation of noncash income and expenses, such as amortization of acquired contract liabilities, depreciation and amortization, and nonoperating items, such as interest and income taxes, provides additional information about our cost structure, and, over time, helps track our operating progress. In addition, investors, securities analysts and others have regularly relied on EBITDA to provide a financial measure by which to compare our operating performance against that of other companies in our industry.

Set forth below are descriptions of the financial items that have been excluded from our income from continuing operations to calculate EBITDA and the material limitations associated with using this non-GAAP financial measure as compared to income from continuing operations:

- Amortization of acquired contract liabilities may be useful for investors to consider because it represents the non-cash earnings on the fair value of below market contracts acquired through the acquisition of Vought. We do not believe these earnings necessarily reflect the current and ongoing cash earnings related to our operations.
- Amortization expense may be useful for investors to consider because it represents the estimated attrition of our acquired customer base and the diminishing value of product rights and licenses. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.



- Depreciation may be useful for investors to consider because it generally represents the wear and tear on our property and equipment used in our operations. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.

Table of Contents

- The amount of interest expense and other we incur may be useful for investors to consider and may result in current cash inflows or outflows. However, we do not consider the amount of interest expense and other to be a representative component of the day-to-day operating performance of our business.

- Income tax expense may be useful for investors to consider because it generally represents the taxes which may be payable for the period and the change in deferred income taxes during the period and may reduce the amount of funds otherwise available for use in our business. However, we do not consider the amount of income tax expense to be a representative component of the day-to-day operating performance of our business.

Management compensates for the above-described limitations of using non-GAAP measures by using a non-GAAP measure only to supplement our GAAP results and to provide additional information that is useful to gain an understanding of the factors and trends affecting our business.

The following table shows our EBITDA and Adjusted EBITDA reconciled to our income from continuing operations for the indicated periods (in thousands):

	Three months ended December 31,		Nine months ended December 31,	
	2010	2009	2010	2009
Income from continuing operations	\$ 44,980	\$ 18,053	\$ 98,381	\$ 60,292
Amortization of acquired contract liabilities	(9,244)		(18,825)	
Depreciation and amortization	25,652	12,485	67,529	40,858
Interest expense and other	21,869	7,768	57,119	18,595
Gain on early extinguishment of debt				(39)
Income tax expense	19,810	7,117	50,126	29,088
EBITDA	103,067	45,423	254,330	148,794
Acquisition-related expenses	1,000		19,650	
Adjusted EBITDA	\$ 104,067	\$ 45,423	\$ 273,980	\$ 148,794

The fluctuations from period to period within the amounts of the components of the reconciliations above are discussed further below within Results of Operations.

**Quarter ended December 31, 2010 compared to quarter ended December 31, 2009**

	QUARTER ENDED DECEMBER 31,	
	2010	2009
	(dollars in thousands)	
Net sales	\$ 810,853	\$ 313,530
Segment operating income	\$ 97,536	\$ 40,480
Corporate expenses	(10,877)	(7,542)
Total operating income	86,659	32,938

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Interest expense and other	21,869	7,768
Income tax expense	19,810	7,117
Income from continuing operations	44,980	18,053
Loss from discontinued operations, net	(336)	(12,453)
Net income	\$ 44,644	\$ 5,600

Net sales increased by \$497.3 million, or 158.6%, to \$810.9 million for the quarter ended December 31, 2010 from \$313.5 million for the quarter ended December 31, 2009. The acquisition of Vought, along with

Table of Contents

the acquisitions of Fabritech, Inc. (now Triumph Fabrications - St. Louis) and DCL Avionics, Inc. (now part of Triumph Instruments - Burbank), collectively, the fiscal 2010 acquisitions, contributed \$475.0 million of the net sales increase. Excluding the effects of the acquisition of Vought and the fiscal 2010 acquisitions, organic sales increased \$22.3 million, or 7.1%. The prior year period was negatively impacted by the reduction in demand for business jets, major program delays (particularly in the 747-8 and 787 programs), the decline in the regional jet market due to the overall economy, lower passenger and freight traffic and airline inventory de-stocking. The current year continues to be negatively impacted by the decreased demand for business jets and regional jets as well as commercial rate reductions (particularly in the 777 program).

Cost of sales increased by \$401.6 million, or 175.4%, to \$630.6 million for the quarter ended December 31, 2010 from \$229.0 million for the quarter ended December 31, 2009. This increase includes the impact of the acquisition of Vought and the fiscal 2010 acquisitions noted above, which contributed \$391.6 million. Gross margin for the quarter ended December 31, 2010 was 22.2%, as compared to 27.0% for the prior year period. Excluding the effects of these acquisitions, gross margin was 28.8% for the quarter ended December 31, 2010, compared with 27.0% for the quarter ended December 31, 2009. The prior year period organic gross margin excluded the impact of certain favorable settlements of retroactive price agreements that have occurred since December 2009. In addition, the current year gross margins on sales in the Aftermarket Services Group have continued to improve with increased revenues.

Segment operating income increased by \$57.0 million, or 140.9%, to \$97.5 million for the quarter ended December 31, 2010 from \$40.5 million for the quarter ended December 31, 2009. The segment operating income increase was a direct result of contributions from the acquisition of Vought and the fiscal 2010 acquisitions (\$48.0 million), as well as improvement in organic gross margin (\$5.9 million) and organic revenue growth. In addition, the prior year period was negatively impacted by the events described above.

