

TRIUMPH GROUP INC  
Form 10-Q  
February 09, 2015  
Table of Contents

United States  
Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended December 31, 2014

or

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

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-12235

TRIUMPH GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

51-0347963

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

899 Cassatt Road, Suite 210, Berwyn, PA

(Address of principal executive offices)

19312

(Zip Code)

(610) 251-1000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes S No £

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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

ý

Accelerated filer

¨

Non-accelerated filer

¨

Smaller reporting company

¨

Edgar Filing: TRIUMPH GROUP INC - Form 10-Q

(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  S

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

Common Stock, par value \$0.001 per share, 50,451,397 shares outstanding as of February 5, 2015.

---

Table of ContentsTRIUMPH GROUP, INC.  
INDEX

	Page Number
<u>Part I. Financial Information</u>	
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>
	Condensed <u>Consolidated Balance Sheets</u> at December 31, 2014 and March 31, 2014
	<u>1</u>
	Condensed <u>Consolidated Statements of Income</u>
	<u>Three</u> and nine months ended December 31, 2014 and 2013
	<u>2</u>
	Condensed <u>Consolidated Statements of Comprehensive Income</u>
	<u>Three</u> and nine months ended December 31, 2014 and 2013
	<u>3</u>
	Condensed <u>Consolidated Statements of Cash</u>
	<u>Flows</u> <span style="float: right;">Nine months ended</span>
	December 31, 2014 and 2013
	<u>4</u>
	Notes to Condensed <u>Consolidated Financial Statements</u> December 31, 2014
	<u>5</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial</u>
	<u>Condition and Results of Operations</u>
	<u>39</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About</u>
	<u>Market Risk</u>
	<u>55</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
	<u>55</u>
<u>Part II. Other Information</u>	
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
	<u>57</u>
<u>Item 6.</u>	<u>Exhibits</u>
	<u>57</u>
<u>Signatures</u>	<u>57</u>

---

Table of Contents

## Part I. Financial Information

## Item 1. Financial Statements.

## Triumph Group, Inc.

## Condensed Consolidated Balance Sheets

(dollars in thousands, except per share data)

	December 31, 2014 (unaudited)	March 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 34,181	\$ 28,998
Trade and other receivables, less allowance for doubtful accounts of \$7,480 and \$6,535	452,327	517,304
Inventories, net of unliquidated progress payments of \$174,855 and \$165,019	1,288,564	1,111,767
Rotable assets	43,825	41,666
Deferred income taxes	53,446	57,308
Prepaid and other current assets	22,789	24,897
Total current assets	1,895,132	1,781,940
Property and equipment, net	982,666	931,430
Goodwill	2,063,508	1,791,891
Intangible assets, net	974,028	978,171
Other, net	59,739	69,954
Total assets	\$ 5,975,073	\$ 5,553,386
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 40,877	\$ 49,575
Accounts payable	308,398	317,334
Accrued expenses	359,871	273,290
Total current liabilities	709,146	640,199
Long-term debt, less current portion	1,401,803	1,500,808
Accrued pension and other postretirement benefits, noncurrent	410,168	508,524
Deferred income taxes, noncurrent	356,510	385,188
Other noncurrent liabilities	826,994	234,756
Stockholders' equity:		
Common stock, \$.001 par value, 100,000,000 shares authorized, 52,460,920 and 52,459,020 shares issued; 50,451,397 and 52,159,020 shares outstanding	51	52
Capital in excess of par value	850,542	866,281
Treasury stock, at cost, 2,009,523 and 300,000 shares	(133,767	) (19,134
Accumulated other comprehensive loss	(51,730	) (18,908
Retained earnings	1,605,356	1,455,620
Total stockholders' equity	2,270,452	2,283,911
Total liabilities and stockholders' equity	\$ 5,975,073	\$ 5,553,386

SEE ACCOMPANYING NOTES.



Table of Contents

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Net sales	\$917,417	\$915,816	\$2,808,444	\$2,826,844
Operating costs and expenses:				
Cost of sales (exclusive of depreciation and amortization shown separately below)	867,970	719,703	2,324,231	2,187,492
Selling, general and administrative	70,905	60,829	205,384	191,129
Depreciation and amortization	39,808	44,103	116,373	120,281
Relocation costs	—	4,841	3,193	7,285
Gain on legal settlement, net of expenses	—	—	(134,693 )	—
Settlements and early retirement incentive expense	—	1,561	—	1,561
	978,683	831,037	2,514,488	2,507,748
Operating (loss) income	(61,266 )	84,779	293,956	319,096
Interest expense and other	13,573	30,115	71,320	70,146
(Loss) income before income taxes	(74,839 )	54,664	222,636	248,950
Income tax (benefit) expense	(35,007 )	19,271	66,778	84,998
Net (loss) income	\$(39,832 )	\$35,393	\$155,858	\$163,952
(Loss) earnings per share—basic:	\$(0.79 )	\$0.68	\$3.05	\$3.18
Weighted-average common shares outstanding—basic	50,643	52,024	51,114	51,548
(Loss) earnings per share—diluted:	\$(0.79 )	\$0.67	\$3.04	\$3.11
Weighted-average common shares outstanding—diluted	50,643	52,806	51,343	52,798
Dividends declared and paid per common share	\$0.04	\$0.04	\$0.12	\$0.12

SEE ACCOMPANYING NOTES.

Table of Contents

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Net (loss) income	\$(39,832 )	\$35,393	\$155,858	\$163,952
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(16,331 )	(2,392 )	(25,954 )	378
Defined benefit pension plans and other postretirement benefits: Amounts arising during the period - gains (losses), net of tax expense (benefit):				
Prior service credit, net of taxes of \$0 and (\$7,023) for the three months ended and \$0 and (\$7,023) for the nine months ended	—	(11,695 )	—	(11,695 )
Actuarial (loss) gain, net of taxes \$0 and \$51,824 for the three months ended and \$0 and \$51,824 for the nine months ended	—	86,296	—	86,296
Reclassifications from accumulated other comprehensive income - (gains) losses, net of tax expense (benefits):				
Amortization of net loss, net of taxes of \$0 and (\$1,700) for the three months ended and \$0 and (\$5,100) for the nine months ended, respectively	—	2,831	—	8,493
Recognized prior service credits, net of taxes of \$921 and \$1,056 for the three months ended and \$2,762 and \$3,169 for the nine months ended, respectively	(1,533 )	(1,759 )	(4,599 )	(5,277 )
Total defined benefit pension plans and other postretirement benefits, net of taxes	(1,533 )	75,673	(4,599 )	77,817
Cash flow hedges:				
Unrealized gain (loss) arising during period, net of tax of \$1,079 and (\$1,247) for the three months ended and \$1,298 and (\$1,107) for the nine months ended, respectively	(1,732 )	1,961	(2,182 )	1,726
Reclassification of (gain) loss included in net earnings, net of tax of (\$7) and \$2 for the three months ended and \$22 and \$22 for the nine months ended, respectively	(20 )	(3 )	(87 )	(39 )
Net unrealized gain (loss) cash flow hedges, net of tax	(1,752 )	1,958	(2,269 )	1,687
Total other comprehensive (loss) income	(19,616 )	75,239	(32,822 )	79,882
Total comprehensive (loss) income	\$(59,448 )	\$110,632	\$123,036	\$243,834

SEE ACCOMPANYING NOTES.

Table of Contents

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

	Nine Months Ended December 31,	
	2014	2013
Operating Activities		
Net income	\$ 155,858	\$ 163,952
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	116,373	120,281
Amortization of acquired contract liabilities	(39,332)	(34,373)
Pension settlement charge	—	1,561
Accretion of debt discount	1,577	1,871
Other amortization included in interest expense	7,182	5,732
Provision for doubtful accounts receivable	153	1,592
Provision for deferred income taxes	69,093	81,604
Employee stock-based compensation	1,208	3,695
Changes in assets and liabilities, excluding the effects of acquisitions and dispositions of businesses:		
Trade and other receivables	130,431	(10,414)
Rotable assets	(2,159)	(4,714)
Inventories	41,516	(108,176)
Prepaid expenses and other current assets	3,504	1,944
Accounts payable, accrued expenses and other current liabilities	(69,216)	(102,206)
Accrued pension and other postretirement benefits	(108,060)	(83,445)
Other	1,836	(5,560)
Net cash provided by operating activities	309,964	33,344
Investing Activities		
Capital expenditures	(85,170)	(161,797)
Reimbursements of capital expenditures	553	9,086
Proceeds from sale of assets	1,867	11,773
Acquisitions, net of cash acquired	38,082	(94,456)
Net cash used in investing activities	(44,668)	(235,394)
Financing Activities		
Net increase in revolving credit facility	17,607	178,460
Proceeds from issuance of long-term debt and capital leases	394,512	435,845
Repayment of debt and capital lease obligations	(541,884)	(410,169)
Purchase of common stock	(114,634)	—
Payment of deferred financing costs	(5,859)	(3,287)
Dividends paid	(6,122)	(6,246)
Repayment of government grant	(3,198)	256
Repurchase of restricted shares for minimum tax obligation	(673)	(2,726)
Proceeds from exercise of stock options	388	329
Net cash (used in) provided by financing activities	(259,863)	192,462
Effect of exchange rate changes on cash	(250)	2,966
Net change in cash	5,183	(6,622)
Cash and cash equivalents at beginning of period	28,998	32,037
Cash and cash equivalents at end of period	\$ 34,181	\$ 25,415



SEE ACCOMPANYING NOTES.

4

---

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

## 1. BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements of Triumph Group, Inc. (the "Company") have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position and cash flows. The results of operations for the three and nine months ended December 31, 2014 are not necessarily indicative of results that may be expected for the year ending March 31, 2015. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the fiscal 2014 audited condensed consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended March 31, 2014 filed in May 2014.

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.

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance codified in Accounting Standards Codification ("ASC") 606, Revenue Recognition - Revenue from Contracts with Customers, which amends the guidance in former ASC 605, Revenue Recognition. The objective of ASC 606 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance. The principle of ASC 606 is that an entity will recognize revenue at the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled. ASC 606 is effective for interim and annual reporting periods beginning after December 15, 2016 and can be adopted by the Company using either a full retrospective or modified retrospective approach, with early adoption prohibited. The Company is currently evaluating ASC 606 and has not determined the impact it may have on the Company's consolidated results of operations, financial position or cash flows nor decided on the method of adoption.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the 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 Recognition - Construction-Type and Production-Type Contracts topic of the ASC 605-35 and revenue and costs on contracts are recognized using the 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 of accounting, with the great majority measured under the units-of-delivery method of accounting.

Under the cost-to-cost method of accounting, 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 the progress toward completion. Revenue represents the sum of costs and profit on the contract for the period.

---

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under the units-of-delivery method of accounting, 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 of accounting 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 Revenue Recognition - Construction-Type 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 Revenue Recognition - Construction-Type and Production-Type Contracts topic.

For the three months ended December 31, 2014, cumulative catch-up adjustments from changes in estimates, inclusive of a provision for forward losses as discussed below, decreased operating income, net income and earnings per share by approximately \$(154,268), \$(82,107) and \$(1.62) net of tax, respectively. The cumulative catch-up adjustments to operating income for the three months ended December 31, 2014 included gross favorable adjustments of approximately \$5,325 and gross unfavorable adjustments of approximately \$(159,593). For the nine months ended December 31, 2014, cumulative catch-up adjustments from changes in estimates, inclusive of a provision for forward losses as discussed below, decreased operating income, net income and earnings per share by approximately \$(158,169), \$(110,727) and \$(2.16) net of tax, respectively. The cumulative catch-up adjustments to operating income for the nine months ended December 31, 2014 included gross favorable adjustments of approximately \$4,769 and gross unfavorable adjustments of approximately \$(162,938). For the three months ended December 31, 2013, cumulative catch-up adjustments from changes in estimates decreased operating income, net income and earnings per share by approximately \$(21,339), \$(13,816) and \$(0.26) net of tax, respectively. For the nine months ended December 31, 2013, cumulative catch-up adjustments from changes in estimates decreased operating income, net income and earnings per share by approximately \$(36,961), \$(24,342) and \$(0.46) net of tax, respectively.

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.

During the quarter ended December 31, 2014, the Company recognized a provision for forward losses of \$151,992 associated with the Company's long-term contract on the 747-8 program. These forward losses are largely due to changes in future estimated production rates, labor and overhead costs, pension income and expedited delivery charges.

In December 2014, our customer, The Boeing Company ("Boeing"), announced a future production rate reduction for the 747-8 program from 1.5 shipsets per month to 1.3 shipsets per month. This production rate cut will result in additional future disruption and overhead cost absorption across our related production facilities.

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

While the Company has experienced improvements in labor performance metrics on our work associated with the 747-8 program in recent quarters, the Company has not recovered to the levels previously experienced or as quickly as expected, and no longer believes that the Company can recover to the level required to avoid future losses. The Company's increased labor assumptions will also result in increased overhead cost absorption to the 747-8 program. In October 2014, the Society of Actuaries released updated mortality tables to reflect recent improvements in longevity. The mortality tables are a key assumption in the valuation of our defined benefit obligations and related net period pension benefit income. These new mortality tables will lower estimated future pension benefit income amounts, thereby negatively impacting our future cost estimates associated with the 747-8 program.

Although the Company has made significant improvements on the quality and timeliness of deliveries as compared to the prior year, the Company continues to incur charges related to expedited delivery and have included estimates for additional costs in the future.

While the Company has recently recognized a provision for forward losses, there is still risk similar to what the Company has experienced on the 747-8 program. In particular, the Company's ability to manage risks related to supplier performance, execution of cost reduction strategies, hiring and retaining skilled production and management personnel, quality and manufacturing execution, program schedule delays and many other risks, will determine the ultimate performance of these programs.

Included in net sales of the Aerostructures and Aerospace Systems group is the non-cash amortization of acquired contract liabilities recognized as fair value adjustments through purchase accounting from various acquisitions. For the three months ended December 31, 2014 and 2013, the Company recognized \$15,501 and \$14,258, respectively, into net sales in the accompanying Condensed Consolidated Statements of Income. For the nine months ended December 31, 2014 and 2013, the Company recognized \$39,332 and \$34,373, respectively, into net sales in the accompanying Condensed Consolidated Statements of Income.

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 of accounting 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 customers' 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.

Concentration of Credit Risk

The Company's trade accounts receivable are exposed to credit risk. However, the risk is limited due to the diversity of the customer base and the customer base's wide geographical area. Trade accounts receivable from Boeing (representing commercial, military and space) represented approximately 25% and 32% of total trade accounts receivable as of December 31, 2014 and March 31, 2014, respectively. The Company had no other concentrations of credit risk of more than 10%. Sales to Boeing for the nine months ended December 31, 2014 were \$1,219,324, or 43% of net sales, of which \$1,084,777, \$111,173 and \$23,374 were from the Aerostructures segment, the Aerospace Systems segment and Aftermarket Services segment, respectively. Sales to Boeing for the nine months ended December 31, 2013 were \$1,289,201, or 46% of net sales, of which \$1,205,887, \$64,202 and \$19,112 were from the Aerostructures segment, the 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.

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, 2014 and 2013 was \$403 and \$1,432, respectively. Stock-based compensation expense for the nine months ended December 31, 2014 and 2013 was \$1,208 and \$3,695, respectively. The Company has classified share-based compensation within selling, general and administrative

7

---

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

expenses to correspond with the same line item as the majority of the cash compensation paid to employees. Upon the exercise of stock options or vesting of restricted stock, the Company first transfers treasury stock, then issues new shares.

## Intangible Assets

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

	December 31, 2014			
	Weighted- Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	16.2	\$681,292	\$(168,474)	) \$512,818
Product rights, technology and licenses	11.7	52,405	(32,015)	) 20,390
Non-compete agreements and other Tradenames	15.9 Indefinite-lived	2,929 438,400	(509) —	) 2,420 438,400
Total intangibles, net		\$1,175,026	\$(200,998)	) \$974,028
	March 31, 2014			
	Weighted- Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	16.7	\$650,199	\$(136,970)	) \$513,229
Product rights, technology and licenses	11.7	52,405	(28,437)	) 23,968
Non-compete agreements and other Tradenames	13.6 Indefinite-lived	3,679 438,400	(1,105) —	) 2,574 438,400
Total intangibles, net		\$1,144,683	\$(166,512)	) \$978,171

Amortization expense for the three months ended December 31, 2014 and 2013 was \$12,158 and \$12,402, respectively. Amortization expense for the nine months ended December 31, 2014 and 2013 was \$35,638 and \$34,552, respectively.

## Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. When determining fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and also considers assumptions that market participants would use when pricing an asset or liability. The fair value hierarchy has 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; and Level 3—Unobservable inputs for the asset or liability. The Company has applied fair value measurements to its interest rate swap (see Note 6).

## Warranty Reserves



A reserve has been established to provide for the estimated future cost of warranties on our delivered products. The Company periodically reviews the reserves and adjustments are made accordingly. A provision for warranty on products delivered is made on the basis of historical experience and identified warranty issues. Warranties cover such factors as non-conformance to specifications and defects in material and workmanship. The majority of the Company's agreements include a three-year warranty, although certain programs have warranties up to 20 years. The warranty reserves as of December 31, 2014 and March 31, 2014, were \$32,402 and \$25,651, respectively.

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Supplemental Cash Flow Information

The Company received \$23,666 for income tax refunds, net of payments, for the nine months ended December 31, 2014. The Company paid \$2,329 for income taxes, net of refunds received, for the nine months ended December 31, 2013. The Company made interest payments of \$76,188 and \$60,202 for the nine months ended December 31, 2014 and 2013, respectively.

During the nine months ended December 31, 2014 and 2013, the Company financed \$52 and \$36, respectively, of property and equipment additions through capital leases. During the nine months ended December 31, 2013, the Company issued 2,272,019 shares, in connection with certain conversions of convertible senior subordinated notes (see Note 6).

During the nine months ended December 31, 2014, under the existing stock repurchase program, the Company repurchased 1,723,011 shares for \$114,634. As a result, as of December 31, 2014, the Company remains able to purchase an additional 3,477,789 shares under the existing stock repurchase program.

3. ACQUISITIONS

FISCAL 2015 ACQUISITIONS

Acquisition of Spirit AeroSystems Holdings, Inc. - Gulfstream G650 and G280 Wing Programs

Effective December 30, 2014, a wholly-owned subsidiary of the Company, Triumph Aerostructures - Tulsa LLC, doing business as Triumph Aerostructures-Vought Aircraft Division-Tulsa, completed the acquisition of the Gulfstream G650 and G280 wing programs (the "Tulsa Programs") located in Tulsa, Oklahoma, from Spirit AeroSystems, Inc. The acquisition of the Tulsa Programs establishes the Company as a leader in fully integrated wing design, engineering and production and advances its standing as a strategic Tier One Capable aerostructures supplier. The acquired business will operate as Triumph Aerostructures-Vought Aircraft Division-Tulsa and its results will be included in the Aerostructures Group from the date of acquisition.

The Company received \$160,000 in cash plus assets required to run the business from Spirit-Tulsa to cover the anticipated future cash flow needs of the programs. Goodwill in the amount of \$80,636 was provisionally recognized for this acquisition and is calculated as the excess of consideration transferred over the net assets recognized and represents future economic benefits arising from other assets acquired that could not be individually identified and separately recognized such as assembled workforce. The goodwill is not deductible for tax purposes.

The accounting for the business combination is provisional and dependent upon obtaining valuations and other information for certain assets and liabilities which have not yet been identified, completed or obtained to a point where definitive estimates can be made. The process for estimating the fair values of identified intangible assets, certain tangible assets and assumed liabilities requires the use of judgment to determine the appropriate assumptions. As the Company finalizes estimates of the fair value of assets acquired and liabilities assumed, substantially all of the purchase price allocation for the Tulsa Programs is provisional. Additional purchase price adjustments will be recorded during the measurement period not to exceed one year beyond the acquisition date. These adjustments may have a material impact on the Company's results of operations and financial position.

The table below presents the provisional estimated fair value of assets acquired and liabilities assumed on the acquisition date based on the best information the Company has received to date, in accordance with Accounting Standards Codification Topic 805, Business Combinations ("ASC 805"). These estimates will be revised as the Company receives final appraisal of tangible and intangible assets, certain liabilities assumed and other information related to the Tulsa Programs acquisition. Accordingly, the amounts below report the Company's best estimate of fair

value based on the information available at this time:

9

---

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 3. ACQUISITIONS (Continued)

	December 30, 2014
Inventory	\$72,364
Property and equipment	28,500
Goodwill	80,636
Deferred taxes	64,686
Total assets	\$246,186
Accrued expenses	\$11,186
Acquired contract liabilities	395,000
Total liabilities	\$406,186

The provisional amounts recognized are based on the Company's best estimate using information that it has obtained as of the reporting date. The Company will finalize its estimate once it is able to determine that it has obtained all necessary information that existed as of the acquisition date related to this matter or one year following the acquisition of the Tulsa Programs whichever is earlier.

The Tulsa Programs acquisition has been accounted for under the acquisition method and, accordingly, is included in the condensed consolidated financial statements from the effective date of acquisition. The Company incurred \$4,606 in acquisition-related costs in connection with the Tulsa Programs acquisition, which is recorded in selling, general and administrative expenses in the accompanying Condensed Consolidated Statements of Income.

Acquisition of North American Aircraft Services, Inc.

Effective October 17, 2014, the Company acquired the ownership of all of the outstanding shares of North American Aircraft Services, Inc. and its affiliates ("NAAS"). NAAS is based in San Antonio, Texas, with fixed-based operator units throughout the United States as well as international locations and delivers line maintenance and repair, fuel leak detection and fuel bladder cell repair services. The acquired business will operate as Triumph Aviation Services - NAAS Division and its results are included in Aftermarket Services Group from the date of acquisition.

The purchase price for the NAAS acquisition was \$44,687. Goodwill in the amount of \$24,686 was recognized for this acquisition and is calculated as the excess of consideration transferred over the net assets recognized and represents future economic benefits arising from other assets acquired that could not be individually identified and separately recognized such as assembled workforce. The goodwill is not deductible for tax purposes. The Company has also identified an intangible asset related to customer relationships valued at \$17,000 with a weighted-average life of 11.0 years.

The accounting for the business combination is dependent upon valuations and other information for certain assets and liabilities which have not yet been completed or obtained to a point where definitive estimates can be made. The process for estimating the fair values of identified intangible assets, certain tangible assets and assumed liabilities requires the use of judgment to determine the appropriate assumptions.

As the Company finalizes estimates of the fair value of assets acquired and liabilities assumed, substantially all of the purchase price allocation for NAAS is provisional. Additional purchase price adjustments will be recorded during the measurement period not to exceed one year beyond the acquisition date. These adjustments may have a material impact on the Company's results of operations and financial position.

The table below presents the provisional estimated fair value of assets acquired and liabilities assumed on the acquisition date based on the best information the Company has received to date, in accordance with ASC 805. These estimates will be revised as the Company revises final appraisal of tangible and intangible assets, certain liabilities assumed and other information related to the NAAS acquisition. Accordingly, the amounts below report the Company's best estimate of fair value based on the information available at this time:



Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 3. ACQUISITIONS (Continued)

	October 17, 2014
Cash	\$803
Accounts receivable	5,487
Inventory	866
Property and equipment	197
Goodwill	24,686
Intangible assets	17,000
Other assets	363
Total assets	\$49,402
Accounts payable	\$232
Accrued expenses	935
Other noncurrent liabilities	3,548
Total liabilities	\$4,715

The provisional amounts recognized are based on the Company's best estimate using information that it has obtained as of the reporting date. The Company will finalize its estimate once it is able to determine that it has obtained all necessary information that existed as of the acquisition date related to this matter or one year following the acquisition of NAAS, whichever is earlier.

The NAAS acquisition has been accounted for under the acquisition method and, accordingly, is included in the condensed consolidated financial statements from the effective date of acquisition. The NAAS acquisition was funded by the Company's long-term borrowings in place at the date of acquisition. The Company incurred \$585 in acquisition-related costs in connection with the NAAS acquisition, which is recorded in selling, general and administrative expenses in the accompanying Condensed Consolidated Statements of Income.

Acquisition of GE Aviation - Hydraulic Actuation

Effective June 27, 2014, the Company acquired the hydraulic actuation business of GE Aviation ("GE"). GE's hydraulic actuation business consists of three facilities located in Yakima, Washington, Cheltenham, England and the Isle of Man and is a technology leader in actuation systems. GE's key product offerings include complete landing gear actuation systems, door actuation, nose-wheel steering, hydraulic fuses, manifolds flight control actuation and locking mechanisms for the commercial, military and business jet markets. The acquired business will operate as Triumph Actuation Systems-Yakima and Triumph Actuation Systems-UK & IOM and its results are included in Aerospace Systems Group from the date of acquisition.

The purchase price for the GE acquisition was \$71,509, which includes cash paid at closing and deferred payments. Goodwill in the amount of \$177,892 was recognized for this acquisition and is calculated as the excess of consideration transferred over the net assets recognized and represents future economic benefits arising from other assets acquired that could not be individually identified and separately recognized such as assembled workforce. The goodwill is deductible for tax purposes. The Company has also identified an intangible asset related to technology valued at \$17,494 with a weighted-average life of 11.0 years.

The accounting for the business combination is dependent upon obtaining valuations and other information for certain assets and liabilities which have not yet been completed or obtained to a point where definitive estimates can be made. The process for estimating the fair values of identified intangible assets, certain tangible assets and assumed liabilities requires the use of judgment to determine the appropriate assumptions.

As the Company finalizes estimates of the fair value of assets acquired and liabilities assumed, substantially all of the purchase price allocation for GE is provisional. Additional purchase price adjustments will be recorded during the

measurement period not to exceed one year beyond the acquisition date. These adjustments may have a material impact on the Company's results of operations and financial position.

11

---

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 3. ACQUISITIONS (Continued)

The table below presents the provisional estimated fair value of assets acquired and liabilities assumed on the acquisition date based on the best information the Company has received to date, in accordance with ASC 805. These estimates will be revised as the Company receives final appraisal of tangible and intangible assets, certain liabilities assumed and other information related to the GE acquisition. Accordingly, the amounts below report the Company's best estimate of fair value based on the information available at this time:

	June 27, 2014
Cash	\$4,608
Accounts receivable	35,579
Inventory	48,560
Property and equipment	33,965
Goodwill	177,892
Intangible assets	17,494
Deferred taxes	45,378
Other assets	2,022
Total assets	\$365,498
Accounts payable	\$17,644
Accrued expenses	26,483
Acquired contract liabilities	249,862
Total liabilities	\$293,989

The provisional amounts recognized are based on the Company's best estimate using information that it has obtained as of the reporting date. The Company will finalize its estimate once it is able to determine that it has obtained all necessary information that existed as of the acquisition date related to this matter or one year following the acquisition of GE, whichever is earlier.

The GE acquisition has been accounted for under the acquisition method and, accordingly, is included in the condensed consolidated financial statements from the effective date of acquisition. The GE acquisition was funded by the Company's long-term borrowings in place at the date of acquisition. The Company incurred \$1,839 in acquisition-related costs in connection with the GE acquisition, which is recorded in selling, general and administrative expenses in the accompanying Condensed Consolidated Statements of Income.

The acquisitions of the Tulsa Programs, NAAS and GE are referred to in this report as the "fiscal 2015 acquisitions." As a result of the fiscal 2015 acquisitions, acquired contract liabilities, net, which are included in other noncurrent liabilities on the Condensed Consolidated Balance Sheets, increased to \$738,414 at December 31, 2014 from \$141,505 at March 31, 2014.

The following table presents information for the fiscal 2015 acquisitions which are included in the Company's Condensed Consolidated Statements of Income from their respective dates of acquisition through the three and nine months ended December 31, 2014:

	For the Three Months Ended December 31, 2014	For the Nine Months Ended December 31, 2014
Net Sales	\$69,644	\$137,860
Operating Income	7,895	15,115





Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

3. ACQUISITIONS (Continued)

FISCAL 2014 ACQUISITIONS

Acquisition of Insulfab Product Line (Chase Corporation)

Effective October 7, 2013, the Company's wholly-owned subsidiary, Triumph Insulation Systems, LLC, acquired substantially all of the assets comprising the Insulfab product line from Chase Corporation ("Insulfab"). Insulfab primarily focuses on manufacturing high-quality, engineered barrier laminates used in aerospace applications. The results for Triumph Insulation Systems, LLC will continue to be included in the Aerostructures group from the date of acquisition.

The Company paid \$7,394 in cash at closing for Insulfab, and in January 2014, paid \$2,516 in cash after the working capital was finalized. Goodwill in the amount of \$4,660 was recognized for this acquisition and is calculated as the excess of consideration transferred over the net assets recognized and represents future economic benefits arising from other assets acquired that could not be individually identified and separately recognized such as assembled workforce. The goodwill is deductible for tax purposes.

Acquisition of General Donlee Canada, Inc.

Effective October 4, 2013, the Company acquired all of the issued and outstanding shares of General Donlee Canada Inc. ("General Donlee"). General Donlee is based in Toronto, Canada and is a leading manufacturer of precision machined products for the aerospace, nuclear and oil and gas industries. The acquired business now operates as Triumph Gear Systems-Toronto ULC and its results are included in the Aerospace Systems Group from the date of acquisition.

The purchase price for the General Donlee acquisition was \$56,622 plus assumed debt of \$32,382, which was settled at closing. Additionally, on October 7, 2013, the Company, at its option, called General Donlee's Convertible Notes for \$26,000, which were paid on November 12, 2013. Goodwill in the amount of \$46,528 was recognized for this acquisition and is calculated as the excess of consideration transferred over the net assets recognized and represents future economic benefits arising from other assets acquired that could not be individually identified and separately recognized such as assembled workforce. The goodwill is not deductible for tax purposes. The Company has also identified intangible assets related to customer relationships valued at approximately \$24,596 with a weighted-average life of 15.0 years. Prior to the anniversary of the acquisition date, the Company finalized the purchase price allocation. The finalization of the Company's purchase accounting assessment did not result in significant measurement period adjustments and did not have a material impact on the Company's Consolidated Balance Sheet, Statement of Income, or Statement of Cash Flows.

The following condensed balance sheet represents the amounts assigned to each major asset and liability caption in the aggregate from the acquisition of General Donlee, in accordance with ASC 805:

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 3. ACQUISITIONS (Continued)

	October 4, 2013
Accounts receivable	\$10,573
Inventory	15,645
Prepaid expenses and other	184
Property and equipment	31,952
Goodwill	46,528
Intangibles assets	24,596
Total assets	\$129,478
Accounts payable	\$2,841
Accrued expenses	3,620
Deferred taxes	11,439
Debt	54,956
Total liabilities	\$72,856

The Company finalized its estimate after it was able to determine that it had obtained all necessary information that existed as of the acquisition date related to these amounts.

The General Donlee acquisition has been accounted for under the acquisition method and, accordingly, is included in the condensed consolidated financial statements from the effective date of the acquisition. The General Donlee acquisition was funded by the Company's long-term borrowings in place at the date of acquisition. The Company incurred \$766 in acquisition-related costs in connection with the General Donlee acquisition, which were recorded in selling, general and administrative expenses in the accompanying Condensed Consolidated Statements of Income for the fiscal year ended March 31, 2014.

## Acquisition of Primus Composites

Effective May 6, 2013, the Company acquired four related entities collectively comprising the Primus Composites ("Primus") business from Precision Castparts Corp. The acquired business, which includes two manufacturing facilities in Farnborough, England and Rayong, Thailand, will operate as Triumph Structures - Farnborough and Triumph Structures - Thailand and be included in the Aerostructures Group from the date of acquisition. Together, Triumph Structures - Farnborough and Triumph Structures - Thailand constitute a global supplier of composite and metallic propulsion and structural composites and assemblies. In addition to its composite operations, the Thailand operation also machines and processes metal components.

The purchase price for the Primus acquisition was \$33,530 in cash and \$30,000 in assumed debt settled at closing. Goodwill in the amount of \$29,138 was recognized for this acquisition and is calculated as the excess of consideration transferred over the net assets recognized and represents future economic benefits arising from other assets acquired that could not be individually identified and separately recognized such as assembled workforce. The goodwill is not deductible for tax purposes. The Company has also identified intangible assets related to customer relationships valued at approximately \$3,514 with a weighted-average life of 16.0 years. Prior to the anniversary of the acquisition date, the Company finalized the purchase price allocation.

