

TRIUMPH GROUP INC  
Form 10-Q  
August 08, 2011  
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**United States**  
**Securities and Exchange Commission**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the Quarterly Period Ended June 30, 2011**

**or**

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

**For the Transition Period From to**

**Commission File Number: 1-12235**

**TRIUMPH GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**51-0347963**

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

**899 Cassatt Road, Suite 210, Berwyn, PA**

**19312**

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(Address of principal executive offices)

(Zip Code)

**(610) 251-1000**

(Registrant's telephone number, including area code)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Common Stock, par value \$0.001 per share, 49,049,443 shares outstanding as of August 3, 2011.

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## Part I. Financial Information

## Item 1. Financial Statements.

## Triumph Group, Inc.

## Consolidated Balance Sheets

(dollars in thousands, except per share data)

	JUNE 30, 2011 (unaudited)	MARCH 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 36,425	\$ 39,328
Trade and other receivables, less allowance for doubtful accounts of \$2,973 and \$3,196	386,613	374,491
Inventories, net of unliquidated progress payments of \$159,214 and \$138,206	742,390	781,714
Rotable assets	31,299	26,607
Prepaid and other current assets	18,106	18,141
Assets held for sale	4,439	4,574
Total current assets	1,219,272	1,244,855
Property and equipment, net	727,935	734,879
Goodwill	1,532,663	1,530,580
Intangible assets, net	851,260	859,620
Deferred income taxes, noncurrent	56,837	54,539
Other, net	34,339	38,764
Total assets	\$ 4,422,306	\$ 4,463,237
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 170,135	\$ 300,252
Accounts payable	270,482	262,716
Accrued expenses	295,701	313,354
Deferred income taxes	105,799	78,793
Liabilities related to assets held for sale	856	431
Total current liabilities	842,973	955,546
Long-term debt, less current portion	1,068,459	1,011,752
Accrued pension and other postretirement benefits, noncurrent	647,381	680,754
Other noncurrent liabilities	172,340	180,462
Temporary equity	1,079	2,506
Stockholders' equity:		
Common stock, \$.001 par value, 100,000,000 shares authorized, 49,193,880 and 48,690,606 shares issued; 49,035,604 and 48,513,422 outstanding	49	49
Capital in excess of par value	826,115	819,197
Treasury stock, at cost, 158,276 and 177,184 shares	(4,614)	(5,085)
Accumulated other comprehensive income	122,014	120,471
Retained earnings	746,510	697,585
Total stockholders' equity	1,690,074	1,632,217
Total liabilities and stockholders' equity	\$ 4,422,306	\$ 4,463,237

SEE ACCOMPANYING NOTES.

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## Triumph Group, Inc.

## Consolidated Statements of Income

(in thousands, except per share data)

(unaudited)

	<b>THREE MONTHS ENDED</b>	
	<b>JUNE 30,</b>	
	<b>2011</b>	<b>2010</b>
Net sales	\$ 845,063	\$ 407,209
Operating costs and expenses:		
Cost of sales (exclusive of depreciation and amortization shown separately below)	648,791	297,856
Selling, general and administrative	60,965	43,480
Acquisition and integration expense	460	17,367
Depreciation and amortization	29,467	15,656
	739,683	374,359
Operating income	105,380	32,850
Interest expense and other	26,462	11,791
Income from continuing operations before income taxes	78,918	21,059
Income tax expense	28,014	9,479
Income from continuing operations	50,904	11,580
Loss from discontinued operations, net	(689)	(208)
Net income	\$ 50,215	\$ 11,372
Earnings per share basic:		
Income from continuing operations	\$ 1.05	\$ 0.33
Loss from discontinued operations, net	(0.01)	(0.01)
Net income	\$ 1.04	\$ 0.32
Weighted-average common shares outstanding basic	48,466	35,507
Earnings per share diluted:		
Income from continuing operations	\$ 0.99	\$ 0.31
Loss from discontinued operations, net	(0.01)	(0.01)
Net income	\$ 0.98	\$ 0.30
Weighted-average common shares outstanding diluted	51,299	37,463
Dividends declared and paid per common share	\$ 0.02	\$ 0.02

SEE ACCOMPANYING NOTES.

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Triumph Group, Inc.