Corporate expenses increased by \$3.3 million, or 44.2%, to \$10.9 million for the quarter ended December 31, 2010 from \$7.6 million for the quarter ended December 31, 2009. The corporate expense increase was impacted by integration costs associated with the acquisition of Vought (\$1.0 million), increased compensation and benefits (\$1.1 million) due to increased corporate head count as compared to the prior year period, and an increase of \$2.5 million of start up costs related to the Mexican facility compared to the prior year period, partially offset by decreases in legal and consulting expenses (\$1.2 million).

Interest expense and other increased by \$14.1 million, or 181.5%, to \$21.9 million for the quarter ended December 31, 2010 compared to \$7.8 million for the prior year period. This increase was due to higher average debt outstanding during the quarter ended December 31, 2010 mostly due to the acquisition of Vought as compared to the quarter ended December 31, 2009, including the Senior Subordinated Notes due 2017 (the 2017 Notes), the Senior Notes due 2018 (the 2018 Notes) and the Term Loan, along with higher interest rates on our revolving credit facility.

The effective income tax rate for the quarter ended December 31, 2010 was 30.6% compared to 28.3% for the quarter ended December 31, 2009. The effective income tax rate is impacted primarily by the retroactive reinstatement of the research and development tax credit back to January 1, 2010 (\$2.9 million). For the fiscal year ending March 31, 2011, the Company expects its effective income tax rate to be approximately 34.5%.

Loss from discontinued operations before income taxes was \$0.5 million for the quarter ended December 31, 2010 compared with a loss from discontinued operations before income taxes of \$19.1 million, for the quarter ended December 31, 2009. Due to failed negotiations with certain potential buyers of the business in the quarter ended December 31, 2009, the Company reassessed its estimated fair value of the business based on current viable offers to purchase the business, recent performance results and overall market conditions. This reassessment resulted in a write-down, which was applied to accounts receivable, inventory and property, plant and equipment. The Company recognized a pre-tax loss of \$17.4 million in the third quarter of fiscal 2010, based on the write-down of the carrying value of the business to estimated fair value less cost to

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sell. The benefit for income taxes was \$0.2 million for the quarter ended December 31, 2010 compared to a benefit of \$6.6 million in the prior year period.

Table of Contents

**Business Segment Performance**

As further described below, beginning with our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, the Company modified its segment reporting in accordance with ASC Topic 280, *Segment Reporting*. Through the first quarter of fiscal 2011, the Company had been organized based on the products and services that it provided. Under this organizational structure, the Company had two reportable segments: the Aerospace Systems Group and the Aftermarket Services Group. The Company evaluated performance and allocated resources based on operating income of each reportable segment. The Company's Chief Operating Decision Maker (CODM) evaluated performance and allocated resources based upon review of segment information. The CODM utilized operating income as a primary measure of profitability.

During the second quarter of fiscal 2011, the Company implemented certain internal organizational changes in an effort to align the operations reporting units. Our reportable segments are aligned with how we manage the business and view the markets we serve. We now report our financial performance based on the following three reportable segments: the Aerostructures Group, the Aerospace Systems Group and the Aftermarket Services Group. These changes affected how results are reported internally for management review, but did not change any of the chief operating decision makers. As required by ASC Topic 280, all prior period information has been recast to reflect the realignment of reportable segments.

The Aerostructures segment consists of the Company's operations that manufacture products primarily for the aerospace OEM market. The Aerostructures segment's revenues are derived from the design, manufacture, assembly and integration of metallic and composite aerostructures and structural components, including aircraft wings, fuselage sections, tail assemblies, engine nacelles, flight control surfaces as well as helicopter cabins. Further, the segment's operations also design and manufacture composite assemblies for floor panels and thermal acoustic insulation systems.

The Aerospace Systems segment consists of the Company's operations that also manufacture products primarily for the aerospace OEM market. The Aerospace Systems segment's operations design and engineer mechanical and electromechanical controls, such as hydraulic systems and components, main engine gearbox assemblies, accumulators and mechanical control cables. Further, the segment's operations also design and manufacture environmental control system ducts and non-structural cockpit components.

The Aftermarket Services segment consists of the Company's operations that provide maintenance, repair and overhaul services to both commercial and military markets on components and accessories manufactured by third parties. Maintenance, repair and overhaul revenues are derived from services on auxiliary power units, airframe and engine accessories, including constant-speed drives, cabin compressors, starters and generators, and pneumatic drive units. In addition, the Aftermarket Services segment's operations repair and overhaul thrust reversers, nacelle components and flight control surfaces. The Aftermarket Services operations also perform repair and overhaul services, and supply spare parts for various types of cockpit instruments and gauges for a broad range of commercial airlines on a worldwide basis.

We currently generate a majority of our revenue from clients in the commercial aerospace industry, the military, and the business jet industry. Our growth and financial results are largely dependent on continued demand for our products and services from clients in these industries. If any of these industries experiences a downturn, our clients in these sectors may conduct less business with us. The following table summarizes our net sales by end market by business segment. The loss of one or more of our major customers or an economic downturn in the commercial airline or the military and defense markets could have a material adverse effect on our business.



Table of Contents

	Three months ended December 31,	
	2010	2009
<b>Aerostructures</b>		
Commercial aerospace	37.6%	25.1%
Military	25.3	15.5
Business Jets	11.1	3.8
Regional	0.6	1.4
Non-aviation	1.0	2.7
Total Aerostructures net sales	75.6%	48.5%
<b>Aerospace Systems</b>		
Commercial aerospace	4.9%	10.5%
Military	8.1	20.4
Business Jets	0.6	0.8
Regional	0.7	1.3
Non-aviation	0.9	2.1
Total Aerospace Systems net sales	15.2%	35.1%
<b>Aftermarket Services</b>		
Commercial aerospace	6.8%	12.5%
Military	1.3	1.9
Business Jets	0.4	0.6
Regional	0.2	0.6
Non-aviation	0.5	0.8
Total Aftermarket Services net sales	9.2%	16.4%
Total Consolidated net sales	100.0%	100.0%

The increase in our percentage of net sales of commercial aerospace and business jets was attributable to the acquisition of Vought, while the business jet and regional jet end-markets continue to decline in the current economy. We continue to experience an increase in the mix of the commercial aerospace end-market. We also continue to experience growth in the military end-market.