The following condensed balance sheet represents the amounts assigned to each major asset and liability caption in the aggregate from the acquisition of Primus, in accordance with ASC 805:

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 3. ACQUISITIONS (Continued)

	May 6, 2013
Cash	\$2,201
Accounts receivable	17,392
Inventory	21,053
Prepaid expenses and other	883
Property and equipment	28,457
Goodwill	29,138
Intangibles assets	3,514
Other noncurrent assets	13,138
Total assets	\$115,776
Accounts payable	\$10,027
Accrued expenses	15,939
Other noncurrent liabilities	26,280
Total liabilities	\$52,246

The Company finalized its estimates after it was able to determine that it had obtained all necessary information that existed as of the acquisition date related to these matters.

The Primus acquisition has been accounted for under the acquisition method and, accordingly, is included in the condensed consolidated financial statements from the effective date of the acquisition. The Primus acquisition was funded by the Company's long-term borrowings in place at the date of acquisition. The Company incurred \$743 in acquisition-related costs in connection with the Primus acquisition, which is recorded in selling, general and administrative expenses in the Condensed Consolidated Statements of Income for the fiscal year ended March 31, 2014.

The acquisitions of Insulfab, General Donlee and Primus are referred to in this report as the "fiscal 2014 acquisitions." The pro forma results presented below include the effects of the GE and 2014 acquisitions of as if they had been consummated as of April 1, 2013. The pro forma results include the amortization associated with an estimate of acquired intangible assets and interest expense on debt to fund these acquisitions, as well as fair value adjustments for property and equipment and off-market contracts. To better reflect the combined operating results, nonrecurring charges directly attributable to the transaction have been excluded. In addition, the pro forma results do not include any expected benefits of the acquisitions. Accordingly, the pro forma results are not necessarily indicative of either future results of operations or results that might have been achieved had the acquisitions been consummated as of April 1, 2013 and have been included in the Company's results of operations for fiscal years 2015 and 2014.

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Net Sales	\$917,417	\$969,733	\$2,859,381	\$3,008,865
Net (loss) income	(39,832	) 35,839	157,880	166,290
(Loss) earnings per share—basic	\$(0.79	) \$0.69	\$3.09	\$3.23
(Loss) earnings per share—diluted	\$(0.79	) \$0.68	\$3.08	\$3.15



#### 4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

##### Sale of Triumph Aerospace Systems - Wichita

In January 2014, the Company sold all of the shares of Triumph Aerospace Systems-Wichita, Inc. ("TAS-Wichita") for total cash proceeds of \$23,000. As a result of the sale of TAS-Wichita, the Company recognized no gain or loss. The operating results of TAS-Wichita were included in the Aerostructures Group through the date of disposal.

##### Sale of Triumph Instruments - Burbank and Triumph Instruments - Ft. Lauderdale

In April 2013, the Company sold the assets and liabilities of Triumph Instruments - Burbank and Triumph Instruments - Ft. Lauderdale (collectively, "Triumph Instruments") for total proceeds of \$11,200 including cash received at closing of \$9,676, a note of \$1,500, and the remaining amount which was held in escrow and received in the second quarter of fiscal 2014, resulting in a loss of \$1,462 recognized during the year ended March 31, 2013. The assets and liabilities of Triumph Instruments were classified as held for sale as of March 31, 2013. The loss on the sale of the assets and liabilities of Triumph Instruments is included in the Condensed Consolidated Statements of Income within selling, general and administrative expenses for the year ended March 31, 2013. The operating results of Triumph Instruments were included in the Aftermarket Services Group through the date of disposal.

The Company expects to have significant continuing involvement in the businesses and markets of the disposed entities, as defined by ASC 205-20, Discontinued Operations, and, therefore, as a result, the disposal groups do not meet the criteria to be classified as discontinued operations.

#### 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, 2014	March 31, 2014
Raw materials	\$85,192	\$106,552
Work-in-process, including manufactured and purchased components	1,254,134	1,102,626
Finished goods	124,093	67,608
Less: unliquidated progress payments	(174,855)	(165,019)
Total inventories	\$1,288,564	\$1,111,767

Work-in-process inventory includes capitalized pre-production costs. Capitalized pre-production costs include nonrecurring engineering, planning and design, including applicable overhead, incurred before production is manufactured on a regular basis. Significant customer-directed work changes can also cause pre-production costs to be incurred. These costs are typically recovered over a contractually determined number of ship-set deliveries and the Company believes these amounts will be fully recovered. The balance of capitalized pre-production costs related to the Company's contracts with Bombardier for the Global 7000/8000 program ("Bombardier") and Embraer for the second generation E-Jet ("Embraer") as of December 31, 2014 is \$245,241. The balance of capitalized pre-production costs related to the Company's contracts with Bombardier and Embraer as of March 31, 2014 was \$131,358.

The Company is still in the pre-production stages for the Bombardier and Embraer programs, as these aircrafts are not scheduled to enter service until 2016 and 2018, respectively, or later. Transition of these programs from development to recurring production levels is dependent upon the success of the programs achieving flight testing and certification, as well as the ability of the Bombardier and Embraer programs to generate acceptable levels of aircraft sales. The failure to achieve these milestones and level of sales or significant cost overruns may result in an impairment of the capitalized pre-production costs.

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 6. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2014	March 31, 2014
Revolving line of credit	\$212,013	\$194,406
Term loan	360,938	375,000
Receivable securitization facility	98,100	162,400
Equipment leasing facility and other capital leases	88,651	74,342
Senior notes due 2018	—	348,423
Senior notes due 2021	375,000	375,000
Senior notes due 2022	300,000	—
Convertible senior subordinated notes	—	12,834
Other debt	7,978	7,978
	1,442,680	1,550,383
Less current portion	40,877	49,575
	\$1,401,803	\$1,500,808

## Revolving Credit Facility

In May 2014, the Company amended its existing credit agreement (the "Credit Facility") with its lenders to (i) increase the maximum amount allowed for the receivable securitization facility (the "Securitization Facility") and (ii) amend certain other terms and covenants.

In November 2013, the Company amended and restated its Credit Facility with its lenders to (i) provide for a \$375,000 Term Loan with a maturity date of May 14, 2019 (the "2013 Term Loan"), (ii) maintain a Revolving Line of Credit under the Credit Facility of \$1,000,000 with a \$250,000 accordion feature, (iii) extend the maturity date to November 19, 2018, and (iv) amend certain other terms and covenants. In connection with the amendment to the Credit Facility, the Company incurred \$2,795 of financing costs. These costs, along with the \$6,507 of unamortized financing costs prior to the amendment, are being amortized over the remaining term of the Credit Facility.

The Company will repay the outstanding principal amount of the 2013 Term Loan in quarterly installments, on the first business day of each January, April, July and October, commencing April 2014.

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 Second Amended and Restated Guarantee and Collateral Agreement, dated as of November 19, 2013, among the administrative agent, the Company and the subsidiaries of the Company party thereto.

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 \$1,000,000 outstanding at any time. The Credit Facility bears interest at either: (i) LIBOR plus between 1.38% and 2.50%; (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 0.25% and 0.45% 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, 2014, there were \$212,013 in borrowings and \$35,514 in letters of credit outstanding under the Revolving Line of Credit provisions of the Credit Facility primarily to support insurance policies. At March 31, 2014, there





Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 6. LONG-TERM DEBT (Continued)

were \$194,406 in borrowings and \$36,445 in letters of credit outstanding under the Revolving Line of Credit provisions of the Credit Facility primarily to support insurance policies. The level of unused borrowing capacity under the Revolving Line of Credit provisions of 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 Credit Facility contains certain affirmative and negative covenants, including limitations on specified levels of indebtedness to earnings before interest, taxes, depreciation and amortization, and interest coverage requirements, and includes limitations on, among other things, liens, mergers, consolidations, sales of assets, and incurrence of debt. If an event of default were to occur under the Credit Facility, the lenders would be entitled to declare all amounts borrowed under it immediately due and payable. The occurrence of an event of default under the Credit Facility could also cause the acceleration of obligations under certain other agreements. The Company is currently in compliance with all such covenants. As of December 31, 2014, the Company had borrowing capacity under this facility of \$752,473 after reductions for borrowings and letters of credit outstanding under the facility.

In connection with the Company amending and restating the Credit Facility to add the 2013 Term Loan, the Company also entered into an interest rate swap agreement through November 2018 to reduce its exposure to interest on the variable rate portion of its long-term debt. On the date of inception, the Company designated the interest rate swap as a cash flow hedge in accordance with FASB guidance on accounting for derivatives and hedges and linked the interest rate swap to the 2013 Term Loan. The Company formally documented the hedging relationship between 2013 Term Loan and the interest rate swap, as well as its risk-management objective and strategy for undertaking the hedge, the nature of the risk being hedged, how the hedging instrument's effectiveness will be assessed and a description of the method of measuring the ineffectiveness. The Company also formally assesses, both at the hedge's inception and on a quarterly basis, whether the derivative item is highly effective offsetting changes in cash flows.

As of December 31, 2014 and March 31, 2014, the interest rate swap agreement had a notional amount of \$360,938 and \$375,000, respectively. As of December 31, 2014 and March 31, 2014, the interest rate swap agreement had a fair value of \$141 and \$2,426, respectively, which is recorded in other assets, net of applicable taxes (Level 2). The interest rate swap settles on a monthly basis when interest payments are made. These settlements occur through the maturity date.

## Receivables Securitization Facility

In November 2014, the Company amended its \$225,000 Securitization Facility, increasing the purchase limit from \$175,000 to \$225,000 and extending the term through November 2017. In connection with the Securitization Facility, the Company sells on a revolving basis certain trade 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 trade accounts receivable under the Securitization Facility. As of December 31, 2014, the maximum amount available under the Securitization Facility was \$225,000. Interest rates are based on LIBOR plus a program fee and a commitment fee. The program fee is 0.40% on the amount outstanding under the Securitization Facility. Additionally, the commitment fee is 0.40% on 100.00% of the maximum amount available under the Securitization Facility. At December 31, 2014, there was \$98,100 outstanding under the Securitization Facility. In connection with amending the Securitization Facility, the Company incurred approximately \$252 of financing costs. These costs, along with the \$341 of unamortized financing costs prior to the amendment, are being amortized over the life of the Securitization Facility. The Company securitizes its trade 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 860.

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 all or substantially all of the Company's assets.

Capital Leases

During the nine months ended December 31, 2014 and 2013, the Company entered into new capital leases in the amount of \$52 and \$36, respectively, to finance a portion of the Company's capital additions for the period. During the nine months

18

---

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

6. LONG-TERM DEBT (Continued)

ended December 31, 2014 and 2013, the Company obtained financing for existing fixed assets in the amount of \$28,860 and \$27,145, respectively.

Senior Subordinated Notes Due 2017

On November 16, 2009, the Company issued \$175,000 principal amount of 8.00% Senior Subordinated Notes due 2017 (the "2017 Notes"). The 2017 Notes were sold at 98.56% of principal amount and had 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 \$4,390 of costs, which were deferred and were being amortized on the effective interest method over the term of the 2017 Notes.

On November 15, 2013, the Company completed the redemption of the 2017 Notes. The principal amount of \$175,000 was redeemed at a price of 104% plus accrued and unpaid interest. As a result of the redemption, the Company recognized a pre-tax loss on redemption of \$11,069, consisting of early termination premium, write-off of unamortized discount and deferred financing fees and was recorded on the Consolidated Statements of Income as a component of "Interest expense and other".

Senior Notes Due 2018

On June 16, 2010, in connection with the acquisition of Vought Aircraft Industries. ("Vought"), the Company issued \$350,000 principal amount of 8.63% Senior Notes due 2018 (the "2018 Notes"). The 2018 Notes were sold at 99.27% of principal amount and had an effective interest yield of 8.75%. Interest on the 2018 Notes accrued at the rate of 8.63% per annum and was payable semiannually in cash in arrears on January 15 and July 15 of each year. In connection with the issuance of the 2018 Notes, the Company incurred approximately \$7,307 of costs, which were deferred and were amortized on the effective interest method over the term of the 2018 Notes.

On June 23, 2014, the Company completed the redemption of the 2018 Notes. The principal amount of \$350,000 was redeemed at a price of 104.79% plus accrued and unpaid interest. As a result of the redemption, the Company recognized a pre-tax loss on redemption of \$22,615, consisting of early termination premium, write-off of unamortized discount and deferred financing fees and was recorded on the Condensed Consolidated Statements of Income as a component of "Interest expense and other" for the nine months ended December 31, 2014.

Senior Notes Due 2021

On February 26, 2013, the Company issued \$375,000 principal amount of 4.875% Senior Notes due 2021 (the "2021 Notes"). The 2021 Notes were sold at 100% of principal amount and have an effective interest yield of 4.875%. Interest on the 2021 Notes accrues at the rate of 4.875% per annum and is payable semiannually in cash in arrears on April 1 and October 1 of each year, commencing on October 1, 2013. In connection with the issuance of the 2021 Notes, the Company incurred approximately \$6,327 of costs, which were deferred and are being amortized on the effective interest method over the term of the 2021 Notes.

The 2021 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 2021 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 2021 Notes prior to April 1, 2017 by paying a "make-whole" premium. The Company may redeem some or all of the 2021 Notes on or after April 1, 2017 at specified redemption prices. In addition, prior to April 1, 2016, the Company may redeem up to 35% of the 2021 Notes with the net proceeds of certain equity offerings at a redemption price equal to 104.875% of the aggregate principal amount plus accrued and unpaid interest, if any, subject to certain limitations set forth in the indenture governing the 2021 Notes (the "2021 Indenture").

The Company is obligated to offer to repurchase the 2021 Notes at a price of (i) 101% of their principal amount plus accrued and unpaid interest, if any, as a result of certain change-of-control events and (ii) 100% of their principal amount plus

19

---

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

6. LONG-TERM DEBT (Continued)

accrued and unpaid interest, if any, in the event of certain asset sales. These restrictions and prohibitions are subject to certain qualifications and exceptions.

The 2021 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 2022

On June 3, 2014, the Company issued \$300,000 principal amount of 5.250% Senior Notes due 2022 (the "2022 Notes"). The 2022 Notes were sold at 100% of principal amount and have an effective interest yield of 5.250%. Interest on the 2022 Notes accrues at the rate of 5.250% per annum and is payable semiannually in cash in arrears on June 1 and December 1 of each year, commencing on December 1, 2014. In connection with the issuance of the 2022 Notes, the Company incurred approximately \$4,990 of costs, which were deferred and are being amortized on the effective interest method over the term of the 2022 Notes.

The 2022 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 2022 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 2022 Notes prior to June 1, 2017 by paying a "make-whole" premium. The Company may redeem some or all of the 2022 Notes on or after June 1, 2017 at specified redemption prices. In addition, prior to June 1, 2017, the Company may redeem up to 35% of the 2022 Notes with the net proceeds of certain equity offerings at a redemption price equal to 105.250% of the aggregate principal amount plus accrued and unpaid interest, if any, subject to certain limitations set forth in the indenture governing the 2022 Notes (the "2022 Indenture").

The Company is obligated to offer to repurchase the 2022 Notes at a price of (i) 101% of their principal amount plus accrued and unpaid interest, if any, as a result of certain change-of-control events and (ii) 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.

The 2022 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 "Convertible Notes"). The Convertible Notes were 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.

The Convertible Notes bore interest at a fixed rate of 2.63% per annum, payable in cash semiannually 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 paid 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

20

---

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

6. LONG-TERM DEBT (Continued)

principal amount of the Convertible Notes. The contingent interest paid per note in respect of any six-month period equaled 0.25% per annum, calculated on the average trading price of a note for the relevant five trading day period. The Convertible Notes would have matured on October 1, 2026, unless earlier redeemed, repurchased or converted. The Company was able to redeem the Convertible Notes for cash, 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 Convertible 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 Convertible Notes had the right to require the Company to repurchase for cash all or a portion of their Convertible Notes on October 1, 2016 and 2021, at a repurchase price equal to 100% of the principal amount of the Convertible 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. On September 2, 2011, the Company submitted a tender offer of repurchase to the holders of the Convertible Notes, expiring October 3, 2011, and no notes were tendered for repurchase. The Convertible Notes were convertible into the Company's common stock at a rate equal to 36.8679 shares per \$1 principal amount of the Convertible Notes (equal to an initial conversion price of approximately \$27.12 per share), subject to adjustment as described in the indenture governing the Convertible Notes. Upon conversion, the Company delivered to the holder surrendering the Convertible Notes for conversion, for each \$1 principal amount of Convertible Notes, an amount consisting of cash equal to the lesser of \$1 and the Company's total conversion obligation and, to the extent that the Company's total conversion obligation exceeds \$1, at the Company's election, cash or shares of the Company's common stock in respect of the remainder.

