

TransDigm Group INC
Form 10-Q
May 08, 2013
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended March 30, 2013.

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

Commission File Number 001-32833

TransDigm Group Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

41-2101738

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

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

(216) 706-2960

44114
(Zip Code)

(Registrant's telephone number, including area code)

Edgar Filing: TransDigm Group INC - Form 10-Q

(Former name, former address and former fiscal year, if changed since last report.)

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

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

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

LARGE ACCELERATED FILER ACCELERATED FILER

NON-ACCELERATED FILER SMALLER REPORTING COMPANY

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

The number of shares outstanding of TransDigm Group Incorporated's common stock, par value \$.01 per share, was 52,399,132 as of April 27, 2013.

Table of Contents

INDEX

	Page	
Part I	FINANCIAL INFORMATION	
Item 1	Financial Statements	
	<u>Condensed Consolidated Balance Sheets – March 30, 2013 and September 30, 2012</u>	1
	<u>Condensed Consolidated Statements of Income – Thirteen and Twenty-Six Week Periods Ended March 30, 2013 and March 31, 2012</u>	2
	<u>Condensed Consolidated Statements of Comprehensive Income – Thirteen and Twenty-Six Week Periods Ended March 30, 2013 and March 31, 2012</u>	3
	<u>Condensed Consolidated Statement of Changes in Stockholders’ Equity – Twenty-Six Week Period Ended March 30, 2013</u>	4
	<u>Condensed Consolidated Statements of Cash Flows – Twenty-Six Week Periods Ended March 30, 2013 and March 31, 2012</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	35
Item 4	<u>Controls and Procedures</u>	36
Part II	OTHER INFORMATION	
Item 1A	<u>Risk Factors</u>	36
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
Item 6	<u>Exhibits</u>	37
	<u>SIGNATURES</u>	38

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands, except share amounts)

(Unaudited)

	March 30, 2013	September 30, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 680,024	\$ 440,524
Trade accounts receivable - Net	243,072	235,783
Inventories - Net	340,175	320,503
Deferred income taxes	23,632	29,134
Prepaid expenses and other	40,755	24,587
Total current assets	1,327,658	1,050,531
PROPERTY, PLANT AND EQUIPMENT - Net	175,442	172,737
GOODWILL	3,040,180	3,035,502
TRADEMARKS AND TRADE NAMES	461,477	467,614
OTHER INTANGIBLE ASSETS - Net	634,032	655,996
DEBT ISSUE COSTS - Net	44,975	62,190
OTHER	10,328	15,047
TOTAL ASSETS	\$ 5,694,092	\$ 5,459,617
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 22,000	\$ 20,500
Accounts payable	73,696	74,178
Accrued liabilities	163,565	139,237
Total current liabilities	259,261	233,915
LONG-TERM DEBT	4,322,500	3,598,625
DEFERRED INCOME TAXES	361,288	356,896
OTHER NON-CURRENT LIABILITIES	65,674	51,347
Total liabilities	5,008,723	4,240,783
STOCKHOLDERS EQUITY:		
Common stock - \$.01 par value; authorized 224,400,000 shares; issued 52,901,288 and 52,157,225 at March 30, 2013 and September 30, 2012, respectively	529	521
Additional paid-in capital	620,485	553,223
Retained earnings	95,981	689,229
Accumulated other comprehensive loss	(15,538)	(8,051)
Treasury stock, at cost; 505,400 shares at March 30, 2013 and September 30, 2012, respectively	(16,088)	(16,088)
Total stockholders equity	685,369	1,218,834

Edgar Filing: TransDigm Group INC - Form 10-Q

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 5,694,092	\$ 5,459,617
---	--------------	--------------

See notes to condensed consolidated financial statements.