	QUARTER ENDED			%	% OF TOTAL SALES		
	DECEMBER 31,				Change	2010	2009
	2010	2009	2009				
	(dollars in thousands)						
<b>NET SALES</b>							
Aerostructures	\$ 613,544	\$ 152,440		302.5%	75.7%	48.6%	
Aerospace Systems	124,693	111,769		11.6%	15.4%	35.6%	
Aftermarket Services	74,709	51,409		45.3%	9.2%	16.4%	
Elimination of inter-segment sales	(2,093)	(2,088)		(0.2)%	(0.3)%	(0.6)%	
Total Net Sales	\$ 810,853	\$ 313,530		158.6%	100.0%	100.0%	

	QUARTER ENDED			%	% OF SEGMENT SALES		
	DECEMBER 31,				Change	2010	2009
	2010	2009	2009				
	(dollars in thousands)						
<b>SEGMENT OPERATING INCOME</b>							
Aerostructures	\$ 70,606	\$ 24,201		191.7%	11.5%	15.9%	
Aerospace Systems	17,436	14,889		17.1%	14.0%	13.3%	
Aftermarket Services	9,494	1,390		583.0%	12.7%	2.7%	
Corporate	(10,877)	(7,542)		(44.2)%	n/a	n/a	
Total Segment Operating Income	\$ 86,659	\$ 32,938		163.1%	10.7%	10.5%	





Table of Contents

**Aerostructures:** The Aerostructures segment net sales increased by \$461.1 million, or 302.5%, to \$613.5 million for the quarter ended December 31, 2010 from \$152.4 million for the quarter ended December 31, 2009. The increase was primarily due to additional sales associated with the acquisition of Vought of \$470.1 million. Excluding the elimination of intercompany sales to Vought for the quarter ended December 31, 2010, organic sales increased \$3.2 million, or 2.1%, as compared to the prior year quarter, when the respective sales were not eliminated. The prior year period was negatively impacted by reductions in the business jet and regional jet markets due to the overall economic conditions and major program delays (particularly in the 787 and 747-8 programs). The current year continues to be negatively impacted by the decreased demand for business jets and regional jets as well as commercial rate reductions (particularly in the 777 program). On a pro forma basis, assuming the acquisition of Vought occurred in the prior period, the current year was also negatively impacted by rate reductions to the C-17 program and decreased non-recurring sales associated with the transition to the 747-8 program.

Aerostructures segment operating income increased by \$46.4 million, or 191.7%, to \$70.6 million for the quarter ended December 31, 2010 from \$24.2 million for the quarter ended December 31, 2009. Operating income increased due to contributions from the acquisition of Vought (\$47.0 million), as well as improved gross margins on organic sales (\$4.2 million), partially offset by the elimination of profit on intercompany sales to Vought for the quarter ended December 31, 2010. On a pro forma basis, operating income was negatively impacted by rate reductions to the C-17 program and decreased non-recurring sales associated with the transition to the 747-8 program.

Aerostructures segment operating income as a percentage of segment sales decreased to 11.5% for the quarter ended December 31, 2010 as compared to 15.9% for the quarter ended December 31, 2009, due to lower margins contributed by the acquisition of Vought.

**Aerospace Systems:** The Aerospace Systems segment net sales increased by \$12.9 million, or 11.6%, to \$124.7 million for the quarter ended December 31, 2010 from \$111.8 million for the quarter ended December 31, 2009. The increase was primarily due to organic sales growth of \$8.0 million, as well as the additional sales associated with the acquisition of Fabritech of \$4.9 million.

Aerospace Systems segment operating income increased by \$2.5 million, or 17.1%, to \$17.4 million for the quarter ended December 31, 2010 from \$14.9 million for the quarter ended December 31, 2009. Operating income increased due to contributions from increased organic sales as described above, as well as the acquisition of Fabritech and decreases in legal expenses (\$0.5 million).

Aerospace Systems segment operating income as a percentage of segment sales increased to 14.0% for the quarter ended December 31, 2010 as compared to 13.3% for the quarter ended December 31, 2009, due to increased revenues as well as the net decreases in expenses discussed above.

**Aftermarket Services:** The Aftermarket Services segment net sales increased by \$23.3 million, or 45.3%, to \$74.7 million for the quarter ended December 31, 2010 from \$51.4 million for the quarter ended December 31, 2009. The prior year period was negatively impacted by a decline in global commercial air traffic and airline inventory de-stocking resulting in lower demand for the repair and overhaul of auxiliary power units and the brokering of similar units. While we expect segment net sales to continue to experience growth over our prior year, it is uncertain whether it will continue at the current growth rates.

Aftermarket Services segment operating income increased by \$8.1 million, or 583.0%, to \$9.5 million for the quarter ended December 31, 2010 from \$1.4 million for the quarter ended December 31, 2009. Operating income increased primarily due to increased sales volume as described

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above and improved execution. In addition, the sales volume increases improved our production efficiencies by increasing gross margins to 26.3% from 21.1% in the prior year period. Also, amortization expense of certain acquired intellectual property decreased (\$0.8 million) as it was fully amortized as of the beginning of the quarter. The results of our Phoenix, Arizona APU operations were accretive to the segment's results.