On May 22, 2014, the Company announced the redemption of the Convertible Notes. The redemption price for the Convertible Notes was equal to the sum of 100% of the principal amount of the Convertible Notes outstanding, plus accrued and unpaid interest on the Convertible Notes up to, but not including, the redemption date of June 23, 2014. The Convertible Notes were able to be converted at the option of the holder.

The Convertible Notes were eligible for conversion upon meeting certain conditions as provided in the indenture governing the Convertible Notes. For the periods from January 1, 2011 through June 23, 2014, the Convertible Notes were eligible for conversion. During the nine months ended December 31, 2014, the Company settled the conversion of \$12,834 in principal value of the Convertible Notes, with the principal and the conversion benefit settled in cash. During the nine months ended December 31, 2013, the Company settled the conversion of \$95,732 in principal value of the Convertible Notes, as requested by the respective holders, with the principal settled in cash and the conversion benefit settled through the issuance of 2,272,019 shares.

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 \$27.12. The average price of the Company's common stock for the three months ended December 31, 2013, was \$72.52. Therefore, for the three months ended December 31, 2013, there were 525,635 additional shares included in the calculation of diluted earnings per share. The average price of the Company's common stock for the nine months ended December 31, 2014 and 2013 was \$66.71 and \$75.69, respectively. Therefore, for the nine months ended December 31, 2014 and 2013, there were 56,692 and 982,600 additional shares, respectively, included in the calculation of diluted earnings per share.





Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 6. LONG-TERM DEBT (Continued)

## Financial Instruments Not Recorded at Fair Value

The carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximate fair value because of their short maturities (Level 1 inputs). 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, 2014		March 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$1,442,680	\$1,434,621	\$1,550,383	\$1,580,447

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 (Level 2 inputs).

## 7. 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)	
	2014	2013	2014	2013
Weighted-average common shares outstanding – basic	50,643	52,024	51,114	51,548
Net effect of dilutive stock options and nonvested stock	—	256	172	267
Potential common shares – convertible debt	—	526	57	983
Weighted-average common shares outstanding – diluted	50,643	52,806	51,343	52,798

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

**8. INCOME TAXES**

The Company follows the Income Taxes topic of the ASC 740, 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 de-recognition, 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, 2014 and March 31, 2014, the total amount of accrued income tax-related interest and penalties was \$200 and \$204, respectively.

As of December 31, 2014 and March 31, 2014, the total amount of unrecognized tax benefits was \$8,438 and \$8,865, respectively, of which \$6,655 and \$7,082, respectively, would impact the effective rate, if recognized. The Company does not anticipate that total unrecognized tax benefits will be reduced in the next 12 months.

The effective income tax rate for the three months ended December 31, 2014 was a benefit of (46.8)% as compared to 35.3% for the three months ended December 31, 2013. For the three months ended December 31, 2014, the income tax benefit increased to reflect the benefit of \$5,970 from the retroactive reinstatement of the R&D tax credit. The effective income tax rate for the nine months ended December 31, 2014 was 30.0% as compared to 34.1% for the nine months ended December 31, 2013. For the nine months ended December 31, 2014, the income tax provision was reduced to reflect unrecognized tax benefits of \$1,051, an additional tax benefit related to the a net operating loss carryback claim of \$367, the benefit of \$1,999 from a decrease to the state deferred tax rates and the benefit of \$5,970 from the retroactive reinstatement of the R&D tax credit.

With few exceptions, the Company is no longer subject to U.S. federal income tax examinations for fiscal years ended before March 31, 2011, state or local examinations for fiscal years ended before March 31, 2011, or foreign income tax examinations by tax authorities for fiscal years ended before March 31, 2009.

As of December 31, 2014, the Company was not subject to examination in any state jurisdiction. The Company has filed appeals in a prior state examination related to fiscal years ended March 31, 1999 through March 31, 2005. Because of net operating losses acquired as part of the acquisition of Vought, the Company is subject to U.S. federal income tax examinations and various state jurisdictions for the years ended December 31, 2001 and after related to previously filed Vought tax returns. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

During the nine months ended December 31, 2014, the Company received refund claims of \$26,001, which had previously been filed for in the second quarter of the fiscal year ended March 31, 2013.

**9. GOODWILL**

The following is a summary of the changes in the carrying value of goodwill by reportable segment, from March 31, 2014 through December 31, 2014:

	Aerostructures	Aerospace Systems	Aftermarket Services	Total
Balance, March 31, 2014	\$1,339,993	\$395,912	\$55,986	\$1,791,891
	80,636	177,892	24,686	283,214

Goodwill recognized in connection  
with acquisitions

Effect of exchange rate changes	1,790	(13,440	) 53	(11,597	)
Balance, December 31, 2014	\$1,422,419	\$560,364	\$80,725	\$2,063,508	

#### 10. PENSION AND OTHER POSTRETIREMENT 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 separate trust.

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. 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 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 715, the Company has recognized the funded status of the benefit obligation as of the date of the last remeasurement, in the accompanying Condensed Consolidated Balance Sheets. The funded status is measured as the difference between the fair value of the plan's assets and the PBO or accumulated postretirement 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 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.

---

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 10. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

## Net Periodic Benefit Plan Costs

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

	Pension benefits			
	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Components of net periodic benefit expense (income):				
Service cost	\$3,251	\$3,293	\$9,764	\$9,880
Interest cost	21,961	23,369	65,863	69,801
Expected return on plan assets	(36,913 )	(37,271 )	(110,740 )	(111,309 )
Amortization of prior service credits	(1,322 )	(1,683 )	(3,966 )	(5,048 )
Amortization of net loss	—	4,531	—	13,593
Settlements	—	1,561	—	1,561
Net periodic benefit income	\$(13,023 )	\$(6,200 )	\$(39,079 )	\$(21,522 )

	Other postretirement benefits			
	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Components of net periodic benefit expense:				
Service cost	\$717	\$765	\$2,151	\$2,295
Interest cost	3,083	3,138	9,249	9,414
Amortization of prior service credits	(1,132 )	(1,132 )	(3,397 )	(3,397 )
Net periodic benefit expense	\$2,668	\$2,771	\$8,003	\$8,312

The Company periodically experiences events or makes changes to its benefit plans that result in special charges. Some require remeasurements. The following summarizes the key events whose effects on net periodic benefit costs are included in the tables above:

In December 2013, the Company completed an incentive offer in the form of lump-sum payments to non-represented deferred vested employees who were not of retirement age in lieu of any future benefits. In addition, cumulative lump-sum payments to union-represented plan participants for previously offered early retirement incentives exceeded the service and interest costs of the respective plan. The aforementioned changes led to a remeasurement of the affected plan's assets and obligations as of December 2013, which resulted in a \$118,391 decrease in projected benefit obligation. Additionally, these distributions resulted in settlement charges of \$1,561 and are presented on the accompanying Condensed Consolidated Statements of Income as "Early retirement incentive expense."

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 11. STOCKHOLDERS' EQUITY

## Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive income (loss) ("AOCI") by component for the three and nine months ended December 31, 2014 and 2013, respectively, were as follows:

	Currency Translation Adjustment	Unrealized Gains and Losses on Derivative Instruments	Defined Benefit Pension Plans and Other Postretirement Benefits	Total (1)
Balance September 30, 2014	\$ (9,425 )	\$ 979	\$ (23,668 )	\$ (32,114 )
AOCI before reclassifications	(16,331 )	(1,732 )	—	(18,063 )
Amounts reclassified from AOCI	—	(20 )	(1,533 )	(2)(1,553 )
Net current period AOCI	(16,331 )	(1,752 )	(1,533 )	(19,616 )
Balance December 31, 2014	\$ (25,756 )	\$ (773 )	\$ (25,201 )	\$ (51,730 )
Balance September 30, 2013	\$ 6,283	\$ (140 )	\$ (62,472 )	\$ (56,329 )
AOCI before reclassifications	(2,392 )	1,961	74,601	74,170
Amounts reclassified from AOCI	—	(3 )	1,072	(2)1,069
Net current period AOCI	(2,392 )	1,958	75,673	75,239
Balance December 31, 2013	\$ 3,891	\$ 1,818	\$ 13,201	\$ 18,910
Balance March 31, 2014	\$ 198	\$ 1,496	\$ (20,602 )	\$ (18,908 )
AOCI before reclassifications	(25,954 )	(2,182 )	—	(28,136 )
Amounts reclassified from AOCI	—	(87 )	(4,599 )	(2)(4,686 )
Net current period AOCI	(25,954 )	(2,269 )	(4,599 )	(32,822 )
Balance December 31, 2014	\$ (25,756 )	\$ (773 )	\$ (25,201 )	\$ (51,730 )
Balance March 31, 2013	\$ 3,513	\$ 131	\$ (64,616 )	\$ (60,972 )
AOCI before reclassifications	378	1,726	74,601	76,705
Amounts reclassified from AOCI	—	(39 )	3,216	(2)3,177
Net current period AOCI	378	1,687	77,817	79,882
Balance December 31, 2013	\$ 3,891	\$ 1,818	\$ 13,201	\$ 18,910

(1) Net of tax.

(2) Primarily relates to amortization of actuarial losses and recognized prior service (credits) costs, which are included in the net periodic pension cost of which a portion is allocated to production as inventoried costs.

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

12. SEGMENTS

The Company has three reportable segments: the Aerostructures Group, the Aerospace Systems Group and the Aftermarket Services Group. The Company's reportable segments are aligned with how the business is managed and the markets that the Company serves are viewed. The Chief Operating Decision Maker (the "CODM") evaluates performance and allocates resources based upon review of segment information. The CODM utilizes earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") as a primary measure of segment profitability to evaluate performance of its segments and allocate resources.

The Aerostructures segment consists of the Company's operations that manufacture products primarily for the aerospace original equipment manufacturer ("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, as well as the related aftermarket. 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 primarily 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 gauges for a broad range of commercial airlines on a worldwide basis.

Segment Adjusted EBITDA is total segment revenue reduced by operating expenses (less depreciation and amortization) identifiable with that segment. Corporate includes general corporate administrative costs and any other costs not identifiable with one of the Company's segments, including a gain on legal settlement, net of expenses, of \$134,693 for the nine months ended December 31, 2014.

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. Selected financial information for each reportable segment and the reconciliation of Adjusted EBITDA to operating income is as follows:

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 12. SEGMENTS (Continued)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Net sales:				
Aerostructures	\$559,465	\$637,202	\$1,803,400	\$1,979,839
Aerospace systems	279,198	211,402	787,951	636,411
Aftermarket services	80,690	69,556	222,641	216,880
Elimination of inter-segment sales	(1,936 )	(2,344 )	(5,548 )	(6,286 )
	\$917,417	\$915,816	\$2,808,444	\$2,826,844
(Loss) income before income taxes:				
Operating income (expense):				
Aerostructures	\$(102,461 )	\$53,973	\$40,634	\$218,784
Aerospace systems	41,863	32,504	125,430	106,887
Aftermarket services	12,490	9,297	34,614	30,678
Corporate	(13,158 )	(10,995 )	93,278	(37,253 )
	(61,266 )	84,779	293,956	319,096
Interest expense and other	13,573	30,115	71,320	70,146
	\$(74,839 )	\$54,664	\$222,636	\$248,950
Depreciation and amortization:				
Aerostructures	\$24,947	\$30,207	\$74,692	\$83,002
Aerospace systems	11,363	10,823	32,027	27,911
Aftermarket services	2,334	1,862	6,137	5,603
Corporate	1,164	1,211	3,517	3,765
	\$39,808	\$44,103	\$116,373	\$120,281
Amortization of acquired contract liabilities, net:				
Aerostructures	\$4,411	\$8,380	\$14,311	\$20,135
Aerospace systems	11,090	5,878	25,021	14,238
	\$15,501	\$14,258	\$39,332	\$34,373
Adjusted EBITDA:				
Aerostructures	\$(81,925 )	\$75,800	\$101,015	\$281,651
Aerospace systems	42,136	37,449	132,436	120,560
Aftermarket services	14,824	11,159	40,751	36,281
Corporate	(11,994 )	(8,223 )	(37,898 )	(31,927 )
	\$(36,959 )	\$116,185	\$236,304	\$406,565
Capital expenditures:				
Aerostructures	\$15,589	\$33,662	\$53,965	\$132,205
Aerospace systems	8,301	5,714	24,552	15,989
Aftermarket services	1,392	2,728	5,425	10,795
Corporate	814	429	1,228	2,808



\$26,096      \$42,533      \$85,170      \$161,797

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 12. SEGMENTS (Continued)

	December 31, 2014	March 31, 2014
Total Assets:		
Aerostructures	\$4,059,117	\$3,880,645
Aerospace systems	1,476,827	1,255,136
Aftermarket services	377,710	316,643
Corporate	61,419	100,962
	\$5,975,073	\$5,553,386

During the three months ended December 31, 2014 and 2013, the Company had international sales of \$183,009 and \$160,812, respectively. During the nine months ended December 31, 2014 and 2013, the Company had international sales of \$534,641 and \$457,049, respectively.

### 13. SELECTED CONDENSED CONSOLIDATING FINANCIAL STATEMENTS OF PARENT, GUARANTORS AND NON-GUARANTORS

The 2021 Notes and the 2022 Notes are fully and unconditionally guaranteed on a joint and several basis by the Guarantor Subsidiaries. The total assets, stockholders' 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 2021 Notes and the 2022 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 Condensed Consolidating Balance Sheets as of December 31, 2014 and March 31, 2014, Condensed Consolidating Statements of Comprehensive Income for the three and nine months ended December 31, 2014 and 2013, and Condensed Consolidating Statements of Cash Flows for the nine months ended December 31, 2014 and 2013.