Consolidated Statements of Cash Flows

(dollars in thousands)

(unaudited)

	<b>THREE MONTHS ENDED</b>	
	<b>JUNE 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating Activities</b>		
Net income	\$ 50,215	\$ 11,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,467	15,656
Amortization of acquired contract liabilities	(7,740)	(859)
Accretion of debt discount	3,069	1,664
Other amortization included in interest expense	7,061	753
Provision for doubtful accounts receivable	381	(142)
Provision for deferred income taxes	26,210	487
Employee stock-based compensation	1,198	641
Changes in other current assets and liabilities, excluding the effects of acquisitions and dispositions of businesses:		
Trade and other receivables	(12,374)	34,370
Rotable assets	(4,692)	(606)
Inventories	39,155	(11,713)
Prepaid expenses and other current assets	424	454
Accounts payable, accrued expenses and other current liabilities	(5,418)	(34,804)
Accrued pension and other postretirement benefits	(37,846)	
Changes in discontinued operations	556	(123)
Other	1,585	5,515
Net cash provided by operating activities	91,251	22,665
<b>Investing Activities</b>		
Capital expenditures	(15,664)	(16,940)
Proceeds from sale of assets	2,768	210
Acquisitions, net of cash acquired	(800)	(333,228)
Net cash used in investing activities	(13,696)	(349,958)
<b>Financing Activities</b>		
Net increase in revolving credit facility	269,695	85,000
Proceeds from issuance of long-term debt	50,000	740,705
Repayment of debt and capital lease obligations	(395,791)	(595,389)
Payment of deferred financing costs	(3,870)	(22,171)
Dividends paid	(981)	(668)
Repurchase of restricted shares for minimum tax obligation	(482)	(1,803)
Proceeds from exercise of stock options, including excess tax benefit of \$0 and \$183 in fiscal 2012 and 2011	644	645
Net cash (used in) provided by financing activities	(80,785)	206,319
Effect of exchange rate changes on cash	327	(538)
Net change in cash	(2,903)	(121,512)
Cash at beginning of period	39,328	157,218

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Cash at end of period	\$	36,425	\$	35,706
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SEE ACCOMPANYING NOTES.



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Triumph Group, Inc.

Consolidated Statements of Comprehensive Income

(dollars in thousands)

(unaudited)

	<b>THREE MONTHS ENDED</b>	
	<b>JUNE 30,</b>	
	<b>2011</b>	<b>2010</b>
Net income	\$ 50,215	\$ 11,372
Other comprehensive income (loss):		
Foreign currency translation adjustment	2,009	(3,323)
Pension and postretirement adjustments, net of income taxes of \$427	(698)	
Unrealized gain on cash flow hedge, net of tax of \$88 and \$132	232	297
Total other comprehensive income (loss)	1,543	(3,026)
Total comprehensive income	\$ 51,758	\$ 8,346

SEE ACCOMPANYING NOTES.

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Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

1. BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited consolidated financial statements of Triumph Group, Inc. (the Company) have been prepared in conformity with accounting principles generally accepted in the United States ( U.S. GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position and cash flows. The results of operations for the three months ended June 30, 2011 are not necessarily indicative of results that may be expected for the year ending March 31, 2012. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the fiscal 2011 audited consolidated financial statements and notes thereto, which are included in the May 2011 Form 10-K.

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.

On June 9, 2011, the Company's Board of Directors declared a two-for-one split of the Company's common stock. The stock split resulted in the issuance of one additional share for each share owned. The stock split was paid on July 14, 2011, to stockholders of record at the close of business on June 22, 2011. Additionally, the Board of Directors approved a 100% increase in the quarterly cash dividend rate on the Company's common stock to \$0.04 per common share from \$0.02 per common share on a post-split basis. All share and per share information included in this report has been retroactively adjusted to reflect the impact of the stock split.

Reclassifications have been made to prior-year amounts in order to conform to the current-year presentation related to the completion of the measurement period adjustments for the acquisition of Vought Aircraft Industries, Inc. ( Vought ) (Note 3) and the effect of the two-for-one stock split announced by the Company in June 2011.