Table of Contents

Aftermarket Services segment operating income as a percentage of segment sales increased to 12.7% for the quarter ended December 31, 2010 as compared with 2.7% for the quarter ended December 31, 2009, due to increased sales volume as described above, as well as the continued improvements in production and operations at the Phoenix APU operations.

**Nine months ended December 31, 2010 compared to nine months ended December 31, 2009.**

	NINE MONTHS ENDED DECEMBER 31,	
	2010	2009
	(dollars in thousands)	
Net sales	\$ 1,986,262	\$ 942,799
Segment operating income	\$ 251,348	\$ 127,315
Corporate expenses	(45,722)	(19,379)
Total operating income	205,626	107,936
Interest expense and other	57,119	18,595
(Gain) loss on early extinguishment of debt		(39)
Income tax expense	50,126	29,088
Income from continuing operations	98,381	60,292
Loss from discontinued operations, net	(825)	(17,202)
Net income	\$ 97,556	\$ 43,090

Net sales increased by \$1.0 billion, or 110.7%, to \$2.0 billion for the nine months ended December 31, 2010 from \$942.8 million for the nine months ended December 31, 2009. The Vought and fiscal 2010 acquisitions contributed an increase of \$992.5 million to net sales. Excluding the effects of the Vought and fiscal 2010 acquisitions, organic sales increased \$51.0 million, or 5.4%. The prior year period was negatively impacted by the reduction in demand for business jets, major program delays (particularly in the 747-8 and 787 programs), the decline in the regional jet market due to the overall economy, lower passenger and freight traffic and airline inventory de-stocking. The current year continues to be negatively impacted by the decreased demand for business jets and regional jets as well as commercial rate reductions (particularly in the 777 program).

Cost of sales increased \$845.7 million, or 124.9%, to \$1.5 billion for the nine months ended December 31, 2010, from \$676.8 million for the nine months ended December 31, 2009. This increase includes the impact of the Vought and fiscal 2010 acquisitions noted above, which contributed \$819.3 million. Gross margin for the nine months ended December 31, 2010 was 23.3%, as compared to 28.2% for the prior year period. Excluding the effects of the Vought and fiscal 2010 acquisitions, gross margin was 29.2% for the nine months ended December 31, 2010, compared with 28.2% for the nine months ended December 31, 2009.

Segment operating income increased by \$124.0 million, or 97.4%, to \$251.3 million for the nine months ended December 31, 2010 from \$127.3 million for the nine months ended December 31, 2009. Operating income increase was due to the contribution from the Vought and fiscal 2010 acquisitions (\$99.7 million) and favorable settlements of retroactive pricing agreements, partially offset by costs related to the signing of a collective bargaining agreement.

Corporate expenses increased by \$26.3 million, or 135.9%, to \$45.7 million for the nine months ended December 31, 2010 from \$19.4 million for the nine months ended December 31, 2009. Corporate expenses included \$19.7 million of non-recurring acquisition-related transaction and

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integration costs associated with the acquisition of Vought. Corporate expenses increased primarily due to increased compensation and benefits (\$3.4 million) due to increased corporate head count as compared to the prior year period, and an increase of \$3.0 million of start up costs related to the Mexican facility compared to the prior year period.

Table of Contents

Interest expense and other increased by \$38.5 million, or 207.2%, to \$57.1 million for the nine months ended December 31, 2010 compared to \$18.6 million for the prior year period. This increase was due to higher average debt outstanding during the nine months ended December 31, 2010 as compared to the nine months ended December 31, 2009, including the Senior Subordinated Notes due 2017 (the 2017 Notes), the Senior Notes due 2018 (the 2018 Notes) and the Term Loan, along with higher interest rates on our revolving credit facility.

The effective income tax rate for the nine months ended December 31, 2010 was 33.8% compared to 32.5% for the nine months ended December 31, 2009. The effective income tax rate is impacted by the \$19.6 million in acquisition-related expenses, which were only partially deductible for tax purposes, offset by the retroactive reinstatement of the research and development tax credit back to January 1, 2010 (\$2.9 million). For the fiscal year ending March 31, 2011, the Company expects its effective tax rate to be approximately 34.5%.

Loss from discontinued operations before income taxes was \$1.3 million for the nine months ended December 31, 2010 compared with a loss from discontinued operations before income taxes of \$26.4 million for the nine months ended December 31, 2009, which included an impairment charge of \$19.9 million from the nine months ended December 31, 2009. The loss from discontinued operations also improved versus the prior year due to decreased headcount. The benefit for income taxes was \$0.4 million for the nine months ended December 31, 2010 compared to a benefit of \$9.2 million in the prior year period.

**Business Segment Performance** Nine months ended December 31, 2010 compared to nine months ended December 31, 2009.

The following table summarizes our net sales by end market by business segment. The loss of one or more of our major customers or an economic downturn in the commercial airline or the military and defense markets could have a material adverse effect on our business.

	<b>Nine months ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Aerostructures</b>		
Commercial aerospace	34.4%	23.6%
Military	25.7	14.7
Business Jets	9.8	3.5
Regional	0.6	1.8
Non-aviation	1.1	2.2
Total Aerostructures net sales	71.6%	45.8%
<b>Aerospace Systems</b>		
Commercial aerospace	5.9%	11.0%
Military	9.5	20.7
Business Jets	0.8	1.0
Regional	0.7	1.6
Non-aviation	1.3	2.3
Total Aerospace Systems net sales	18.2%	36.6%
<b>Aftermarket Services</b>		
Commercial aerospace	7.5%	13.0%
Military	1.4	2.6
Business Jets	0.4	0.7
Regional	0.3	0.6
Non-aviation	0.6	0.7
Total Aftermarket Services net sales	10.2	17.6

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Total Consolidated net sales

100.0%

100.0%

Table of Contents

The increase in our percentage of net sales of commercial aerospace and business jets was attributable to the acquisition of Vought, while the business jet and regional jet end-markets continue to decline in the current economy. We continue to experience an increase in the mix of the commercial aerospace end-market. We also continue to experience growth in the military end-market.