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

## SUMMARY CONDENSED CONSOLIDATING BALANCE SHEETS:

	December 31, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	\$621	\$1,414	\$32,146	\$—	\$34,181
Trade and other receivables, net	5,588	163,506	283,233	—	452,327
Inventories	—	1,206,168	82,396	—	1,288,564
Rotable assets	—	30,253	13,572	—	43,825
Deferred income taxes	—	53,442	4	—	53,446
Prepaid expenses and other	7,353	8,504	6,932	—	22,789
Total current assets	13,562	1,463,287	418,283	—	1,895,132
Property and equipment, net	8,919	830,345	143,402		982,666
Goodwill and other intangible assets, net	—	2,809,200	228,336		3,037,536
Other, net	25,081	7,953	26,705		59,739
Intercompany investments and advances	4,334,263	64,554	11,677	(4,410,494)	—
Total assets	\$4,381,825	\$5,175,339	\$828,403	\$(4,410,494)	\$5,975,073
Current liabilities:					
Current portion of long-term debt	\$19,021	\$21,856	\$—	\$—	\$40,877
Accounts payable	6,187	268,372	33,839	—	308,398
Accrued expenses	26,249	296,903	36,719	—	359,871
Total current liabilities	51,457	587,131	70,558	—	709,146
Long-term debt, less current portion	1,234,609	69,094	98,100		1,401,803
Intercompany advances	810,167	1,827,169	318,348	(2,955,684)	—
Accrued pension and other postretirement benefits, noncurrent	6,939	403,229	—		410,168
Deferred income taxes and other	8,201	1,080,939	94,364		1,183,504
Total stockholders' equity	2,270,452	1,207,777	247,033	(1,454,810)	2,270,452
Total liabilities and stockholders' equity	\$4,381,825	\$5,175,339	\$828,403	\$(4,410,494)	\$5,975,073



Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

## SUMMARY CONDENSED CONSOLIDATING BALANCE SHEETS:

March 31, 2014

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	\$2,820	\$1,149	\$25,029	\$—	\$28,998
Trade and other receivables, net	1,591	226,407	289,306	—	517,304
Inventories	—	1,041,719	70,048	—	1,111,767
Rotable assets	—	28,113	13,553	—	41,666
Deferred income taxes	—	57,291	17	—	57,308
Prepaid expenses and other	6,977	13,674	4,246	—	24,897
Total current assets	11,388	1,368,353	402,199	—	1,781,940
Property and equipment, net	9,933	801,560	119,937	—	931,430
Goodwill and other intangible assets, net	—	2,625,121	144,941	—	2,770,062
Other, net	58,536	7,860	3,558	—	69,954
Intercompany investments and advances	4,094,443	84,180	12,333	(4,190,956)	—
Total assets	\$4,174,300	\$4,887,074	\$682,968	\$(4,190,956)	\$5,553,386
Current liabilities:					
Current portion of long-term debt	\$31,844	\$17,731	\$—	\$—	\$49,575
Accounts payable	1,150	296,968	19,216	—	317,334
Accrued expenses	36,034	212,984	24,272	—	273,290
Total current liabilities	69,028	527,683	43,488	—	640,199
Long-term debt, less current portion	1,279,694	58,714	162,400	—	1,500,808
Intercompany advances	525,216	2,021,330	304,613	(2,851,159)	—
Accrued pension and other postretirement benefits, noncurrent	6,795	501,716	13	—	508,524
Deferred income taxes and other	9,656	586,174	24,114	—	619,944
Total stockholders' equity	2,283,911	1,191,457	148,340	(1,339,797)	2,283,911
Total liabilities and stockholders' equity	\$4,174,300	\$4,887,074	\$682,968	\$(4,190,956)	\$5,553,386



Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME:

	Three Months Ended December 31, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$—	\$838,709	\$86,585	\$(7,877)	) \$917,417
Operating costs and expenses:					
Cost of sales	—	798,245	77,602	(7,877)	) 867,970
Selling, general and administrative	10,740	51,240	8,925	—	70,905
Depreciation and amortization	606	34,971	4,231	—	39,808
	11,346	884,456	90,758	(7,877)	) 978,683
Operating (loss)	(11,346)	) (45,747)	) (4,173)	) —	(61,266)
Intercompany interest and charges	(51,017)	) 48,546	2,471	—	—
Interest expense and other	15,200	2,356	(3,983)	) —	13,573
Income (loss) before income taxes	24,471	(96,649)	) (2,661)	) —	(74,839)
Income tax expense (benefit)	1,966	(35,311)	) (1,662)	) —	(35,007)
Net income (loss)	22,505	(61,338)	) (999)	) —	(39,832)
Other comprehensive (loss)	(1,311)	) (1,974)	) (16,331)	) —	(19,616)
Total comprehensive income (loss)	\$21,194	\$(63,312)	) \$(17,330)	) \$—	\$(59,448)





Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME:

	Three Months Ended December 31, 2013				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$—	\$860,029	\$56,446	\$(659)	) \$915,816
Operating costs and expenses:					
Cost of sales	—	676,668	43,694	(659)	) 719,703
Selling, general and administrative	4,915	49,353	6,561	—	60,829
Depreciation and amortization	670	40,755	2,678	—	44,103
Relocation costs	—	4,841	—	—	4,841
Pension settlement charges	1,561	—	—	—	1,561
	7,146	771,617	52,933	(659)	) 831,037
Operating (loss) income	(7,146)	) 88,412	3,513	—	84,779
Intercompany interest and charges	(54,402)	) 52,359	2,043	—	—
Interest expense and other	29,862	1,346	(1,093)	) —	30,115
Income before income taxes	17,394	34,707	2,563	—	54,664
Income tax expense	4,491	14,162	618	—	19,271
Net income	12,903	20,545	1,945	—	35,393
Other comprehensive income (loss)	1,900	75,731	(2,392)	) —	75,239
Total comprehensive income (loss)	\$ 14,803	\$96,276	\$(447)	) \$—	\$ 110,632

33

---

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME:

	Nine Months Ended December 31, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$—	\$2,590,724	\$233,839	\$(16,119)	) \$2,808,444
Operating costs and expenses:					
Cost of sales	—	2,141,533	198,817	(16,119)	) 2,324,231
Selling, general and administrative	33,405	146,886	25,093	—	205,384
Depreciation and amortization	1,870	103,545	10,958	—	116,373
Relocation costs	—	3,193	—	—	3,193
Gain on legal settlement, net of expenses	(134,693)	) —	—	—	(134,693)
	(99,418)	) 2,395,157	234,868	(16,119)	) 2,514,488
Operating income (loss)	99,418	195,567	(1,029)	) —	293,956
Intercompany interest and charges	(156,650)	) 150,218	6,432	—	—
Interest expense and other	71,499	6,900	(7,079)	) —	71,320
Income before income taxes	184,569	38,449	(382)	) —	222,636
Income tax expense (benefit)	53,702	16,059	(2,983)	) —	66,778
Net income	130,867	22,390	2,601	—	155,858
Other comprehensive loss	(1,395)	) (5,473)	) (25,954)	) —	(32,822)
Total comprehensive income (loss)	\$129,472	\$16,917	\$(23,353)	) \$—	\$123,036



Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME:

	Nine Months Ended December 31, 2013				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$—	\$2,687,881	\$142,166	\$(3,203)	) \$2,826,844
Operating costs and expenses:					
Cost of sales	—	2,081,123	109,572	(3,203)	) 2,187,492
Selling, general and administrative	18,406	154,103	18,620	—	191,129
Depreciation and amortization	2,092	111,815	6,374	—	120,281
Relocation costs	7,285	—	—	—	7,285
Pension settlement charges	1,561	—	—	—	1,561
	29,344	2,347,041	134,566	(3,203)	) 2,507,748
Operating (loss) income	(29,344)	) 340,840	7,600	—	319,096
Intercompany interest and charges	(165,147)	) 160,890	4,257	—	—
Interest expense and other	67,814	4,910	(2,578)	) —	70,146
Income before income taxes	67,989	175,040	5,921	—	248,950
Income tax expense	16,024	67,882	1,092	—	84,998
Net income	51,965	107,158	4,829	—	163,952
Other comprehensive income	1,900	77,604	378	—	79,882
Total comprehensive income	\$53,865	\$184,762	\$5,207	\$—	\$243,834

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

	Nine Months Ended December 31, 2014					
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total	
Net income	\$ 130,867	\$ 22,390	\$ 2,601	\$—	\$ 155,858	
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities	(229,295	) 338,153	32,114	13,134	154,106	
Net cash (used in) provided by operating activities	(98,428	) 360,543	34,715	13,134	309,964	
Capital expenditures	(854	) (70,014	) (14,302	) —	(85,170	)
Reimbursed capital expenditures	—	553	—	—	553	
Proceeds from sale of assets	—	1,789	78	—	1,867	
Acquisitions, net of cash acquired	—	116,044	(77,962	) —	38,082	
Net cash (used in) provided by investing activities	(854	) 48,372	(92,186	) —	(44,668	)
Net increase in revolving credit facility	17,607	—	—	—	17,607	
Proceeds on issuance of debt	300,000	28,912	65,600	—	394,512	
Retirements and repayments of debt	(396,477	) (15,507	) (129,900	) —	(541,884	)
Purchase of common stock	(114,634	) —	—	—	(114,634	)
Payments of deferred financing costs	(5,859	) —	—	—	(5,859	)
Dividends paid	(6,122	) —	—	—	(6,122	)
Repayment of governmental grant	—	(3,198	) —	—	(3,198	)
Repurchase of restricted shares for minimum tax obligation	(673	) —	—	—	(673	)
Proceeds from exercise of stock options, including excess tax benefit	388	—	—	—	388	
Intercompany financing and advances	302,853	(418,857	) 129,138	(13,134	) —	
Net cash provided by (used in) financing activities	97,083	(408,650	) 64,838	(13,134	) (259,863	)
	—	—	(250	) —	(250	)

Effect of exchange rate changes on cash					
Net change in cash and cash equivalents	(2,199	) 265	7,117	—	5,183
Cash and cash equivalents at beginning of period	2,820	1,149	25,029	—	28,998
Cash and cash equivalents at end of period	\$621	\$1,414	\$32,146	\$—	\$34,181

36

---

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

	Nine Months Ended December 31, 2013				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net income	\$51,965	\$107,158	\$4,829	\$—	\$163,952
Adjustments to reconcile net income to net cash provided by (used in) operating activities	23,340	(199,278	) 48,496	(3,166	) (130,608
Net cash provided by (used in) operating activities	75,305	(92,120	) 53,325	(3,166	) 33,344
Capital expenditures	(2,252	) (151,356	) (8,189	) —	(161,797
Reimbursed capital expenditures	—	9,086	—	—	9,086
Proceeds from sale of assets	—	11,758	15	—	11,773
Acquisitions, net of cash acquired	—	(6,505	) (87,951	) —	(94,456
Net cash used in investing activities	(2,252	) (137,017	) (96,125	) —	(235,394
Net increase in revolving credit facility	178,460	—	—	—	178,460
Proceeds on issuance of debt	375,000	27,145	33,700	—	435,845
Retirements and repayments of debt	(270,944	) (22,810	) (116,415	) —	(410,169
Payments of deferred financing costs	(3,287	) —	—	—	(3,287
Dividends paid	(6,246	) —	—	—	(6,246
Withholding of restricted shares for minimum tax obligation	(2,726	) —	—	—	(2,726
Proceeds from government grant	—	256	—	—	256
Proceeds from exercise of stock options, including excess tax benefit	329	—	—	—	329
Intercompany financing and advances	(343,932	) 223,519	117,247	3,166	—
Net cash (used in) provided by financing activities	(73,346	) 228,110	34,532	3,166	192,462
Effect of exchange rate changes on cash	—	—	2,966	—	2,966



Edgar Filing: TRIUMPH GROUP INC - Form 10-Q

Net change in cash and cash equivalents	(293	) (1,027	) (5,302	) —	(6,622	)
Cash and cash equivalents at beginning of period	3,110	1,537	27,390	—	32,037	
Cash and cash equivalents at end of period	\$2,817	\$510	\$22,088	\$—	\$25,415	

Table of Contents

Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

14. COMMITMENTS AND CONTINGENCIES

Trade Secret Litigation over Claims of Eaton Corporation

On July 9, 2004, Eaton Corporation and several of its subsidiaries ("Eaton") sued the Company, a subsidiary and certain employees of the Company and the subsidiary on claims alleging misappropriation of trade secrets and intellectual property allegedly belonging to Eaton relating to the design and manufacture of hydraulic pumps and motors used in military and commercial aviation. The subsidiary and the individual engineer defendants answered Eaton's claims and filed counterclaims. In the course of discovery in the suit, the court began an investigation of allegations of wrongdoing by Eaton in its conduct of the litigation. On December 22, 2010, the court dismissed all of Eaton's claims with prejudice based on the court's conclusion that a fraud had been perpetrated on the court by counsel for Eaton, of which Eaton was aware or should have been aware. Eaton appealed, but on November 21, 2013, the Supreme Court of Mississippi, in a unanimous en banc decision, affirmed the lower court's dismissal. Eaton moved for a rehearing of the Mississippi Supreme Court's affirmance but on March 20, 2014, the Supreme Court denied Eaton's motion for rehearing. Meanwhile, the Company, several subsidiaries, and the employees sued by Eaton pursued claims (including antitrust claims) and counterclaims against Eaton based on the Eaton misconduct that led to the dismissal of Eaton's claims.

On June 18, 2014, the Company announced it had settled all pending litigation involving the Company, its subsidiary the employees and Eaton. As part of the settlement, Eaton agreed to pay the Company \$135,300 in cash. During the nine months ended December 31, 2014, the Company received payment representing a gain on legal settlement, net of expense, of \$134,693, which is included on the accompanying Condensed Consolidated Statements of Income.

Other

In the ordinary course of business, the Company is also involved in disputes, claims, lawsuits, and governmental and regulatory inquiries that it deems to be immaterial. Some may involve claims or potential claims of substantial damages, fines or penalties. While the Company cannot predict the outcome of any pending or future litigation or proceeding and no assurances can be given, the Company does not believe that any pending matter will have a material effect, individually or in the aggregate, on its financial position or results of operations.

15. RELOCATION COSTS

During the fiscal year ended March 31, 2013, the Company committed to relocate the operations of its largest facility in Dallas, Texas and to expand its Red Oak, Texas ("Red Oak") facility to accommodate this relocation. The Company incurred approximately \$4,841 of expenses related to the relocation during the three months ended December 31, 2013, shown separately on the accompanying Condensed Consolidated Statements of Income. The Company incurred approximately \$3,193 and \$7,285 of expenses related to the relocation during the nine months ended December 31, 2014 and 2013, respectively, shown separately on the accompanying Condensed Consolidated Statements of Income. The relocation was substantially completed during the fiscal year ended March 31, 2014.

16. SUBSEQUENT EVENTS

In February 2015, the Company amended its Credit Facility with its lenders to amend certain terms and covenants.



Table of Contents

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

14. COMMITMENTS AND CONTINGENCIES (Continued)

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

(The following discussion should be read in conjunction with the Condensed 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 both build-to-print and proprietary 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 the related aftermarket; 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.

Effective December 30, 2014, a wholly-owned subsidiary of the Company, Triumph Aerostructures - Tulsa, LLC doing business as Triumph Aerostructures-Vought Aircraft Division-Tulsa, completed the acquisition of the Gulfstream G650 and G280 wing programs located in Tulsa, Oklahoma (the "Tulsa Programs") from Spirit AeroSystems, Inc. The acquisition of the Tulsa Programs establishes the Company as a leader in fully integrated wing design, engineering and production and advances its standing as a strategic Tier One Capable aerostructures supplier. The acquired business will operate as Triumph Aerostructures-Vought Aircraft Division-Tulsa and its results will be included in the Aerostructures Group from the date of acquisition.

Effective October 17, 2014, the Company acquired the ownership of all of the outstanding shares of North American Aircraft Services, Inc. and its affiliates ("NAAS"). The acquired business will operate as Triumph Aviation Services - NAAS Division and be included in the Aftermarket Services Group. NAAS is based in San Antonio, Texas, with fixed-based operator business units throughout the United States as well as international locations and delivers line maintenance and repair, fuel leak detection and fuel bladder cell repair services.

Effective June 27, 2014, the Company acquired the hydraulic actuation business of GE Aviation ("GE"). GE's hydraulic actuation business consists of three facilities located in Yakima, Washington, Cheltenham, England and the Isle of Man and is a technology leader in actuation systems. GE's key product offerings include complete landing gear actuation systems, door actuation, nose-wheel steerings, hydraulic fuses, manifolds flight control actuation and locking mechanisms for the commercial, military and business jet markets. The acquired business will operate as Triumph Actuation Systems-Yakima and Triumph Actuation Systems-UK & IOM and its results are included in Aerospace Systems Group from the date of acquisition.

On June 18, 2014, the Company announced it had settled all pending litigation involving the Company, its subsidiary, certain employees of the Company and its subsidiary and Eaton Corporation and several of its subsidiaries ("Eaton"). As part of the settlement, Eaton agreed to pay the Company \$135.3 million in cash. During the six months ended September 30, 2014, the Company received payment representing a gain on legal settlement, net of expense, of \$134.7 million, which is included on the Condensed Consolidated Statements of Income.

Highlights for the third quarter of the fiscal year ending March 31, 2015 included:

• Net sales for the third quarter of the fiscal year ending March 31, 2015 increased 0.2% over the prior year period to \$917.4 million.

Operating loss in the third quarter of fiscal 2015 was \$(61.3) million and included a provision for forward losses (\$152.0 million) compared to operating income of \$84.8 million for the third quarter of fiscal 2014.

Net loss for the third quarter of fiscal 2015 was \$(39.8) million compared to net income of \$35.4 million for the third quarter of fiscal 2014.

Backlog as of December 31, 2014 increased 0.9% year over year to \$4.80 billion and includes expected milestone payments on development contracts. Of our existing backlog of \$4.80 billion, we estimate that approximately \$1.76 billion will not be shipped by September 30, 2015.

Table Of Contents

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

Net loss for the third quarter of fiscal 2015 was \$(0.79) per common share, as compared to \$0.67 per diluted share in the prior year period.

We generated \$310.0 million of cash flow from operating activities for the nine months ended December 31, 2014, after \$56.0 million in pension contributions, as compared to cash provided by operations of \$33.3 million in the prior year period after \$45.8 million of pension contributions.

As of December 31, 2014, we have incurred approximately \$245.2 million in inventory costs associated with the Bombardier Global 7000/8000 and the Embraer second generation E-Jet programs, for which we have not yet begun to deliver. We expect to incur additional costs related to these programs as they continue to develop.