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 - Construction-Type and Production-Type Contracts* topic of the Accounting Standards Codification (ASC) and revenue and costs on contracts are recognized using percentage-of-completion method of accounting. Accounting for the revenue and profit on a contract requires estimates of (1) the contract value or total contract revenue, (2) the total costs at completion, which is equal to the sum of the actual incurred costs to date on the contract and the estimated costs to complete the contract's scope of work and (3) the measurement of progress towards completion. Depending on the contract, the Company measures progress toward completion using either the cost-to-cost method or the units-of-delivery method, with the great majority measured under the units of delivery method.

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Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Included in net sales of the Aerostructures Group is the non-cash amortization of acquired contract liabilities recognized as fair value adjustments through purchase accounting of the acquisition of Vought. For the three months ended June 30, 2011 and 2010, the Company recognized \$7,740 and \$859, respectively, into net sales in the accompanying consolidated statements of income.

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Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Aftermarket Services Group provides repair and overhaul services, a small portion of which services are provided under long-term power-by-the-hour contracts. The Company applies the proportional performance method to recognize revenue under these contracts. Revenue is recognized over the contract period as units are delivered based on the relative value in proportion to the total estimated contract consideration. In estimating the total contract consideration, management evaluates the projected utilization of its 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 The Boeing Company (Boeing) (representing commercial, military and space) represented approximately 38% and 32% of total trade accounts receivable as of June 30, 2011 and March 31, 2011, respectively. The Company had no other significant concentrations of credit risk. Sales to Boeing for the three months ended June 30, 2011 were \$401,021, or 47% of net sales, of which \$378,750, \$15,804 and \$6,467 were from the Aerostructures segment, the Aerospace Systems segment and Aftermarket Services segment, respectively. Sales to Boeing for the three months ended June 30, 2010 were \$149,297, or 37% of net sales, of which \$127,016, \$14,249 and \$8,032 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 June 30, 2011 and 2010 was \$1,198 and \$641, respectively. The benefits of tax deductions in excess of recognized compensation expense were \$0 and \$183 for the three months ended June 30, 2011 and 2010, respectively. The Company has classified share-based compensation within selling, general and administrative expenses to correspond with the same line item as the majority of the cash compensation paid to employees. Upon the exercise of stock options or vesting of restricted stock, the Company first transfers treasury stock, then will issue new shares.

*Intangible Assets*

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

		June 30, 2011		
	Weighted- Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	16.4 years	\$ 456,387	\$ (48,043)	\$ 408,344
Product rights and licenses	12.0 years	73,739	(57,523)	16,216
Non-compete agreements and other	12.7 years	13,239	(11,539)	1,700
Tradenname	Indefinite-lived	425,000		425,000
<b>Total intangibles, net</b>		<b>\$ 968,365</b>	<b>\$ (117,105)</b>	<b>\$ 851,260</b>

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Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

		March 31, 2011		
	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	16.4 years	\$ 456,282	\$ (40,657)	\$ 415,625
Product rights and licenses	12.0 years	73,739	(56,640)	17,099
Non-compete agreements and other	12.7 years	13,239	(11,343)	1,896
Tradename	Indefinite-lived	425,000		425,000
Total intangibles, net		\$ 968,260	\$ (108,640)	\$ 859,620

Amortization expense for the three months ended June 30, 2011 and 2010 was \$8,449 and \$4,280, respectively.

*Supplemental Cash Flow Information*

The Company paid \$633 and \$685 for income taxes, net of refunds received for the three months ended June 30, 2011 and 2010, respectively. The Company made interest payments of \$18,886 and \$25,481 for the three months ended June 30, 2011 and 2010, respectively, including \$12,401 of interest on debt assumed in the acquisition of Vought (Note 3) during the three months ended June 30, 2010.

During the three months ended June 30, 2011 and 2010, the Company financed \$19 and \$6,804 of property and equipment additions through capital leases, respectively. During the three months ended June 30, 2011, the Company issued 366,626 shares in connection with certain redemptions of our convertible senior subordinated notes (Note 6). During the three months ended June 30, 2010, the Company issued 14,992,330 shares valued at \$504,867 as partial consideration for the acquisition of Vought (Note 3).

3. ACQUISITIONS

*Vought Aircraft Industries, Inc.*



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

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## Triumph Group, Inc.

## Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 3. ACQUISITIONS (Continued)

Recording of assets acquired and liabilities assumed: The following condensed balance sheet represents the amounts assigned to each major asset and liability caption in the aggregate for the acquisition of Vought:

	<b>June 16, 2010</b>
Cash	\$ 214,833
Trade and other receivables	165,789
Inventory	410,279
Prepaid expenses and other	4,850
Property and equipment	375,229
Goodwill	1,026,763
Intangible assets	807,000
Deferred tax assets	244,895
Other assets	384
Total assets	\$ 3,250,022
Accounts payable	\$ 143,995
Accrued expenses	269,492
Deferred tax liabilities	4,674
Debt	590,710
Acquired contract liabilities, net	124,548
Accrued pension and other postretirement benefits, noncurrent	993,189
Other noncurrent liabilities	70,597
Total liabilities	\$ 2,197,205

The recorded amounts for assets and liabilities were completed as of June 15, 2011. The measurement period adjustments recorded in the first quarter of fiscal 2012 did not have a significant impact on the Company's consolidated balance sheet, statements of income, or statements of cash flows.

Pro forma impact of the acquisition: The unaudited pro forma results presented below include the effects of the acquisition of Vought as if it had been consummated as of April 1, 2010. The pro forma results include the amortization associated with acquired intangible assets and interest expense associated with debt used to fund the acquisition, as well as fair value adjustments for property and equipment, off-market contracts and favorable leases. To better reflect the combined operating results, material nonrecurring charges directly attributable to the transaction have been excluded. In addition, the pro forma results do not include any anticipated synergies or other expected benefits of the acquisition. Accordingly, the unaudited pro forma results are not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been consummated as of April 1, 2010.

	<b>Three months ended June 30, 2010</b>	
Net sales	\$	771,274
Income from continuing operations		14,168
Income from continuing operations basic	\$	0.30
Income from continuing operations diluted	\$	0.28

The unaudited pro forma information includes adjustments for interest expense that would have been incurred to finance the purchase, additional depreciation based on the estimated fair market value of the property and equipment acquired, and the amortization of the intangible assets arising from the transaction. The unaudited pro forma financial information is not necessarily indicative of the results of operations of the Company as it would have been had the transaction been effected on the assumed date.

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Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

In September 2007, the Company decided to sell Triumph Precision Castings Co., a casting facility in its Aftermarket Services segment that specializes in producing high-quality hot gas path components for aero and land-based gas turbines.

In July 2011, the Company completed the sale of Triumph Precision Castings Co. for proceeds of \$3,902, plus contingent consideration, resulting in no gain or loss on the disposal.

Revenues of discontinued operations were \$246 and \$480 for the three months ended June 30, 2011 and 2010, respectively. The loss from discontinued operations was \$689 and \$208, net of income tax benefit of \$370 and \$112 for the three months ended June 30, 2011 and 2010, respectively. Interest expense of \$62 and \$63 was allocated to discontinued operations for the three months ended June 30, 2011 and 2010, respectively, based upon the actual borrowings of the operations, and such interest expense is included in the loss from discontinued operations.

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

	JUNE 30, 2011	MARCH 31, 2011
Assets held for sale:		
Trade and other receivables, net	\$ 1,188	\$ 1,314
Inventories	228	237
Property, plant and equipment	3,000	3,000
Other	23	23
Total assets held for sale	\$ 4,439	\$ 4,574
Liabilities related to assets held for sale:		
Accounts payable	\$ 106	\$ 99
Accrued expenses	578	154
Other noncurrent liabilities	172	178
Total liabilities related to assets held for sale	\$ 856	\$ 431

5. INVENTORIES

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

	<b>JUNE 30, 2011</b>		<b>MARCH 31, 2011</b>
Raw materials	\$ 79,481	\$	72,174
Manufactured and purchased components	181,822		171,283
Work-in-process	602,223		634,359
Finished goods	38,078		42,104
Less: unliquidated progress payments	(159,214)		(138,206)
Total inventories	\$ 742,390	\$	781,714

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## Triumph Group, Inc.

## Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## 6. LONG-TERM DEBT

Long-term debt consists of the following:

	JUNE 30, 2011		MARCH 31, 2011
Revolving credit facility	\$ 354,695	\$	85,000
Receivable securitization facility	133,300		100,000
Equipment leasing facility and other capital leases	64,804		67,822
Term loan credit agreement			346,731
Secured promissory notes	7,288		7,505
Senior subordinated notes due 2017	172,864		172,801
Senior notes due 2018	347,682		347,623
Convertible senior subordinated notes	149,983		176,544
Other debt	7,978		7,978
	1,238,594		1,312,004
Less current portion	170,135		300,252
	\$ 1,068,459	\$	1,011,752

**Revolving Credit Facility**

On April 5, 2011, the Company amended and restated its existing credit agreement (the "Credit Facility") with its lenders to (i) increase the availability under the Credit Facility to \$850,000, with a \$50,000 accordion feature, from \$535,000, (ii) extend the maturity date to April 5, 2016; and (iii) amend certain other terms and covenants. Using availability under the Credit Facility, the Company immediately extinguished its term loan credit agreement (the "Term Loan") at face value of \$350,000, plus accrued interest. In connection with the amendment to the Credit Facility, the Company incurred approximately \$3,552 of financing costs. These costs, along with the \$5,282 of unamortized financing costs prior to the closing, are being amortized over the remaining term of the Credit Facility.

On May 10, 2010, the Company entered into the Credit Facility, which became available on June 16, 2010 in connection with the consummation of the acquisition of Vought. The Credit Facility replaced and refinanced the Company's Amended and Restated Credit Agreement dated as of August 14, 2009 (the "2009 Credit Agreement"), which agreement was terminated and all obligations thereunder paid in full upon the

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consummation of the acquisition of Vought. The obligations under the Credit Facility and related documents are secured by liens on substantially all assets of the Company and its domestic subsidiaries pursuant to a Guarantee and Collateral Agreement, dated as of June 16, 2010, among the Company, and the subsidiaries of the Company party thereto. Such liens are *pari passu* to the liens securing the Company's obligations under the Term Loan described below pursuant to an intercreditor agreement dated June 16, 2010 among the agents under the Credit Facility and the Term Loan, the Company and its domestic subsidiaries that are borrowers and/or guarantors under the Credit Facility and the Term Loan (the Intercreditor Agreement).

The Credit Facility bears interest at either: (i) LIBOR plus between 1.75% and 3.00%; (ii) the prime rate; or (iii) an overnight rate at the option of the Company. The applicable interest rate is based upon the Company's ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization. In addition, the Company is required to pay a commitment fee of between 0.300% and 0.500% on the unused portion of the Credit Facility. The Company's obligations under the Credit Facility are guaranteed by the Company's domestic subsidiaries.

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(dollars in thousands, except per share data)

(unaudited)

6. LONG-TERM DEBT (Continued)

At June 30, 2011, there were \$354,695 in borrowings and \$30,422 in letters of credit outstanding under the Credit Facility. At March 31, 2011, there were \$85,000 in borrowings and \$40,135 in letters of credit outstanding under the Credit Facility. The level of unused borrowing capacity under the Credit Facility varies from time to time depending in part upon its compliance with financial and other covenants set forth in the related agreement. The 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 June 30, 2011, the Company had borrowing capacity under this facility of \$464,883 after reductions for borrowings and letters of credit outstanding under the facility.

**Receivables Securitization Program**

In June 2011, the Company amended its \$175,000 receivable securitization facility (the Securitization Facility ) extending the term through June 2014. 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 June 30, 2011, the maximum amount available under the Securitization Facility was \$137,500. Interest rates are based on prevailing market rates for short-term commercial paper plus a program fee and a commitment fee. The program fee is 0.50% on the amount outstanding under the Securitization Facility. Additionally, the commitment fee is 0.65% on 102% of the maximum amount available under the Securitization Facility. At June 30, 2011, there was \$133,300 outstanding under the Securitization Facility. In connection with amending the Securitization Facility, the Company incurred approximately \$325 of financing costs. These costs, along with the \$831 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.

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

**Equipment Leasing Facility and Other Capital Leases**



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During March 2009, the Company entered into a 7-year Master Lease Agreement (the Leasing Facility ) creating a capital lease of certain existing property and equipment. The Leasing Facility bears interest at a weighted-average fixed rate of 6.2% per annum.

During the three months ended June 30, 2011 and 2010, the Company entered into new capital leases in the amount of \$19 and \$6,804, respectively, to finance a portion of the Company s capital additions for the period.