	NINE MONTHS ENDED						
	DECEMBER 31,			% Change	% OF TOTAL SALES		
	2010	2009	(dollars in thousands)		2010	2009	
<b>NET SALES</b>							
Aerostructures	\$	1,422,580	\$	434,440	227.5%	71.6%	46.1%
Aerospace Systems		365,626		348,771	4.8%	18.4%	37.0%
Aftermarket Services		203,191		166,506	22.0%	10.2%	17.7%
Elimination of inter-segment sales		(5,135)		(6,918)	25.8%	(0.2)%	(0.8)%
Total Net Sales	\$	1,986,262	\$	942,799	110.7%	100.0%	100.0%

	NINE MONTHS ENDED						
	DECEMBER 31,			% Change	% OF SEGMENT SALES		
	2010	2009	(dollars in thousands)		2010	2009	
<b>SEGMENT OPERATING INCOME</b>							
Aerostructures	\$	176,637	\$	67,969	159.9%	12.4%	15.6%
Aerospace Systems		52,933		52,052	1.7%	14.5%	14.9%
Aftermarket Services		21,778		7,294	198.6%	10.7%	4.4%
Corporate		(45,722)		(19,379)	135.9%	n/a	n/a
Total Segment Operating Income	\$	205,626	\$	107,936	90.5%	10.4%	11.4%

**Aerostructures:** The Aerostructures segment net sales increased by \$988.1 million, or 227.5%, to \$1.4 billion for the nine months ended December 31, 2010 from \$434.4 million for the nine months ended December 31, 2009. The increase was primarily due to the acquisition of Vought (\$983.1 million), in addition to an increase in organic sales of \$5.0 million. Excluding the elimination of intercompany sales to Vought for the period from June 16, 2010 through December 31, 2010, organic sales increased \$24.4 million or 5.6% as compared to the prior year nine months ended December 31, 2009, when the respective sales were not eliminated. The prior year period was negatively impacted by reductions in the business jet and regional jet markets due to the overall economic conditions and major program delays (particularly in the 787 and 747-8 programs). The current year continues to be negatively impacted by the decreased demand for business jets and regional jets as well as commercial rate reductions (particularly in the 777 program). On a pro forma basis assuming the acquisition of Vought occurred in the prior period, the current year was also negatively impacted by rate reductions to the C-17 program and decreased non-recurring sales associated with the transition to the 747-8 program.

Aerostructures segment operating income increased by \$108.6 million, or 159.9%, to \$176.6 million for the nine months ended December 31, 2010 from \$68.0 million for the nine months ended December 31, 2009. Operating income increased due in part to the increase in organic sales, contributions from the acquisition of Vought (\$99.4 million) and improved gross margins on organic sales (\$12.1 million) and decreased salaries and benefits due to lower headcounts for organic businesses (\$2.4 million). On a pro forma basis, operating income was negatively impacted by rate reductions to the C-17 program and decreased non-recurring sales associated with the transition to the 747-8 program.



Table of Contents

Aerostructures segment operating income as a percentage of segment sales decreased to 12.4% for the nine months ended December 31, 2010 as compared to 15.6% for the nine months ended December 31, 2009, due to lower margins contributed by the acquisition of Vought.

**Aerospace Systems:** The Aerospace Systems segment net sales increased by \$16.8 million, or 4.8%, to \$365.6 million for the nine months ended December 31, 2010 from \$348.8 million for the nine months ended December 31, 2009. The increase was primarily due to the additional sales associated with the Fabritech acquisition of \$9.3 million, and increases in organic sales of \$7.5 million.

Aerospace Systems segment operating income increased by \$0.8 million, or 1.7%, to \$52.9 million for the nine months ended December 31, 2010 from \$52.1 million for the nine months ended December 31, 2009. Operating income increased due to increased sales as well as decreased legal fees (\$3.7 million), partially offset by decreases in organic gross margin (\$5.2 million) due in part to increased warranty reserves.

Aerospace Systems segment operating income as a percentage of segment sales decreased to 14.5% for the nine months ended December 31, 2010 as compared to 14.9% for the nine months ended December 31, 2009, due to the decrease in organic gross margin as discussed above.

**Aftermarket Services:** The Aftermarket Services segment net sales increased by \$36.7 million, or 22.0%, to \$203.2 million for the nine months ended December 31, 2010 from \$166.5 million for the nine months ended December 31, 2009. The prior year period was negatively impacted by a decline in global commercial air traffic and airline inventory de-stocking resulting in lower demand for the repair and overhaul of auxiliary power units and the brokering of similar units. While we expect segment net sales to continue to experience growth over our prior year, it is uncertain whether it will continue at the current growth rates.

Aftermarket Services segment operating income increased by \$14.5 million, or 198.6%, to \$21.8 million for the nine months ended December 31, 2010 from \$7.3 million for the nine months ended December 31, 2009. Operating income increased primarily due to increased sales volume. In addition, the sales volume increases improved our production efficiencies by increasing gross margins to 25.4% from 22.5% in the prior year period. Also, the period was favorably impacted by the gain on sale of certain intellectual property (\$0.7 million) and decreased salaries and benefits (\$0.9 million) due to lower headcounts, as well as \$0.3 million in expenses incurred to shut down a service facility in Austin, Texas in the prior period.