During the quarter ended December 31, 2014, we recognized a provision for forward losses associated with our long-term contract on the 747-8 program. These forward losses are largely due to changes in future estimated production rates, labor and overhead costs, pension income and expedited delivery charges.

In December 2014, our customer, The Boeing Company, announced a future production rate reduction for the 747-8 program from 1.5 shipsets per month to 1.3 shipsets per month. This production rate cut will result in additional future disruption and overhead cost absorption across our related production facilities.

While we have experienced improvements in labor performance metrics on our work associated with the 747-8 program in recent quarters, we have not recovered to the levels previously experienced or as quickly as expected, and no longer believe that we can recover to the level required to avoid future losses. Our increased labor assumptions will also result in increased overhead cost absorption to the 747-8 program.

In October 2014, the Society of Actuaries released updated mortality tables to reflect recent improvements in longevity. The mortality tables are a key assumption in the valuation of our defined benefit obligations and related net period pension benefit income. These new mortality tables will lower estimated future pension benefit income amounts, thereby negatively impacting our future cost estimates associated with the 747-8 program.

Although we have made significant improvements on the quality and timeliness of deliveries as compared to the prior year, we continue to incur charges related to expedited delivery and have included estimates for additional costs in the future.

While we have recognized a provision for forward losses during the quarter ended December 31, 2014, there is still risk similar to what we have experienced on the 747-8 program. Particularly, our ability to manage risks related to supplier performance, execution of cost reduction strategies, hiring and retaining skilled production and management personnel, quality and manufacturing execution, program schedule delays and many other risks, will determine the ultimate performance of these programs.

The next twelve months will be a critical time for these programs as we attempt to return to a baseline performance for the recurring cost structure. Recognition of additional forward-losses in the future periods continues to be a risk and will depend upon several factors, including our market forecast, possible airplane program delays, our ability to successfully perform under current design and manufacturing plans, achievement of forecasted cost reductions as we continue production and our ability to successfully resolve claims and assertions with our customers and suppliers. Since there has been lower-than-expected demand for large commercial passenger and freighter aircraft and there have been fewer 747-8 orders than our customer has anticipated, there is risk that the program does not get extended beyond our current contract. If we are unable to replace this work, with new or similar manufacture content, there is risk of additional costs associated with exiting the facilities where this program is manufactured, such as asset impairment, supplier and lease termination charges, as well as severance and retention payments to employees and contractors, which if not mitigated, could result in additional future charges of up to \$75.0 million. This estimate includes approximately \$25.0 million of non-cash exposures, but excludes any potential changes in pension benefit obligations.

As disclosed during fiscal 2014, we identified additional program costs during the quarter ended September 30, 2013 of approximately \$85.0 million, primarily related to the 747-8 program. At that time, both the current and future production lots were expected to be profitable and not result in loss reserves.

Our union contract with Local 848 of the United Auto Workers with employees at our Dallas and Grand Prairie, Texas, facilities expired in October 2013. The employees are currently working without a contract. If we are unable to negotiate a new contract with that workforce, our operations may be disrupted and we may be prevented from completing production and

40

---

Table Of Contents

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

delivery of products from those facilities, which would negatively impact our results. A contingency plan has been developed that would allow production to continue in the event of a strike.

As previously announced by Boeing in September 2013 and then subsequently revised in March 2014 to curtail production by an additional three months, the decision has been made to cease production of the C-17 during calendar year 2015. Major production related to this program is expected to cease by early fiscal 2016.

Effective October 4, 2013, the Company acquired all of the issued and outstanding shares of General Donlee Canada, Inc. ("General Donlee"). General Donlee is based in Toronto, Canada and is a leading manufacturer of precision machined products for the aerospace, nuclear and oil and gas industries. The acquired business now operates as Triumph Gear Systems-Toronto and its results are included in the Aerospace Systems Group from the date of acquisition.

Effective May 6, 2013, the Company acquired four related entities collectively comprising the Primus Composites business ("Primus") from Precision Castparts Corp. The acquired business, which includes two manufacturing facilities in Farnborough, England and Rayong, Thailand, operates as Triumph Structures - Farnborough and Triumph Structures - Thailand and is included in the Aerostructures segment from the date of acquisition. Together, Triumph Structures - Farnborough and Triumph Structures - Thailand constitute a global supplier of composite and metallic propulsion and structural composites and assemblies. In addition to its composite operations, the Thailand operation also machines and processes metal components. In November 2013, the operations in Farnborough lost its National Aerospace and Defense Contractors Accreditation Program ("NADCAP") certification. This loss in certification has resulted in unanticipated delays in production and deliveries, lower performance impact across the facility and has slowed our planned transition of work to a sister company in Thailand. These items have resulted in approximately \$13.9 million of charges related to current and forward losses, as well as inventory writedown during the three months ended December 31, 2014.

## 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 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 measure that we disclose is Adjusted EBITDA, which is our income from continuing operations before interest, income taxes, amortization of acquired contract liabilities, curtailments, settlements and early retirement incentives, legal settlements and depreciation and amortization. We disclose Adjusted EBITDA on a consolidated and a reportable 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 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 Adjusted 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 Adjusted 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. Adjusted 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 Adjusted 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 Adjusted 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 Adjusted EBITDA.

41

---

Table Of ContentsManagement's Discussion and Analysis of  
Financial Condition and Results of Operations

(continued)

Adjusted 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. Adjusted 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 Adjusted EBITDA helps investors meaningfully evaluate and compare our performance from quarter to quarter and from year to year. We also believe Adjusted EBITDA is a measure of our ongoing operating performance because the isolation of non-cash charges, such as depreciation and amortization, and non-operating 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 Adjusted 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 Adjusted EBITDA and the material limitations associated with using this non-GAAP financial measure as compared to income from continuing operations:

Legal settlements may be useful for investors to consider because it reflects gains or losses from disputes with third parties. We do not believe these earnings necessarily reflect the current and ongoing cash earnings related to our operations.

Curtailments, settlements and early retirement incentives may be useful for investors to consider because it represents the current period impact of the change in the defined benefit obligation due to the reduction in future service costs as well as the incremental cost of retirement incentive benefits paid to participants. We do not believe these earnings necessarily reflect the current and ongoing cash earnings related to our 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 off-market contracts acquired through acquisitions. 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.

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 Adjusted EBITDA reconciled to our net income for the indicated periods (in thousands):



Table Of ContentsManagement's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Net (loss) income	\$(39,832 )	\$35,393	\$155,858	\$163,952
Settlements	—	1,561	—	1,561
Gain on legal settlement, net of expenses	—	—	(134,693 )	—
Amortization of acquired contract liabilities, net	(15,501 )	(14,258 )	(39,332 )	(34,373 )
Depreciation and amortization	39,808	44,103	116,373	120,281
Interest expense and other	13,573	30,115	71,320	70,146
Income tax (benefit) expense	(35,007 )	19,271	66,778	84,998
Adjusted EBITDA	\$(36,959 )	\$116,185	\$236,304	\$406,565

The following tables show our Adjusted EBITDA by reportable segment reconciled to our operating income for the indicated periods (in thousands):

	Three Months Ended December 31, 2014				
	Total	Aerostructures	Aerospace Systems	Aftermarket Services	Corporate/ Eliminations
Operating (loss) income	\$(61,266 )	\$(102,461 )	\$41,863	\$12,490	\$(13,158 )
Amortization of acquired contract liabilities, net	(15,501 )	(4,411 )	(11,090 )	—	—
Depreciation and amortization	39,808	24,947	11,363	2,334	1,164
Adjusted EBITDA	\$(36,959 )	\$(81,925 )	\$42,136	\$14,824	\$(11,994 )
	Three Months Ended December 31, 2013				
	Total	Aerostructures	Aerospace Systems	Aftermarket Services	Corporate/ Eliminations
Operating income	\$84,779	\$53,973	\$32,504	\$9,297	\$(10,995 )
Settlements	1,561	—	—	—	1,561
Amortization of acquired contract liabilities, net	(14,258 )	(8,380 )	(5,878 )	—	—
Depreciation and amortization	44,103	30,207	10,823	1,862	1,211
Adjusted EBITDA	\$116,185	\$75,800	\$37,449	\$11,159	\$(8,223 )
	Nine Months Ended December 31, 2014				
	Total	Aerostructures	Aerospace Systems	Aftermarket Services	Corporate/ Eliminations
Operating income	\$293,956	\$40,634	\$125,430	\$34,614	\$93,278
Gain on legal settlement, net of expenses	(134,693 )	—	—	—	(134,693 )
Amortization of acquired contract liabilities, net	(39,332 )	(14,311 )	(25,021 )	—	—
Depreciation and amortization	116,373	74,692	32,027	6,137	3,517
Adjusted EBITDA	\$236,304	\$101,015	\$132,436	\$40,751	\$(37,898 )



Table Of ContentsManagement's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

	Nine Months Ended December 31, 2013				
	Total	Aerostructures	Aerospace Systems	Aftermarket Services	Corporate/ Eliminations
Operating income	\$319,096	\$218,784	\$106,887	\$30,678	\$(37,253 )
Settlements	1,561	—	—	—	1,561
Amortization of acquired contract liabilities, net	(34,373 )	(20,135 )	(14,238 )	—	—
Depreciation and amortization	120,281	83,002	27,911	5,603	3,765
Adjusted EBITDA	\$406,565	\$281,651	\$120,560	\$36,281	\$(31,927 )

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

Three months ended December 31, 2014 compared to three months ended December 31, 2013

	Three Months Ended December 31,	
	2014	2013
	(dollars in thousands)	
Net sales	\$917,417	\$915,816
Segment operating (loss) income	\$(48,108 )	\$95,774
Corporate expenses	(13,158 )	(10,995 )
Total operating (loss) income	(61,266 )	84,779
Interest expense and other	13,573	30,115
Income tax (benefit) expense	(35,007 )	19,271
Net (loss) income	\$(39,832 )	\$35,393

Net sales increased by \$1.6 million, or 0.2%, to \$917.4 million for the three months ended December 31, 2014 from \$915.8 million for the three months ended December 31, 2013. The acquisitions of GE and NAAS, net of the prior year divestitures, contributed \$61.3 million in net sales. Organic sales decreased \$59.7 million, or 6.5%, due to production rate reductions by our customers on the C-17, V-22 and Gulfstream programs. Net sales for the three months ended December 31, 2014 included \$17.8 million in total non-recurring revenues, as compared to \$46.4 million in non-recurring revenues for the three months ended December 31, 2013 (largely related to the 767/Tanker program). The prior year period was negatively impacted by our customers' decreased production rates on existing programs and decreased military sales.

Cost of sales increased to \$868.0 million for the three months ended December 31, 2014 from \$719.7 million for the three months ended December 31, 2013. Gross margin for the three months ended December 31, 2014 was 5.4%, as compared to 21.4% for the prior year period. The current year period was negatively impacted by a provision for forward losses of \$152.0 million on the 747-8 program and \$13.9 million in current and forward losses as a result of losing NADCAP certification at one of our facilities, as discussed above. The prior year was impacted by additional program costs on the 747-8 program and disruption and accelerated depreciation associated with the relocation from our Jefferson Street Facilities. Excluding these charges, the comparable gross margins would have been 23.6% and 23.0%, respectively.

Gross margin included net unfavorable cumulative catch-up adjustments on long-term contracts and a provision for forward losses as noted above (\$154.3 million). The cumulative catch-up adjustments to gross margin included gross favorable adjustments of \$5.3 million and gross unfavorable adjustments of \$159.6 million. The cumulative catch-up

adjustments for the three months ended December 31, 2014 were due primarily to labor cost growth, partially offset by other minor improvements. The gross margin for the three months ended December 31, 2013 included net unfavorable cumulative catch-up adjustments of \$21.3 million.

Segment operating income decreased by \$143.9 million to an operating loss of \$48.1 million for the three months ended December 31, 2014 from \$95.8 million for the three months ended December 31, 2013. The segment operating income

Table Of Contents

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

decreased as a result of the provision for forward losses and gross margin changes noted above and increased research and development costs (\$3.8 million), offset by decreased legal fees (\$1.1 million) and decreased costs related to the relocation from our Jefferson Street facilities (\$4.8 million).

Corporate expenses increased by \$2.2 million, or 19.7%, to \$13.2 million for the three months ended December 31, 2014 from \$11.0 million for the three months ended December 31, 2013. This increase is due to increased due diligence and acquisition-related expenses (\$3.8 million).

Interest expense and other decreased by \$16.5 million, or 54.9%, to \$13.6 million for the three months ended December 31, 2014 compared to \$30.1 million for the prior year period. Interest expense and other for the three months ended December 31, 2014 decreased due to recent refinancing efforts, which lowered the Company's overall interest rate, and the prior year period included the redemption of the Senior Subordinated Notes due 2017 (the "2017 Notes"), which included \$11.0 million of pre-tax losses associated with the 4% redemption premium, and the write-off of the remaining related unamortized discount and deferred financing fees.

The effective income tax rate for the three months ended December 31, 2014 was a benefit of (46.8)% compared to 35.3% for the three months ended December 31, 2013. For the three months ended December 31, 2014, the income tax benefit was increased to reflect the benefit of \$6.0 million from the retroactive reinstatement of the R&D tax credit to January 1, 2014. For the fiscal year ending March 31, 2015, the Company expects its effective tax rate to be approximately 31.9%, inclusive of discrete tax adjustments through December 31, 2014.

Business Segment Performance

We report our financial performance based on the following three reportable segments: the Aerostructures Group, the Aerospace Systems Group and the Aftermarket Services Group. The results of operations among our operating segments vary due to differences in competitors, customers, extent of proprietary deliverables and performance. For example, our Aerostructures segment generally includes long-term sole-source or preferred supplier contracts and the success of these programs provides a strong foundation for our business and positions us well for future growth on new programs and new derivatives. This compares to our Aerospace Systems segment which generally includes proprietary products and/or arrangements where we become the primary source or one of a few primary sources to our customers, where our unique manufacturing capabilities command a higher margin. Also, OEMs are increasingly focusing on assembly activities while outsourcing more manufacturing and repair to third parties, and as a result, are less of a competitive force than in previous years. In contrast, our Aftermarket Services segment provides MRO services on components and accessories manufactured by third parties, with more diverse competition, including airlines, OEMs and other third-party service providers. In addition, variability in the timing and extent of customer requests performed in the Aftermarket Services segment can provide for greater volatility and less predictability in revenue and earnings than that experienced in the Aerostructures and Aerospace Systems 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 both build-to-print and proprietary 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 a wide range of proprietary and build-to-print components 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 and the related aftermarket.

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

45

---

Table Of ContentsManagement's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

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.

We currently generate a majority of our revenue from clients in the commercial aerospace industry, the military, the business jet industry and the regional airline 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.

	Three Months Ended December 31,		
	2014	2013	
Aerostructures			
Commercial aerospace	39.6	% 43.2	%
Military	11.3	% 15.7	%
Business Jets	8.7	% 9.8	%
Regional	0.4	% 0.4	%
Non-aviation	0.8	% 0.4	%
Total Aerostructures net sales	60.8	% 69.5	%
Aerospace Systems			
Commercial aerospace	14.9	% 8.4	%
Military	11.4	% 11.3	%
Business Jets	1.1	% 1.0	%
Regional	1.1	% 1.0	%
Non-aviation	2.0	% 1.3	%
Total Aerospace Systems net sales	30.5	% 23.0	%
Aftermarket Services			
Commercial aerospace	6.6	% 6.1	%
Military	1.6	% 0.9	%
Regional	0.5	% 0.3	%
Non-aviation	—	% 0.2	%
Total Aftermarket Services net sales	8.7	% 7.5	%
Total Consolidated net sales	100.0	% 100.0	%

We continue to experience a higher proportion of our sales mix in the commercial aerospace end market. We recently have experienced a slight decrease in our military end market due to reductions in defense spending. Due to our continued expected growth in the commercial aerospace end market and the planned reductions in defense spending under the Budget Act, we expect the declining trend in the military end market to continue.