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6. LONG-TERM DEBT (Continued)

**Term Loan Credit Agreement**

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

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

On April 5, 2011, in connection with the amendment and restatement of the Credit Facility, the Company extinguished the Term Loan at face value of \$350,000, plus accrued interest. As a result, the Company recognized a pre-tax loss on extinguishment of debt of \$7,712 associated with the write-off of the remaining unamortized discount and deferred financing fees on the Term Loan included in Interest expense and other.

**Senior Subordinated Notes Due 2017**

On November 16, 2009, the Company issued \$175,000 principal amount of 8% Senior Subordinated Notes due 2017 (the 2017 Notes). The 2017 Notes were sold at 98.558% of principal amount and have an effective interest yield of 8.25%. Interest on the 2017 Notes is payable semiannually in cash in arrears on May 15 and November 15 of each year. In connection with the issuance of the 2017 Notes, the Company incurred approximately \$4,390 of costs, which were deferred and are being amortized on the effective interest method over the term of the 2017 Notes.

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The 2017 Notes are senior subordinated unsecured obligations of the Company and rank subordinate to all of the existing and future senior indebtedness of the Company and the Guarantor Subsidiaries (as defined below), including borrowings under the Company's existing Credit Facility, and *pari passu* with the Company's and the Guarantor Subsidiaries' existing and future senior subordinated indebtedness. The 2017 Notes are guaranteed, on a full, joint and several basis, by each of the Company's domestic restricted subsidiaries that guarantees any of the Company's debt or that of any of the Company's restricted subsidiaries under the Credit Facility, and in the future by any domestic restricted subsidiaries that guarantee any of the Company's debt or that of any of the Company's domestic restricted subsidiaries incurred under any credit facility (collectively, the Guarantor Subsidiaries), in each case on a senior subordinated basis. If the Company is unable to make payments on the 2017 Notes when they are due, each of the Guarantor Subsidiaries would be obligated to make such payments.

The Company has the option to redeem all or a portion of the 2017 Notes at any time prior to November 15, 2013 at a redemption price equal to 100% of the principal amount of the 2017 Notes redeemed, plus an applicable premium set forth in the Indenture and accrued and unpaid interest, if any. The 2017 Notes are also subject to redemption, in whole or in part, at any time on or after November 15, 2013, at redemption

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(dollars in thousands, except per share data)

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6. LONG-TERM DEBT (Continued)

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

Upon the occurrence of a change-of-control, the Company must offer to purchase the 2017 Notes from holders at 101% of their principal amount plus accrued and unpaid interest, if any, to the date of purchase. This change-of-control feature represents an embedded derivative. Since it is in the control of the Company to call the 2017 Notes at any time after November 15, 2013, the value of the derivative was determined to be *de minimis*. Accordingly, no value has been assigned at issuance or at June 30, 2011.

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

**Senior Notes due 2018**

On June 16, 2010, in connection with the acquisition of Vought, the Company issued \$350,000 principal amount of 8.625% Senior Notes due 2018 (the 2018 Notes ). The 2018 Notes were sold at 99.270% of principal amount and have an effective interest yield of 8.75%. Interest on the 2018 Notes accrues at the rate of 8.625% per annum and is 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 are being amortized on the effective interest method over the term of the 2018 Notes.

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

The Company may redeem some or all of the 2018 Notes prior to July 15, 2014 by paying a make-whole premium. The Company may redeem some or all of the 2018 Notes on or after July 15, 2014 at specified redemption prices. In addition, prior to July 15, 2013, the Company may redeem up to 35% of the 2018 Notes with the net proceeds of certain equity offerings at a redemption price equal to 108.625% of the aggregate principal amount plus accrued and unpaid interest, if any, subject to certain limitations set forth in the indenture governing the 2018 Notes (the 2018 Indenture ).

The Company is obligated to offer to repurchase the 2018 Notes at a price of (a) 101% of their principal amount plus accrued and unpaid interest, if any, as a result of certain change-of-control events and (b) 100% of their principal amount plus accrued and unpaid interest, if any, in the event of certain asset sales. These restrictions and prohibitions are subject to certain qualifications and exceptions. This change-of-control feature represents an embedded derivative. Since it is in the control of the Company to call the 2018 Notes at

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Triumph Group, Inc.

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6. LONG-TERM DEBT (Continued)

any time after July 15, 2014, the value of the derivative was determined to be *de minimis*. Accordingly, no value has been assigned at issuance or at June 30, 2011.