Aftermarket Services segment operating income as a percentage of segment sales increased to 10.7% for the nine months ended December 31, 2010 as compared with 4.4% for the nine months ended December 31, 2009, due to the increase in sales volume and related efficiencies noted above.

**Liquidity and Capital Resources**

Our working capital needs are generally funded through cash flows from operations and borrowings under our credit arrangements and leasing arrangements. During the nine months ended December 31, 2010, we generated approximately \$114.7 million of cash flows in operating activities, used approximately \$412.6 million in investing activities and received approximately \$174.1 million in financing activities.

Cash flows from operations for the nine months ended December 31, 2010 decreased \$11.7 million, or 9.3%, from the nine months ended December 31, 2009. Our cash flows from operations decreased due to pension and other post-retirement benefit funding in excess of expense of \$58.5 million, and \$12.4 million of interest paid at closing on assumed debt from the acquisition of Vought, offset by an increase of \$54.5 million in net income, which included \$19.7 million in acquisition-related expenses for the acquisition of Vought. The change in cash flows was also impacted by continued improvements in cash collection efforts resulting in a \$39.9 million improvement as compared to the nine months ended December 31, 2009 as well as increases in inventories due largely to the decrease in advance payments due to timing.

Table of Contents

Cash flows used in investing activities for the nine months ended December 31, 2010 increased \$385.0 million from the nine months ended December 31, 2009. Our cash flows used in investing activities increased due to the acquisition of Vought (\$333.1 million), as well as increased capital expenditures of \$46.9 million for our Mexican facility and Vought. Cash flows from financing activities for the nine months ended December 31, 2010 increased \$135.9 million from the nine months ended December 31, 2009 in order to finance the acquisition of Vought.

As of December 31, 2010, \$389.4 million was available under our revolving credit facility (the Credit Facility ). On December 31, 2010, an aggregate amount of approximately \$104.6 million was outstanding under the Credit Facility, all of which was accruing interest at LIBOR plus applicable basis points totaling 3.01% per annum. Amounts repaid under the Credit Facility may be reborrowed.

At December 31, 2010, there was \$75.0 million outstanding under our receivable securitization facility (the Securitization Facility ). Interest rates on the Securitization Facility are based on prevailing market rates for short-term commercial paper, plus a program fee and a commitment fee.

In June 2010, the Company issued the 2018 Notes for \$350.0 million in aggregate principal amount. The 2018 Notes were sold at 99.270% of principal amount for net proceeds of \$347.5 million, and have an effective interest yield of 8.75%. Interest on the 2018 Notes is payable semi-annually in cash in arrears on January 15 and May 15 of each year. We used the net proceeds as partial consideration of the acquisition of Vought. In connection with the issuance of the 2018 Notes, the Company incurred approximately \$7.1 million of costs, which were deferred and are being amortized on the effective interest method over the term of the notes.

Also in June 2010, the Company entered into a six-year Term Loan for \$350.0 million in principal amount. The proceeds of the Term Loan, which were 99.500% of the principal amount, were used to consummate the acquisition of Vought. Borrowings under the Term Loan bear interest, at the Company's option, at either the base rate (subject to a 2.50% floor), plus a margin between 1.750% and 2.000%, or at the Eurodollar Rate (subject to a 1.50% floor), plus a margin driven by net leverage between 2.750% and 3.000%. In connection with the closing on the Term Loan, the Company incurred approximately \$7.5 million of costs, which were deferred and are being amortized into expense over the term of the Term Loan.

In November 2009, the Company issued the 2017 Notes for \$175.0 million in principal amount. The 2017 Notes were sold at 98.558% of principal amount for net proceeds of \$172.5 million, and have an effective interest yield of 8.25%. Interest on the 2017 Notes is payable semi-annually in cash in arrears on May 15 and November 15 of each year. We used the net proceeds for general corporate purposes, which includes debt reduction, including repayment of amounts outstanding under the Credit Facility, without any permanent reduction of the commitments thereunder. In connection with the issuance of the 2017 Notes, the Company incurred approximately \$4.4 million of costs, which were deferred and are being amortized on the effective interest method over the term of the notes.

In March 2009, the Company entered into a 7-year Master Lease Agreement (the Leasing Facility ) creating a capital lease of certain existing property and equipment, resulting in net proceeds of \$58.5 million after deducting debt issuance costs of approximately \$0.2 million. During the nine months ended December 31, 2009, the Company added additional capital leases resulting in proceeds of \$13.9 million. The net proceeds from the Leasing Facility were used to repay a portion of the outstanding indebtedness under the Company's then existing credit facility. The debt issuance costs have been recorded as other assets in the consolidated balance sheets and are being amortized over the term of the Leasing Facility. The Leasing Facility bears interest at a weighted average fixed rate of 6.2% per annum.

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Also in March 2009, we announced that we would establish a new manufacturing facility in Zacatecas, Mexico to complement our existing manufacturing sites. For the nine months ended December 31, 2010 and 2009, the Company expensed \$4.5 million and \$1.5 million, respectively, in start up costs related to this Mexican facility. Our investment will involve a significant number of our operating companies and a wide range of capabilities and technologies.

Table of Contents

Capital expenditures were approximately \$68.7 million for the nine months ended December 31, 2010, primarily for manufacturing machinery and equipment. We funded these expenditures through cash generated from operations. We expect capital expenditures of approximately \$95.0 million for our fiscal year ending March 31, 2011, including capital additions at our Mexican facility. The expenditures are expected to be used mainly to expand capacity or replace old equipment at several facilities.