	Three Months Ended			% of Total		
	December 31,			Sales		
	2014	2013	% Change	2014	2013	
	(in thousands)					
<b>NET SALES</b>						
Aerostructures	\$559,465	\$637,202	(12.2 )%	60.9	% 69.5	%
Aerospace Systems	279,198	211,402	32.1	% 30.4	% 23.1	%
Aftermarket Services	80,690	69,556	16.0	% 8.8	% 7.5	%

Edgar Filing: TRIUMPH GROUP INC - Form 10-Q

Elimination of inter-segment sales	(1,936	) (2,344	) (17.4	)%	(0.1	)%	(0.1	)%
Total Net Sales	\$917,417	\$915,816	0.2	%	100.0	%	100.0	%

46

---

Table Of ContentsManagement's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

	Three Months Ended December 31,			% of Segment Sales			
	2014	2013	% Change	2014	2013		
	(in thousands)						
<b>SEGMENT OPERATING (LOSS) INCOME</b>							
Aerostructures	\$(102,461 )	\$53,973	(289.8 )%	(18.3 )%	8.5	%	
Aerospace Systems	41,863	32,504	28.8 %	15.0 %	15.4	%	
Aftermarket Services	12,490	9,297	34.3 %	15.5 %	13.4	%	
Corporate	(13,158 )	(10,995 )	(19.7 )%	n/a	n/a		
Total Operating (Loss) Income	\$(61,266 )	\$84,779	(172.3 )%	(6.7 )%	9.3	%	
	Three Months Ended December 31,			% of Segment Sales			
	2014	2013	% Change	2014	2013		
	(in thousands)						
<b>Adjusted EBITDA</b>							
Aerostructures	\$(81,925 )	\$75,800	(208.1 )%	(14.6 )%	11.9	%	
Aerospace Systems	42,136	37,449	12.5 %	15.1 %	17.7	%	
Aftermarket Services	14,824	11,159	32.8 %	18.4 %	16.0	%	
Corporate	(11,994 )	(8,223 )	(45.9 )%	n/a	n/a		
	\$(36,959 )	\$116,185	(131.8 )%	(4.0 )%	12.7	%	

Aerostructures: The Aerostructures segment net sales decreased by \$77.7 million, or 12.2%, to \$559.5 million for the three months ended December 31, 2014 from \$637.2 million for the three months ended December 31, 2013. Net sales decreased primarily due to production rate cuts by our customers on the C-17, V-22 and Gulfstream programs. Net sales for the three months ended December 31, 2014 included \$17.8 million in total non-recurring revenues, as compared to \$46.4 million in total non-recurring revenues for the three months ended December 31, 2013 (largely related to the 767/Tanker program).

Aerostructures segment cost of sales increased by \$87.1 million, or 16.5%, to \$615.5 million for the three months ended December 31, 2014 from \$528.4 million for the three months ended December 31, 2013. The increase in cost of sales resulted from a provision for forward losses of \$152.0 million on the 747-8 program and \$13.9 million in current and forward losses as a result of losing NADCAP certification at one of our facilities, as discussed above. Excluding the aforementioned forward losses, the cost of sales decreased due to the decrease in net sales noted above. The gross margin for the three months ended December 31, 2014 was 10.0% compared with 17.1% for the three months ended December 31, 2013. The prior year was impacted by additional program costs on the 747-8 program and disruption and accelerated depreciation associated with the relocation from our Jefferson Street Facilities. Excluding these charges, the comparable gross margin would have been 19.5% and 19.1%. The remaining change was due to decreased disruption and accelerated depreciation associated with the relocation from our Jefferson Street facilities (\$5.0 million) and improved pension and other postretirement benefit expenses (\$5.4 million).

Segment cost of sales for the three months ended December 31, 2014 included net unfavorable cumulative catch-up adjustments and a provision for forward losses as noted above (\$154.3 million). The cumulative catch-up adjustments to gross margin included gross favorable adjustments of \$5.3 million and gross unfavorable adjustments of \$159.6 million. The cumulative catch-up adjustments for the three months ended December 31, 2014 were due primarily to labor cost growth, partially offset by other minor improvements. Segment operating income for the three months ended December 31, 2013 included net unfavorable cumulative catch-up adjustments of \$21.3 million

Aerostructures segment operating income decreased from \$54.0 million for the three months ended December 31, 2013 to an operating loss of \$102.5 million for the three months ended December 31, 2014. Operating income for the three months ended December 31, 2014 was directly affected by the change to the gross margin as discussed above. These same factors contributed to the decrease in Adjusted EBITDA year over year.

47

---

Table Of ContentsManagement's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

Aerostructures segment operating income as a percentage of segment sales decreased to (18.3)% for the three months ended December 31, 2014 as compared to 8.5% for the three months ended December 31, 2013, due to the decrease in gross margin and other specific variances noted above.

**Aerospace Systems:** The Aerospace Systems segment net sales increased by \$67.8 million, or 32.1%, to \$279.2 million for the three months ended December 31, 2014 from \$211.4 million for the three months ended December 31, 2013. Organic sales increased \$4.1 million, or 1.9%, due to increased OEM sales and the acquisition of GE contributed \$63.7 million in net sales.

Aerospace Systems segment cost of sales increased by \$55.9 million, or 40.1%, to \$195.4 million for the three months ended December 31, 2014 from \$139.5 million for the three months ended December 31, 2013. Organic cost of sales increased \$4.7 million, or 3.4%, and the acquisition of GE contributed \$51.2 million in cost of sales. Organic gross margin for the three months ended December 31, 2014 was 33.1% compared with 34.0% for the three months ended December 31, 2013, due to increased OEM sales, which generate lower average margins.

Aerospace Systems segment operating income increased by \$9.4 million, or 28.8%, to \$41.9 million for the three months ended December 31, 2014 from \$32.5 million for the three months ended December 31, 2013. Operating income increased due to decreased legal fees (\$2.2 million) and the acquisition of GE contributed \$7.2 million. These same factors contributed to the increase in Adjusted EBITDA year over year.

Aerospace Systems segment operating income as a percentage of segment sales decreased to 15.0% for the three months ended December 31, 2014 as compared to 15.4% for the three months ended December 31, 2013, due to the decrease in the gross margin as noted above. Adjusted EBITDA margin decreased year-over-year due to increased amortization of acquired contracts (\$4.1 million) from the GE acquisition.

**Aftermarket Services:** The Aftermarket Services segment net sales increased by \$11.1 million, or 16.0%, to \$80.7 million for the three months ended December 31, 2014 from \$69.6 million for the three months ended December 31, 2013. Organic sales increased \$5.2 million, or 7.4% due to increased primarily due to increased customer demand and the acquisition of NAAS contributed \$5.9 million.

Aftermarket Services segment cost of sales increased by \$5.6 million, or 10.6%, to \$58.2 million for the three months ended December 31, 2014 from \$52.6 million for the three months ended December 31, 2013. Organic cost of sales increased \$2.0 million, or 3.7% and NAAS contributed \$3.6 million. The organic gross margin for the three months ended December 31, 2014 was 27.0% compared with 24.4% for the three months ended December 31, 2013 due to sales mix.

Aftermarket Services segment operating income increased by \$3.2 million, or 34.3%, to \$12.5 million for the three months ended December 31, 2014 from \$9.3 million for the three months ended December 31, 2013. Operating income increased primarily due to the increase in sales and gross margin as noted above. These same factors contributed to the increase in Adjusted EBITDA year over year.

Aftermarket Services segment operating income as a percentage of segment sales increased to 15.5% for the three months ended December 31, 2014, as compared to 13.4% for the three months ended December 31, 2013 due to increased sales and gross margin. These same factors contributed to the increased in Adjusted EBITDA margin year over year.

Nine months ended December 31, 2014 compared to nine months ended December 31, 2013

	Nine Months Ended December 31,	
	2014	2013
	(dollars in thousands)	
Net sales	\$2,808,444	\$2,826,844
Segment operating income	\$200,678	\$356,349

Edgar Filing: TRIUMPH GROUP INC - Form 10-Q

Corporate income (expenses)	93,278	(37,253	)
Total operating income	293,956	319,096	
Interest expense and other	71,320	70,146	
Income tax expense	66,778	84,998	
Net income	\$155,858	\$163,952	

48

---

Table Of ContentsManagement's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

Net sales decreased by \$18.4 million, or 0.7%, to \$2.81 billion for the nine months ended December 31, 2014 from \$2.83 billion for the nine months ended December 31, 2013. The fiscal 2015 and fiscal 2014 acquisitions, net of the prior year divestitures, contributed \$139.6 million in net sales. Organic sales decreased \$158.8 million, or 5.8%, due to production rate reductions by our customers on the 747-8, V-22, Gulfstream and C-17 programs. Net sales for the nine months ended December 31, 2014 included \$30.3 million in total non-recurring revenues, as compared to \$56.6 million in non-recurring revenues for the nine months ended December 31, 2013 (largely related to the 767/Tanker programs). The prior year period was negatively impacted by our customers' decreased production rates on existing programs and decreased military sales.

Cost of sales increased \$136.7 million, or 6.3%, to \$2.32 billion for the nine months ended December 31, 2014 from \$2.19 billion for the nine months ended December 31, 2013. This increase was due to a provision for forward losses of \$152.0 million on the 747-8 program and \$13.9 million in current and forward losses as a result of losing NADCAP certification at one of our facilities, as discussed above. Organic gross margin for the nine months ended December 31, 2014 was 18.1%, as compared to 23.0% for the prior year period. The prior year was impacted by additional program costs on the 747-8 program and disruption and accelerated depreciation associated with the relocation from our Jefferson Street Facilities. Excluding these charges, the comparable gross margin would have been 24.5% and 23.5%, respectively.

Gross margin included net unfavorable cumulative catch-up adjustments on long-term contracts and a provision for forward losses as noted above (\$158.2 million). The cumulative catch-up adjustments to gross margin included gross favorable adjustments of \$4.8 million and gross unfavorable adjustments of \$162.9 million. The cumulative catch-up adjustments for the nine months ended December 31, 2014 were due primarily to labor cost growth, partially offset by other minor improvements. As noted above, gross margin for the nine months ended December 31, 2013 included net unfavorable cumulative catch-up adjustments of \$37.0 million.

Segment operating income decreased by \$155.7 million, or 43.7%, to \$200.7 million for the nine months ended December 31, 2014 from \$356.3 million for the nine months ended December 31, 2013. The segment operating income decreased as a result of the provision for forward losses and gross margin changes noted above and increased research and development costs (\$3.8 million), offset by decreased legal fees (\$3.8 million), and decreased costs related to the relocation from our Jefferson Street facilities (\$4.1 million).

Corporate income (expenses) increased to \$93.3 million for the nine months ended December 31, 2014 from \$(37.3) million for the nine months ended December 31, 2013. This increase is due to the legal settlement between the Company and Eaton, a net gain of \$134.7 million, partially offset by increased due diligence and acquisition related expenses (\$4.7 million).

Interest expense and other increased by \$1.2 million, or 1.7%, to \$71.3 million for the nine months ended December 31, 2014 compared to \$70.1 million for the prior year period. Interest expense and other for the nine months ended December 31, 2014 increased due to the redemption of the 2018 Notes, which included \$22.7 million of pre-tax losses associated with the 4.79% redemption premium, and the write-off of the remaining related unamortized discount and deferred financing fees, offset by the prior year period included the redemption of the Senior Subordinated Notes due 2017 (the "2017 Notes"), which included \$11.0 million of pre-tax losses associated with the 4% redemption premium, and the write-off of the remaining related unamortized discount and deferred financing fees.

The effective income tax rate for the nine months ended December 31, 2014 was 30.0% compared to 34.1% for the nine months ended December 31, 2013. For the nine months ended December 31, 2014, the income tax provision was reduced to reflect the release of previously reserved for unrecognized tax benefits of \$1.1 million, the benefit of \$1.9



million from a decrease of the state deferred tax rate and the benefit of \$6.0 million from the retroactive reinstatement of the R&D tax credit to January 1, 2014. For the nine months ended December 31, 2013, the income tax provision was reduced to reflect the release of previously reserved for unrecognized tax benefits of \$0.7 million and additional research and development tax credit carryforward and NOL carryforward of \$2.3 million. For the fiscal year ending March 31, 2015, the Company expects its effective tax rate to be approximately 31.9%, inclusive of discrete tax adjustments through December 31, 2014.

Table Of ContentsManagement's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

Business Segment Performance - Nine months ended December 31, 2014 compared to nine months ended December 31, 2013

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.

	Nine Months Ended December 31,		
	2014	2013	
Aerostructures			
Commercial aerospace	40.6	% 42.8	%
Military	13.7	% 15.8	%
Business Jets	9.0	% 10.4	%
Regional	0.4	% 0.4	%
Non-aviation	0.4	% 0.6	%
Total Aerostructures net sales	64.1	% 70.0	%
Aerospace Systems			
Commercial aerospace	12.8	% 8.2	%
Military	11.0	% 11.1	%
Business Jets	1.4	% 1.0	%
Regional	1.1	% 1.0	%
Non-aviation	1.8	% 1.2	%
Total Aerospace Systems net sales	28.1	% 22.5	%
Aftermarket Services			
Commercial aerospace	6.3	% 6.4	%
Military	0.9	% 0.7	%
Regional	0.5	% 0.2	%
Non-aviation	0.1	% 0.2	%
Total Aftermarket Services net sales	7.8	% 7.5	%
Total Consolidated net sales	100.0	% 100.0	%

We continue to experience a higher proportion of our sales mix in the commercial aerospace end market. We recently have experienced a slight decrease in our military end market due to reductions in defense spending. Due to our continued expected growth in the commercial aerospace end market and the planned reductions in defense spending under the Budget Act, we expect the declining trend in the military end market to continue.

	Nine Months Ended			% of Total		
	December 31,		% Change	Sales		
2014	2013	2014		2013		
	(in thousands)					
NET SALES						
Aerostructures	\$1,803,400	\$1,979,839	(8.9 )%	64.2	% 70.0	%
Aerospace Systems	787,951	636,411	23.8	% 28.1	% 22.5	%
Aftermarket Services	222,641	216,880	2.7	% 7.9	% 7.7	%
Elimination of inter-segment sales	(5,548 )	(6,286 )	(11.7 )%	(0.2 )%	(0.2 )%	%
Total Net Sales	\$2,808,444	\$2,826,844	(0.7 )%	100.0	% 100.0	%



Table Of ContentsManagement's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

	Nine Months Ended December 31,			% of Segment Sales		
	2014	2013	% Change	2014	2013	
(in thousands)						
<b>SEGMENT OPERATING INCOME</b>						
Aerostructures	\$40,634	\$218,784	(81.4 )%	2.3	11.1	%
Aerospace Systems	125,430	106,887	17.3	15.9	16.8	%
Aftermarket Services	34,614	30,678	12.8	15.5	14.1	%
Corporate	93,278	(37,253 )	350.4	n/a	n/a	
Total Operating Income	\$293,956	\$319,096	(7.9 )%	10.5	11.3	%
(in thousands)						
<b>Adjusted EBITDA</b>						
Aerostructures	\$101,015	\$281,651	(64.1 )%	5.6	14.2	%
Aerospace Systems	132,436	120,560	9.9	16.8	18.9	%
Aftermarket Services	40,751	36,281	12.3	18.3	16.7	%
Corporate	(37,898 )	(31,927 )	(18.7 )%	n/a	n/a	
	\$236,304	\$406,565	(41.9 )%	8.4	14.4	%

Aerostructures: The Aerostructures segment net sales decreased by \$176.4 million, or 8.9%, to \$1.8 billion for the nine months ended December 31, 2014 from \$2.0 billion for the nine months ended December 31, 2013. Sales decreased primarily due to production rate cuts by our customers on the 747-8, V-22, Gulfstream and C-17 programs. Net sales for the nine months ended December 31, 2014 included \$30.3 million in total non-recurring revenues, as compared to \$56.6 million in total non-recurring revenues for the nine months ended December 31, 2013 (largely related to the 767/Tanker programs).

Aerostructures segment cost of sales increased by \$13.5 million, or 0.8%, to \$1.6 billion for the nine months ended December 31, 2014 from \$1.6 billion for the nine months ended December 31, 2013. The increase in cost of sales resulted from a provision for forward losses of \$152.0 million on the 747-8 program and \$13.9 million in current and forward losses as a result of losing NADCAP certification at one of our facilities, as discussed above. Excluding the aforementioned forward losses, the cost of sales decreased due to the decrease in net sales noted above. Organic gross margin for the nine months ended December 31, 2014 was 11.1% compared with 19.1% for the nine months ended December 31, 2013. The prior year was impacted by additional program costs on the 747-8 program and disruption and accelerated depreciation associated with the relocation from our Jefferson Street Facilities. Excluding these charges, the comparable gross margin would have been 20.6% and 19.7%, respectively.