-1-

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****FOR THE THIRTEEN AND TWENTY-SIX WEEK PERIODS ENDED****MARCH 30, 2013 AND MARCH 31, 2012**

(Amounts in thousands, except per share amounts)

(Unaudited)

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
NET SALES	\$ 465,609	\$ 423,469	\$ 896,027	\$ 775,942
COST OF SALES	206,299	187,429	398,170	340,347
GROSS PROFIT	259,310	236,040	497,857	435,595
SELLING AND ADMINISTRATIVE EXPENSES	55,463	49,474	110,624	91,324
AMORTIZATION OF INTANGIBLE ASSETS	9,735	9,339	20,275	21,778
INCOME FROM OPERATIONS	194,112	177,227	366,958	322,493
INTEREST EXPENSE - Net	64,094	52,300	126,970	101,361
REFINANCING COSTS	30,281		30,281	
INCOME BEFORE INCOME TAXES	99,737	124,927	209,707	221,132
INCOME TAX PROVISION	31,800	43,375	67,600	74,475
NET INCOME	\$ 67,937	\$ 81,552	\$ 142,107	\$ 146,657
NET INCOME APPLICABLE TO COMMON STOCK	\$ 67,937	\$ 81,552	\$ 103,977	\$ 143,358
Net earnings per share - see Note 5:				
Basic and diluted	\$ 1.25	\$ 1.51	\$ 1.91	\$ 2.66
Cash dividends paid per common share	\$	\$	\$ 12.85	\$
Weighted-average shares outstanding:				
Basic and diluted	54,453	53,882	54,453	53,882

See notes to condensed consolidated financial statements.

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****FOR THE THIRTEEN AND TWENTY-SIX WEEK PERIODS ENDED****MARCH 30, 2013 AND MARCH 31, 2012****(Amounts in thousands)****(Unaudited)**

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Net income	\$ 67,937	\$ 81,552	\$ 142,107	\$ 146,657
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(8,995)	2,944	(6,943)	(697)
Interest rate swap agreements, net of tax	(330)	(600)	(330)	(1,300)
Other			(214)	
Other comprehensive income (loss), net of tax	(9,325)	2,344	(7,487)	(1,997)
TOTAL COMPREHENSIVE INCOME	\$ 58,612	\$ 83,896	\$ 134,620	\$ 144,660

See notes to condensed consolidated financial statements.

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****FOR THE TWENTY-SIX WEEK PERIOD ENDED MARCH 30, 2013**

(Amounts in thousands, except share amounts)

(Unaudited)

	Common Stock		Additional	Retained Earnings	Accumulated Other	Treasury Stock		Total
	Number of Shares	Par Value	Paid-In Capital		Comprehensive Loss	Number of Shares	Value	
BALANCE, OCTOBER 1, 2012	52,157,225	\$ 521	\$ 553,223	\$ 689,229	\$ (8,051)	(505,400)	\$ (16,088)	\$ 1,218,834
Dividends paid				(699,715)				(699,715)
Unvested dividend equivalent payments				(35,640)				(35,640)
Compensation expense recognized for employee stock options			14,262					14,262
Excess tax benefits related to share-based payment arrangements			40,044					40,044
Exercise of employee stock options	743,766	8	12,911					12,919
Common stock issued	297		45					45
Net income				142,107				142,107
Interest rate swaps, net of tax					(330)			(330)
Foreign currency translation adjustments					(6,943)			(6,943)
Other					(214)			(214)
BALANCE, MARCH 30, 2013	52,901,288	\$ 529	\$ 620,485	\$ 95,981	\$ (15,538)	(505,400)	\$ (16,088)	\$ 685,369

See notes to condensed consolidated financial statement

Table of Contents**TRANSDIGM GROUP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

(Unaudited)