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

**Convertible Senior Subordinated Notes**

On September 18, 2006, the Company issued \$201,250 in convertible senior subordinated notes (the "Convertible Notes"). The Convertible Notes are direct, unsecured, senior subordinated obligations of the Company, and rank (i) junior in right of payment to all of the Company's existing and future senior indebtedness, (ii) equal in right of payment with any other future senior subordinated indebtedness, and (iii) senior in right of payment to all subordinated indebtedness.

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

The Convertible Notes bear interest at a fixed rate of 2.625% 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 will pay contingent interest during the applicable interest period if the average trading price of a note for the five consecutive trading days ending on the third trading day immediately preceding the first day of the relevant six-month period equals or exceeds 120% of the principal amount of the Convertible Notes. The contingent interest payable per note in respect of any six-month period will equal 0.25% per annum, calculated on the average trading price of a note for the relevant five trading day period. This contingent interest feature represents an embedded derivative. Since it is within the control of the Company to call the Convertible

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Notes at any time after October 6, 2011, the value of the derivative was determined to be *de minimis*. Accordingly, no value has been assigned at issuance or at June 30, 2011.

Prior to fiscal 2011, the Company paid \$19,414 to purchase \$22,200 in principal amounts of the Convertible Notes.

The Convertible Notes mature on October 1, 2026, unless earlier redeemed, repurchased or converted. The Company may 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. In addition, holders of the Convertible Notes will have the right to require the Company to repurchase for cash all or a portion of their Convertible Notes on October 1, 2011, 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. The Convertible Notes are convertible into the Company's common stock at a rate equal to 36.731 shares per \$1,000 principal amount of the Convertible Notes (equal

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6. LONG-TERM DEBT (Continued)

to an initial conversion price of approximately \$27.23 per share), subject to adjustment as described in the Indenture. Upon conversion, the Company will deliver to the holder surrendering the Convertible Notes for conversion, for each \$1,000 principal amount of Notes, an amount consisting of cash equal to the lesser of \$1,000 and the Company's total conversion obligation and, to the extent that the Company's total conversion obligation exceeds \$1,000, at the Company's election, cash or shares of the Company's common stock in respect of the remainder.

The Convertible Notes are 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 30, 2011, the Convertible Notes were eligible for conversion. During the quarter ended June 30, 2011, the Company settled the conversion of \$27,988 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 366,626 shares. In June 2011, the Company received notice of conversion from holders of \$752 in principal value of the Convertible Notes. These conversions were settled in the second quarter of fiscal 2012 with the principal settled in cash and the conversion benefit settled through the issuance of approximately 12,800 shares. In July 2011, the Company delivered a notice to holders of the Convertible Notes to the effect that, for at least 20 trading days during the 30 consecutive trading days preceding June 30, 2011, the closing price of the Company's common stock was greater than or equal to 130% of the conversion price of such notes on the last trading day. Under the terms of the Convertible Notes, the increase in the Company's stock price triggered a provision, which gave holders of the Convertible Notes a put option through September 30, 2011. Accordingly, the balance sheet classification of the Convertible Notes will be short term for as long as the put option remains in effect.

To be included in the calculation of diluted earnings per share, the average price of the Company's common stock for the quarter must exceed the conversion price per share of \$27.23. The average price of the Company's common stock for the fiscal quarters ended June 30, 2011 and 2010 was \$45.33 and \$35.21, respectively. Therefore, 2,399,471 and 1,490,752 additional shares were included in the diluted earnings per share calculation as of the fiscal quarters ended June 30, 2011 and 2010, respectively. If the Company undergoes a fundamental change, holders of the Notes will have the right, subject to certain conditions, to require the Company to repurchase for cash all or a portion of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, including contingent interest and additional amounts, if any.

Effective April 1, 2009, the Company changed its method of accounting for its convertible debt instruments in order to separately account for the liability and equity components of the Convertible Notes in a manner that reflects the Company's nonconvertible debt borrowing rate when interest and amortization cost is recognized in subsequent periods. The excess of the principal amount of the liability component over its carrying amount has been recognized as debt discount and amortized using the effective interest method. As of June 30, 2011, the remaining discount of \$1,079 will be amortized on the effective interest method through October 1, 2011. The debt and equity components recognized for the Convertible Notes as of June 30, 2011 were as follows:



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Principal amount of convertible notes	\$	151,062
Unamortized discount (1)		1,079
Net carrying amount	\$	149,983

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(1) Remaining recognition period of 0.25 years as of June 30, 2011, recorded in temporary equity at June 30, 2011.