Segment cost of sales for the nine months ended December 31, 2014 included net unfavorable cumulative catch-up adjustments and a provision for forward losses of \$158.2 million. The gross margin percent decreased during the nine months ended December 31, 2014 as the result of net unfavorable cumulative catch-up adjustments with gross favorable adjustments of \$4.8 million and gross unfavorable adjustments of \$162.9 million. The cumulative catch-up adjustments for the nine months ended December 31, 2014 were due primarily to labor cost growths, partially offset by other minor improvements. Segment operating income for the nine months ended December 31, 2013 included net unfavorable cumulative catch-up adjustments of \$37.0 million as noted above.

Aerostructures segment operating income decreased by \$178.2 million, or 81.4%, to \$40.6 million for the nine months ended December 31, 2014 from \$218.8 million for the nine months ended December 31, 2013. Operating income for

the nine months ended December 31, 2014 was directly affected by the decreased sales and the change to the gross margin as discussed above. These same factors contributed to the decrease in Adjusted EBITDA year over year. Aerostructures segment operating income as a percentage of segment sales decreased to 2.3% for the nine months ended December 31, 2014 as compared to 11.1% for the nine months ended December 31, 2013, due to the decrease in sales and gross margin noted above.

Table Of Contents

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

**Aerospace Systems:** The Aerospace Systems segment net sales increased by \$151.5 million, or 23.8%, to \$788.0 million for the nine months ended December 31, 2014 from \$636.4 million for the nine months ended December 31, 2013. Organic sales decreased \$1.1 million, or 0.2%. The acquisitions of GE and General Donlee contributed \$152.6 million in net sales.

Aerospace Systems segment cost of sales increased by \$123.0 million, or 29.3%, to \$542.3 million for the nine months ended December 31, 2014 from \$419.2 million for the nine months ended December 31, 2013. Organic cost of sales decreased \$2.1 million, or 0.5%, and the acquisitions of GE and General Donlee contributed \$125.1 million in cost of sales. Organic gross margin for the nine months ended December 31, 2014 was 34.5% compared with 34.3% for the nine months ended December 31, 2013.

Aerospace Systems segment operating income increased by \$18.5 million, or 17.3%, to \$125.4 million for the nine months ended December 31, 2014 from \$106.9 million for the nine months ended December 31, 2013. Operating income increased primarily due to the acquisitions of GE and General Donlee (\$13.4 million) and improved organic gross margin. These same factors contributed to the increase in Adjusted EBITDA year over year.

Aerospace Systems segment operating income as a percentage of segment sales decreased to 15.9% for the nine months ended December 31, 2014 as compared to 16.8% for the nine months ended December 31, 2013, due to the effects of the acquisitions of GE and General Donlee. These same factors contributed to the decrease in Adjusted EBITDA margin year over year.

**Aftermarket Services:** The Aftermarket Services segment net sales increased by \$5.8 million, or 2.7%, to \$222.6 million for the nine months ended December 31, 2014 from \$216.9 million for the nine months ended December 31, 2013. Organic sales increased \$0.2 million, or 0.1%, and the acquisition of NAAS contributed \$6.0 million.

Aftermarket Services segment cost of sales were consistent, \$162.3 million, for the nine months ended December 31, 2014 and 2013, respectively. While the organic cost of sales decreased \$3.6 million, or 4.0%, the acquisition of NAAS contributed \$3.6 million. Organic gross margin for the nine months ended December 31, 2014 was 26.8% compared with 25.2% for the nine months ended December 31, 2013.

Aftermarket Services segment operating income increased by \$3.9 million, or 12.8%, to \$34.6 million for the nine months ended December 31, 2014 from \$30.7 million for the nine months ended December 31, 2013. Organic operating income increased \$1.5 million, or 4.3%, and the acquisition of NAAS contributed \$2.4 million. Operating income increased due to the improved gross margin. These same factors contributed to the increase in Adjusted EBITDA year over year.

Aftermarket Services segment operating income as a percentage of segment sales increased to 15.5% for the nine months ended December 31, 2014, as compared to 14.1% for the nine months ended December 31, 2013, due to the improved gross margin noted above.

**Liquidity and Capital Resources**

Our working capital needs are generally funded through cash flows from operations and borrowings under our credit arrangements. During the nine months ended December 31, 2014, we generated approximately \$310.0 million of cash flows from operating activities, used approximately \$44.7 million in investing activities and used approximately \$259.9 million in financing activities.

For the nine months ended December 31, 2014, we had a net cash inflow of \$310.0 million from operating activities, an increase of \$276.7 million, compared to a net cash inflow of \$33.3 million from the nine months ended December 31, 2013. During the nine months ended December 31, 2014, net cash provided by operating activities was primarily due to the cash received from legal settlement (\$134.7 million) and an income tax refund (\$26.0 million), offset by increased payments on pension and other postretirement benefits, and timing of payments on accounts payable and other accrued expenses.

We continue to invest in inventory for new programs which impacts our cash flows from operating activities. During the nine months ended December 31, 2014, inventory build for capitalized pre-production costs on new programs excluding progress payments, including the Bombardier Global 7000/8000 program and the Embraer E-Jet, were \$88.8 million and \$29.1 million, respectively. Offsetting this inventory build was a provision for forward losses on our long-term contract on the 747-8 program of \$152.0 million. Unliquidated progress payments netted against inventory increased \$9.8 million, due to timing of receipts.

Cash flows used in investing activities for the nine months ended December 31, 2014 decreased \$190.7 million from the nine months ended December 31, 2013. Cash flows used in investing activities for the nine months ended December 31, 2014, included the cash received from the acquisition of Spirit-Tulsa (\$160.0 million) and offset by the acquisitions of GE (\$60.9

Table Of ContentsManagement's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

million) and NAAS (\$43.9 million). The nine months ended December 31, 2013 included the acquisitions of General Donlee (\$56.6 million) and Primus (\$31.3 million) and \$63.5 million in capital expenditures associated with our new facilities in Red Oak, Texas.

Cash flows used in financing activities for the nine months ended December 31, 2014 were \$260.0 million, compared to cash flows provided by financing activities for the nine months ended December 31, 2013 of \$192.5 million. Cash flows used in financing activities for the nine months ended December 31, 2014 included the redemption of the 2018 Notes, settlement of the Convertible Senior Subordinated Notes ("Convertible Notes") redemptions and the purchase of our common stock (\$114.6 million), offset by the issuance of the 2022 Notes.

As of December 31, 2014, \$752.5 million was available under our revolving credit facility (the "Credit Facility"). On December 31, 2014, an aggregate amount of approximately \$212.0 million was outstanding under the Credit Facility, all of which was accruing interest at LIBOR plus applicable basis points totaling 2.0% per annum. Amounts repaid under the Credit Facility may be reborrowed.

In November 2014, the Company amended its \$225,000 Securitization Facility, increasing the purchase limit from \$175,000 to \$225,000 and extending the term through November 2017.

In May 2014, the Company amended its existing Credit Facility with its lenders to (i) to increase the maximum amount allowed for the receivable securitization facility (the "Securitization Facility") and (ii) amend certain other terms and covenants.

In November 2013, the Company amended the Credit Facility with its lenders to (i) provide for a \$360.9 million Term Loan with a maturity date of May 14, 2019, (ii) maintain a Revolving Line of Credit under the Credit Facility to \$1.0 billion, with a \$250.0 million accordion feature, (iii) extend the maturity date of November 19, 2018 and (iv) amend certain other terms and covenants.

At December 31, 2014, there was \$98.1 million outstanding under our 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 2014, the Company issued the Senior Notes due 2022 (the "2022 Notes") for \$300.0 million in principal amount. The 2022 Notes were sold at 100% of principal amount and have an effective yield of 5.25%. Interest on the 2022 Notes is payable semiannually in cash in arrears on June 1 and December 1 of each year. We used the net proceeds to redeem the 2018 Notes and pay related fees and expenses. In connection with the issuance of the 2022 Notes, the Company incurred approximately \$5.0 million of costs, which were deferred and are being amortized on the effective interest method over the term of the notes.

In February 2013, the Company issued the Senior Notes due 2021 (the "2021 Notes") for \$375.0 million in principal amount. The 2021 Notes were sold at 100% of principal amount and have an effective yield of 4.875%. Interest on the 2021 Notes is payable semiannually in cash in arrears on April 1 and October 1 of each year. We used the net proceeds to repay borrowings under our Credit Facility and pay related fees and expenses, and for general corporate purposes. In connection with the issuance of the 2021 Notes, the Company incurred approximately \$6.3 million of costs, which were deferred and are being amortized on the effective interest method over the term of the notes.

In June 2010, the Company issued the Senior Notes due 2018 (the "2018 Notes") for \$350.0 million in principal amount. The 2018 Notes were sold at 99.27% of principal amount for net proceeds of \$347.5 million, and had an effective interest yield of 8.75%. Interest on the 2018 Notes was payable semiannually 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 \$7.3 million of costs, which were deferred and amortized on the effective interest method over the term of the notes.

On June 23, 2014, the Company completed the redemption of the 2018 Notes. The principal amount of \$350.0 million was redeemed at a price of 104.79% plus accrued and unpaid interest. As a result of the redemption, we recognized a pre-tax loss in the first quarter of fiscal 2015 of \$22.6 million, consisting of early termination premium, unamortized discount and deferred financing fees.



In November 2009, the Company issued the Senior Subordinated Notes due 2017 (the "2017 Notes") for \$175.0 million in principal amount. The 2017 Notes were sold at 98.56% of principal amount for net proceeds of \$172.5 million, and had an

53

---

Table Of ContentsManagement's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

effective interest yield of 8.25%. Interest on the 2017 Notes was payable semiannually in cash in arrears on May 15 and November 15 of each year. We used the net proceeds for general corporate purposes, which included 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 amortized on the effective interest method over the term of the notes. On November 15, 2013, the Company completed the redemption of the 2017 Notes. The principal amount of \$175.0 million was redeemed at a price of 104% plus accrued and unpaid interest. As a result of the redemption, we recognized a pre-tax loss in the third quarter of fiscal 2014 of \$11.1 million, consisting of early termination premium, unamortized discount and deferred financing fees.

In September 2006, the Company issued the Convertible Notes. The Convertible Notes were 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. The Convertible Notes would have matured on October 1, 2026, unless earlier redeemed, repurchased or converted. The Company was able to redeem the Convertible 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 Convertible 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. The Convertible Notes were eligible for conversion upon meeting certain conditions as provided in the indenture governing the Convertible Notes. For the periods from January 1, 2011 through June 23, 2014, the Convertible Notes were eligible for conversion. During the nine months ended December 31, 2014, the Company settled the conversion of \$12.8 million in principal value of the Convertible Notes, with the principal and the conversion benefit settled in cash. During the nine months ended December 31, 2013, the Company settled the conversion of \$95.7 million in principal value of the Convertible Notes, as requested by the respective holders, with the principal settled in cash and the conversion benefit settled through the issuance of 2,272,019 shares.

On May 22, 2014, the Company announced the redemption of the Convertible Notes. The redemption price for the Convertible Notes was equal to the sum of 100% of the principal amount of the Convertible Notes outstanding, plus accrued and unpaid interest on the Convertible Notes up to, but not including, the redemption date of June 23, 2014. The Convertible Notes were able to be converted at the option of the holder.

Capital expenditures were approximately \$85.2 million for the nine months ended December 31, 2014. We funded these expenditures through cash generated from operations and borrowings under the Credit Facility. We expect capital expenditures and investments in new major programs of approximately \$240.0 million to \$260.0 million for our fiscal year ending March 31, 2015, of which \$125.0 million will be reflected in inventory. 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	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt principal (1)	\$1,442,680	\$40,877	\$391,045	\$315,358	\$695,400
Debt interest (2)	361,754	68,735	137,545	128,212	27,262
Operating leases	151,140	25,811	44,722	30,945	49,662
Contingent payments	1,000	—	1,000	—	—
Purchase obligations	3,105,848	2,526,196	502,523	76,647	482
Total	\$5,062,422	\$2,661,619	\$1,076,835	\$551,162	\$772,806

(1) Included in the Company's balance sheet at December 31, 2014.

(2) Includes fixed-rate interest only.

The above table excludes unrecognized tax benefits of \$8.4 million as of December 31, 2014 since we cannot predict with reasonable certainty the timing of cash settlements with the respective taxing authorities.

The table also excludes our defined pension benefit and other post retirement obligations. We made contributions to our defined benefit pension plans of \$46.3 million and \$109.8 million in fiscal 2014 and 2013, respectively. We expect to make

54

---

Table Of Contents

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

total pension and postretirement plan contributions of \$114.8 million to our benefit plans during fiscal 2015. For the nine months ended December 31, 2014, the Company made pension contributions of \$56.0 million versus \$45.8 million for the nine months ended December 31, 2013. For the fiscal year ending March 31, 2015, the Company is not required to make minimum contributions to its U.S. defined benefit pension plans under the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006. 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, while opportunistically buying back shares to return capital to our shareholders. 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.

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 condensed consolidated financial statements that appear in the Annual Report on Form 10-K for the fiscal year ended March 31, 2014. 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2014 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2014, filed with the SEC in May 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For information regarding our exposure to certain market risks, see “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended March 31, 2014. There has been no

material change in this information during the period covered by this report.

55

---

Table Of Contents

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

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 reports pursuant to the Securities Exchange Act of 1934, as amended, 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 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, 2014, 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, 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, 2014.

(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 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The table below summarizes repurchases of common stock made pursuant to the Company's share repurchase plan during the three months ended December 31, 2014.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans	Maximum number of shares that may yet be purchased under the plans
October 1 - 31, 2014	—	\$—	—	3,814,060
November 1 - 30, 2014	—	\$—	—	3,814,060
December 1 - 31, 2014	336,271	\$64.28	2,522,211	3,477,789
Total	336,271	\$64.28	2,522,211	3,477,789

## Item 6. Exhibits.

Exhibit 10.1	Third Amendment to Third Amended and Restated Credit Agreement.
Exhibit 31.1	Certification by President and Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).
Exhibit 31.2	Certification by Senior Vice President and Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).
Exhibit 32.1	Certification of Periodic Report by President and Chief Executive Officer 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 Senior Vice President and Chief Financial Officer Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 Sarbanes-Oxley Act of 2002.
Exhibit 101	The following financial information from Triumph Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2014 formatted in XBRL: (i) Condensed Consolidated Balance Sheets as of December 31, 2014 and March 31, 2014; (ii) Condensed Consolidated Statements of Income for the three months and nine months ended December 31, 2014 and 2013; (iii) Condensed Consolidated Statements of Comprehensive Income for the three months and nine months ended December 31, 2014 and 2013; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2014 and 2013; and (1) Notes to Condensed Consolidated Financial Statements.

Table Of Contents

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
(continued)

TRIUMPH GROUP, INC.

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/ Jeffrey D. Frisby  
Jeffrey D. Frisby, President & CEO  
(Principal Executive Officer) February 6, 2015

/s/ Jeffrey L. McRae  
Jeffrey L. McRae, Senior Vice President & CFO  
(Principal Financial Officer) February 6, 2015

/s/ Thomas A. Quigley, III  
Thomas A. Quigley, III, Vice President and Controller  
(Principal Accounting Officer) February 6, 2015



EXHIBIT INDEX

Exhibit Number	Description
10.1	Third Amendment to Third Amended and Restated Credit Agreement.
31.1	Certification by President and Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).
31.2	Certification by Senior Vice President and Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).
32.1	Certification of Periodic Report by President and Chief Executive Officer Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 Sarbanes-Oxley Act of 2002.
32.2	Certification of Periodic Report by Senior Vice President and Chief Financial Officer Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 Sarbanes-Oxley Act of 2002.
101	The following financial information from Triumph Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2014 formatted in XBRL: (i) Condensed Consolidated Balance Sheets as of December 31, 2014 and March 31, 2014; (ii) Condensed Consolidated Statements of Income for the three months and nine months ended December 31, 2014 and 2013; (iii) Condensed Consolidated Statements of Comprehensive Income for the three months and nine months ended December 31, 2014 and 2013; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2014 and 2013; and (v) Notes to Condensed Consolidated Financial Statements.