The expected future cash flows for the next five years for long-term debt, leases and other obligations are as follows:

Contractual Obligations	Total	Payments Due by Period (dollars in thousands)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt principal (1)	\$ 1,316,682	\$ 275,287	\$ 32,433	\$ 134,212	\$ 874,750
Debt interest (2)	353,980	53,056	94,327	91,441	115,156
Operating leases	83,421	23,268	26,167	17,539	16,447
Contingent payments (3)	31,415	2,321	29,094		
Purchase obligations	983,653	727,693	255,811	143	6
Total	\$ 2,769,151	\$ 1,081,625	\$ 437,832	\$ 243,335	\$ 1,006,359

(1) Included in the Company's consolidated balance sheet at December 31, 2010, plus discounts on Convertible Senior Subordinated Notes, Term Loan, 2017 Notes and 2018 Notes of \$4.6 million, \$1.6 million, \$2.3 million and \$2.4 million, respectively, being amortized to expense through September 2011, July 2016, November 2017 and July 2018, respectively.

(2) Includes fixed-rate interest only.

(3) Includes unrecorded contingent payments in connection with the fiscal 2009 acquisitions.

The above table excludes unrecognized tax benefits of \$7.0 million as of December 31, 2010 since we cannot predict with reasonable certainty the timing of cash settlements with the respective taxing authorities.

The table also excludes our pension benefit obligations. We made contributions to our defined benefit pension plans of \$1.5 million and \$0.3 million in fiscal 2010 and 2009, respectively. As a result of the acquisition of Vought, we expect to make total pension plan contributions of \$61.4 million to our defined benefit plans during the remainder of fiscal 2011. The Company is required to make minimum contributions to its defined benefit pension plans under the minimum funding requirements of the Employee Retirement Income Security Act of 1974, the Pension Funding Equity Act of 2004 and the Pension Protection Act of 2006. On June 25, 2010, the Preservation of Access to Care for Medical Beneficiaries and Pension Relief Act of 2010 (the Relief Act), was signed into law. The Relief Act provides for temporary, targeted funding relief (subject to certain terms and conditions) for single employer and multiemployer pension plans that suffered significant losses in asset value due to the steep market slide in 2008. The Relief Act could have a significant impact on plan contributions beyond fiscal 2011.

We believe that cash generated by operations and borrowings under the Credit Facility will be sufficient to meet anticipated cash requirements for our current operations for the foreseeable future. However, we have a stated policy to grow through acquisitions and are continuously evaluating various acquisition opportunities. As a result, we currently are pursuing the potential purchase of a number of candidates. In the event that more than one of these transactions are successfully consummated, the availability under the Credit Facility might be fully utilized and additional funding sources may be needed. There can be no assurance that such funding sources will be available to us on terms favorable to us,

if at all.

Table of Contents

**CRITICAL ACCOUNTING POLICIES**

The Company's critical accounting policies are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations and notes accompanying the consolidated financial statements that appear in the Annual Report on Form 10-K for the fiscal year ended March 31, 2010 and as updated in the Quarterly Report on Form 10-Q for the quarter ended June 30, 2010. Except as otherwise disclosed in the financial statements and accompanying notes included in this report, there were no material changes subsequent to the filing of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 in the Company's critical accounting policies or in the assumptions or estimates used to prepare the financial information appearing in this report.

**Forward Looking Statements**

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 relating to our future operations and prospects, including statements that are based on current projections and expectations about the markets in which we operate, and our beliefs concerning future performance and capital requirements based upon current available information. Such statements are based on our beliefs as well as assumptions made by and information currently available to us. When used in this document, words like may, might, will, expect, anticipate, believe, potential, and similar expressions are intended to identify forward looking statements. Actual results could differ materially from our current expectations. For example, there can be no assurance that additional capital will not be required or that additional capital, if required, will be available on reasonable terms, if at all, at such times and in such amounts as may be needed by us. In addition to these factors, among other factors that could cause actual results to differ materially are uncertainties relating to the integration of acquired businesses, general economic conditions affecting our business, dependence of certain of our businesses on certain key customers as well as competitive factors relating to the aviation industry. For a more detailed discussion of these and other factors affecting us, see the risk factors described in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed with the SEC in August 2010.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For information regarding our exposure to certain market risks, see Item 3. Quantitative and Qualitative Disclosures About Market Risk in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010. There has been no material change in this information during the period covered by this report.

Item 4. Controls and Procedures.

*(a) Evaluation of disclosure controls and procedures.*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our 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, management recognized that

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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 evaluating the cost-benefit relationship of possible controls and procedures.

As of December 31, 2010, we completed an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing,



Table of Contents

our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2010.

*(b) Changes in internal control over financial reporting.*

There were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

TRIUMPH GROUP, INC.

Part II. Other Information

Item 3. Legal Proceedings.

On July 9, 2004, Eaton Corporation and several Eaton subsidiaries filed a complaint against us, our subsidiary, Frisby Aerospace, LLC (now named Triumph Actuation Systems, LLC), certain related subsidiaries and certain employees of ours and our subsidiaries. The complaint was filed in the Circuit Court of the First Judicial District of Hinds County, Mississippi and alleged nineteen causes of action under Mississippi law. In particular, the complaint alleged the misappropriation of trade secrets and intellectual property allegedly belonging to Eaton relating to hydraulic pumps and motors used in military and commercial aviation. Triumph Actuation Systems and the individual defendants filed separate responses to Eaton's claims. Triumph Actuation Systems filed counterclaims against Eaton alleging common law unfair competition, interference with existing and prospective contracts, abuse of process, defamation, violation of North Carolina's Unfair and Deceptive Trade Practices Act, and violation of the false advertising provisions of the Lanham Act. We and defendant Jeff Frisby, President of Triumph Actuation Systems at the time the engineer defendants were hired, moved to dismiss the complaint for lack of personal jurisdiction.