	Twenty-Six Week Periods Ended	
	March 30, 2013	March 31, 2012
OPERATING ACTIVITIES:		
Net income	\$ 142,107	\$ 146,657
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,407	11,154
Amortization of intangible assets	20,366	21,875
Amortization of debt issue costs	6,966	5,741
Refinancing costs	30,281	
Non-cash equity compensation	14,262	8,535
Excess tax benefits related to share-based payment arrangements	(40,044)	(24,231)
Deferred income taxes	5,482	(3,470)
Changes in assets/liabilities, net of effects from acquisitions of businesses:		
Trade accounts receivable	(6,344)	(9,193)
Inventories	(18,226)	(772)
Income taxes receivable/payable	25,183	4,482
Other assets	2,776	1,889
Accounts payable	(1,825)	(4,092)
Accrued and other liabilities	2,898	6,387
 Net cash provided by operating activities	 197,289	 164,962
INVESTING ACTIVITIES:		
Capital expenditures	(16,316)	(9,109)
Acquisition of businesses, net of cash acquired	(8,501)	(833,512)
Cash proceeds from sale of investment	10,500	
Cash proceeds from working capital settlement	134	
 Net cash used in investing activities	 (14,183)	 (842,621)
FINANCING ACTIVITIES:		
Excess tax benefits related to share-based payment arrangements	40,044	24,231
Proceeds from exercise of stock options	12,919	7,316
Dividends paid	(702,406)	(3,299)
Treasury stock purchased		(846)
Proceeds from 2013 credit facility - net	2,191,127	
Repayment on 2013 credit facility	(5,500)	
Proceeds from 2011 credit facility - net	147,360	484,713
Repayment on 2011 credit facility	(2,169,125)	(9,000)
Proceeds from senior subordinated notes due 2020 - net	542,000	
 Net cash provided by financing activities	 56,419	 503,115
 EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	 (25)	 (158)

Edgar Filing: TransDigm Group INC - Form 10-Q

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	239,500	(174,702)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	440,524	376,183
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 680,024	\$ 201,481

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for interest	\$ 108,390	\$ 93,884
Cash paid during the period for income taxes	\$ 37,124	\$ 57,780

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TWENTY-SIX WEEK PERIODS ENDED MARCH 30, 2013 AND MARCH 31, 2012

(UNAUDITED)

1. DESCRIPTION OF THE BUSINESS

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

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

Separate Financial Statements Separate financial statements of TransDigm Inc. are not presented because TransDigm Inc.'s $\frac{3}{4}$ % senior subordinated notes and $5\frac{1}{2}$ % senior subordinated notes are fully and unconditionally guaranteed on a senior subordinated basis by TD Group and all existing 100% owned domestic subsidiaries of TransDigm Inc. and because TD Group has no significant operations or assets separate from its investment in TransDigm Inc.

2. UNAUDITED INTERIM FINANCIAL INFORMATION

The financial information included herein is unaudited; however, the information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the Company's financial position and results of operations and cash flows for the interim periods presented. These financial statements and notes should be read in conjunction with the financial statements and related notes for the year ended September 30, 2012 included in TD Group's Form 10-K dated November 16, 2012. As disclosed therein, the Company's annual consolidated financial statements were prepared in conformity with generally accepted accounting principles in the United States ("GAAP"). The September 30, 2012 condensed consolidated balance sheet was derived from TD Group's audited financial statements. The results of operations for the twenty-six week period ended March 30, 2013 are not necessarily indicative of the results to be expected for the full year.

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

3. ACQUISITIONS

Aero-Instruments Co., LLC On September 17, 2012, TransDigm Inc. acquired all of the outstanding equity interests in Aero-Instruments Co., LLC ("Aero-Instruments"), for approximately \$34.6 million in cash, which includes a purchase price adjustment of \$0.1 million received in the first quarter of fiscal 2013. Aero-Instruments designs and manufactures highly engineered air data sensors including pitot probes, pitot-static probes, static pressure ports, angle of attack, temperature sensors and flight test equipment for use primarily in the business jet and helicopter markets. These products fit well with TransDigm's overall business direction. The Company expects that the approximately \$22 million of goodwill recognized for the acquisition will be deductible for tax purposes.

Table of Contents

AmSafe Global Holdings, Inc. On February 15, 2012, TransDigm Inc. acquired all of the outstanding stock of AmSafe Global Holdings, Inc. (AmSafe), for approximately \$749.7 million in cash, which includes a purchase price adjustment of \$0.5 million paid in the third quarter of fiscal 2012. AmSafe is a leading supplier of innovative, highly engineered and proprietary safety and restraint equipment used primarily in the global aerospace industry. These products fit well with TransDigm's overall business direction. The distribution business acquired as part of AmSafe was sold on August 16, 2012 for approximately \$17.8 million in cash, which includes a working capital adjustment of \$0.1 million received in the first quarter of fiscal 2013. The equity investment in C-Safe LLC acquired as part of AmSafe was sold in October 2012 for approximately \$16.4 million, which consisted of \$5.0 million in cash at closing and an \$11.4 million short-term note receivable, of which \$5.5 million was collected in the second quarter of fiscal 2013.