The above allegations also relate to alleged conduct that has been the subject of an investigation by the office of the U.S. Attorney in Jackson, Mississippi. On January 22, 2004, a search warrant was executed on the offices of Triumph Actuation Systems in connection with this investigation. Triumph Actuation Systems cooperated with the investigation. On December 20, 2006, five engineers of Triumph Actuation Systems who are former employees of Eaton Aerospace, LLC, were indicted by a grand jury sitting in the Southern District of Mississippi on five counts of trade secret misappropriation, conspiracy to misappropriate trade secrets, and mail and wire fraud. On June 15, 2007, all counts other than part of one count were dismissed by the court, leaving a charge of conspiracy to misappropriate trade secrets.

On October 11, 2007, the government obtained a new indictment against the same five engineer defendants raising new charges arising out of the same investigation, which were essentially reiterated in a second superseding indictment obtained on November 7, 2007. The defendant engineers subsequently filed pretrial motions, including motions to dismiss. On April 25, 2008, the court granted some of those motions and dismissed seven of the twelve counts of the second superseding indictment. The government appealed the dismissal with respect to three of the seven counts dismissed. On January 21, 2009, while the appeal was still pending, the government obtained a new indictment against the five engineers containing three counts stating essentially the same charges as those covered by the government's appeal. On February 9, 2009, the United States Court of Appeals for the Fifth Circuit unanimously affirmed the dismissal of one of the counts covered by the government's appeal and reversed as to the other two counts. (The government thereafter dismissed the two counts of the most recent indictment similar to the two counts restored by the appellate court.) On September 10, 2009, upon agreement of the government and the defendant engineers, the trial court entered an order continuing the case until after the trial in the civil case filed by Eaton and staying all proceedings except the issuance of orders related to previously filed motions and the parties' compliance with ongoing discovery obligations. The trial court has since disposed of all pending motions.

No charges have been brought against Triumph Actuation Systems or us, and we understand that neither Triumph Actuation Systems nor the Company is currently the subject of the criminal investigation.

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In the civil case, following stays of most discovery while the parties litigated a motion to dismiss and a motion to protect the defendant engineers Fifth Amendment rights, discovery recommenced in late August 2007. However, on January 4, 2008, the judge in the civil case, Judge Bobby DeLaughter, recused himself on his own motion. The case was reassigned to Chief Judge W. Swan Yerger.

On January 24, 2008, Triumph Actuation Systems filed a motion to stay all discovery in order to review and reconsider Judge DeLaughter's prior orders based on the ongoing federal investigation of an alleged ex parte and inappropriate relationship between Judge DeLaughter and Ed Peters, a lawyer representing Eaton for whom Judge DeLaughter had worked prior to his appointment to the bench. Judge DeLaughter was thereafter suspended from the bench and indicted by a federal grand jury sitting in the Northern District of Mississippi. On July 30, 2009, Judge DeLaughter pled guilty to a count of obstruction of justice contained in the indictment and, on November 13, 2009, was sentenced to 18 months in federal prison.

Table of Contents

Triumph Actuation Systems filed other motions relating to this alleged inappropriate relationship with Mr. Peters, including a motion for sanctions. Judge Yerger ordered that this conduct be examined and has undertaken, along with a newly appointed Special Master, to review Judge DeLaughter's rulings in the case from the time Mr. Peters became involved.

On December 22, 2010, the court entered a final order dismissing with prejudice all of the claims that had been asserted by Eaton. The order of dismissal fully ended the litigation of claims by Eaton in the Circuit Court. On December 28, 2010, Eaton filed a notice of appeal to the Mississippi Supreme Court appealing the order of dismissal and other matters.

The counterclaims of the Company and the other defendants against the Eaton plaintiffs were not affected by the December 22 order and remain pending in the Circuit Court.

Given the fact of Eaton's appeal, it is too early to determine what, if any, exposure to liability Triumph Actuation Systems or the Company might face as a result of the civil suit. We intend to continue to vigorously defend the dismissal of Eaton's claims on appeal and to vigorously prosecute the counterclaims brought by Triumph Actuation Systems.

Item 6. Exhibits.

Exhibit 31.1 Certification by Chairman and CEO Pursuant to Rule 13a-14(a)/15d-14(a).\*

Exhibit 31.2 Certification by Executive Vice President, CFO and Treasurer Pursuant to Rule 13a-14(a)/15d-14(a).\*

Exhibit 32.1 Certification of Periodic Report by Chairman and CEO Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 Sarbanes-Oxley Act of 2002.\*

Exhibit 32.2 Certification of Periodic Report by Executive Vice President, CFO and Treasurer Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 Sarbanes-Oxley Act of 2002.\*

Exhibit 101.1 The following financial information from Triumph Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2010 formatted in XBRL: (i) Consolidated Balance Sheets as of December 31, 2010 and March 31, 2010; (ii) Consolidated Statements of Income for the three and nine months ended December 31, 2010 and 2009; (iii) Consolidated Statements of Cash Flows for the nine months ended December 31, 2010 and 2009; (iv) Consolidated Statements of Comprehensive Income for the three and nine months ended December 31, 2010 and 2009; and (v) Notes to the Consolidated Financial Statements.\*

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\* Filed herewith.



Table of Contents

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.

Triumph Group, Inc.  
(Registrant)

/s/ Richard C. III  
Richard C. III, Chairman & CEO  
(Principal Executive Officer) February 4, 2011

/s/ M. David Kornblatt  
M. David Kornblatt, Executive Vice President & CFO  
(Principal Financial Officer) February 4, 2011

/s/ Kevin E. Kindig  
Kevin E. Kindig, Vice President and Controller  
(Principal Accounting Officer) February 4, 2011

Table of Contents

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