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

Assets acquired:	
Current assets, excluding cash acquired	\$ 122,694
Property, plant and equipment	20,787
Intangible assets	270,500
Goodwill	396,823
Other	15,614
Total assets acquired	\$ 826,418
Liabilities assumed:	
Current liabilities	\$ 24,979
Deferred income taxes - long term	48,626
Other noncurrent liabilities	3,082
Total liabilities assumed	\$ 76,687
Net assets acquired	\$ 749,731

The Company expects that of the \$397 million of goodwill recognized for the acquisition approximately \$77 million will be deductible for tax purposes.

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

The Company accounted for the acquisitions using the acquisition method and included the results of operations of the acquisitions in its consolidated financial statements from the effective date of each acquisition. The Company is in the process of obtaining a third-party valuation of certain tangible and intangible assets of Aero-Instruments, therefore, the values attributed to those acquired assets in the consolidated financial statements are subject to adjustment. Pro forma net sales and results of operations for the acquisitions had they occurred at the beginning of the applicable thirteen and twenty-six week periods ended March 30, 2013 or March 31, 2012, are not significant and, accordingly, are not provided.

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

Table of Contents**4. RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2011, the Financial Accounting Standards Board (FASB) issued authoritative accounting guidance included in Accounting Standards Codification (ASC) Topic 220, *Comprehensive Income*. This guidance eliminates the option to report other comprehensive income and its components in the statement of changes in equity. Companies can elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The Company adopted the presentation guidance during the first quarter of fiscal 2013 and has elected to present two separate consecutive statements.

In September 2011, the FASB issued authoritative accounting guidance included in ASC Topic 350, *Intangibles Goodwill and Other*. This guidance amends the requirements for goodwill impairment testing. The Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is unnecessary. This guidance is effective for the Company for its annual goodwill impairment testing for the year ending September 30, 2013. The Company does not expect this guidance to have a significant impact on the Company's consolidated results of operations, financial position or cash flows.

In July 2012, the FASB issued authoritative guidance included in ASC Topic 350, *Intangibles Goodwill and Other*. This guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is impaired, as a basis for determining whether it is necessary to perform the quantitative impairment test described in FASB ASC Topic 350, *Intangibles Goodwill and Other*. This guidance is effective for the Company for its annual impairment testing for the year ending September 30, 2013. The Company does not expect this guidance to have a significant impact on the Company's consolidated results of operations, financial position or cash flows.

5. EARNINGS PER SHARE (TWO-CLASS METHOD)

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

	Thirteen Week Periods Ended March		Twenty-Six Week Periods Ended	
	30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Numerator for earnings per share:				
Net income	\$ 67,937	\$ 81,552	\$ 142,107	\$ 146,657
Less dividends paid on participating securities			(38,130)	(3,299)
Net income applicable to common stock - basic and diluted	\$ 67,937	\$ 81,552	\$ 103,977	\$ 143,358
Denominator for basic and diluted earnings per share under the two-class method:				
Weighted average common shares outstanding	52,204	50,800	52,001	50,615
Vested options deemed participating securities	2,249	3,082	2,452	3,267
Total shares for basic and diluted earnings per share	54,453	53,882	54,453	53,882
Basic and diluted earnings per share	\$ 1.25	\$ 1.51	\$ 1.91	\$ 2.66

Table of Contents**6. INVENTORIES**

Inventories are stated at the lower of cost or market. Cost of inventories is determined by the average cost and the first-in, first-out (FIFO) methods for all locations except CEF Industries LLC, which determines the cost of inventories using the last-in, first-out (LIFO) method. Approximately 6% of the inventory was valued under the LIFO method at March 30, 2013.

Inventories consist of the following (in thousands):

	March 30, 2013	September 30, 2012
Raw materials and purchased component parts	\$ 226,475	\$ 203,809
Work-in-progress	101,008	102,645
Finished Goods	50,550	48,395
Total	378,033	354,849
Reserves for excess and obsolete inventory and LIFO	(37,858)	(34,346)
Inventories - net	\$ 340,175	\$ 320,503