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6. LONG-TERM DEBT (Continued)

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

	<b>Three months ended</b>	
	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
Contractual coupon interest	\$ 992	\$ 1,175
Amortization of discount on convertible notes	1,427	1,585
Interest expense	\$ 2,419	2,760
Effective interest rate	6.5%	6.5%

7. FAIR VALUE MEASUREMENTS

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

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

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

Level 3 Unobservable inputs for the asset or liability

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The following table provides the liabilities reported at fair value and measured on a recurring basis as of June 30, 2011:

Description	Total	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Contingent consideration	\$ (2,870)	\$	\$	\$ (2,870)

The fair value of the contingent consideration at the date of acquisition was \$2,545 which was estimated using the income approach based on significant inputs that are not observable in the market. Key assumptions included a discount rate and probability assessments of each milestone payment being made. The assumptions used to develop the estimate have not changed since the date of acquisition, with the exception of the present value factor.

The *Financial Instruments* topic of the ASC requires disclosure of the estimated fair value of certain financial instruments. These estimated fair values as of June 30, 2011 and March 31, 2011 have been determined using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop estimates of fair value. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange. The use of alternative market assumptions and estimation methodologies could have had a material effect on these estimates of fair value.

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7. FAIR VALUE MEASUREMENTS (Continued)

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:

	June 30, 2011		March 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 1,238,594	\$ 1,406,876	\$ 1,312,004	\$ 1,483,796

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

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

8. 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 JUNE 30, (in thousands)	
	2011	2010
Weighted-average common shares outstanding basic	48,466	35,507

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Net effect of dilutive stock options	434	465
Potential common shares convertible debt	2,399	1,491
Weighted-average common shares outstanding diluted	51,299	37,463

The weighted-average common shares outstanding basic for the three months ended June 30, 2010 includes the 14,992,330 shares issued as partial consideration in the acquisition of Vought for the prorata portion of the quarter ended June 30, 2010 (see Note 3).

### 9. INCOME TAXES

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

The Company has classified uncertain tax positions as noncurrent income tax liabilities unless expected to be paid in one year. Penalties and tax-related interest expense are reported as a component of income tax expense. As of June 30, 2011 and March 31, 2011, the total amount of accrued income tax-related interest and penalties was \$173 and \$156, respectively.

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9. INCOME TAXES (Continued)

As of June 30, 2011 and March 31, 2011, the total amount of unrecognized tax benefits was \$7,017 and \$6,934, respectively, of which \$5,234 and \$5,151, 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 quarter ended June 30, 2011 was 35.5% as compared to 45.2% for the quarter ended June 30, 2010 reflecting the non-deductibility of certain acquisition-related expenses in the prior year period, as well as the absence of the Research and Development tax credit, which had expired December 31, 2009.

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

With few exceptions, the Company is no longer subject to U.S. federal income tax examinations for fiscal years ended before March 31, 2009, state or local examinations for fiscal years ended before March 31, 2007, or foreign income tax examinations by tax authorities for fiscal years ended before March 31, 2008.

As of June 30, 2011, the Company was subject to examination in one state jurisdiction for fiscal years ended March 31, 2007 through March 31, 2009. 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, 2004 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.

10. GOODWILL

The following is a summary of the changes in the carrying value of goodwill by reportable segment, from March 31, 2011 through June 30, 2011:

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	Aerostructures	Aerospace Systems	Aftermarket Services	Total
Balance, March 31, 2011	\$ 1,284,478	\$ 193,633	\$ 52,469	\$ 1,530,580
Goodwill recognized in connection with acquisitions	1,949			1,949
Purchase price adjustments	(216)			(216)
Effect of exchange rate changes and other		350		350
Balance, June 30, 2011	\$ 1,286,211	\$ 193,983	\$ 52,469	\$ 1,532,663

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11. 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, the Company has recognized the funded status of the benefit obligation as of the date of the last remeasurement, in the accompanying consolidated balance sheet. The funded status is measured as the difference between the fair value of the plan's assets and the PBO or accumulated 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.



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11. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

**Net Periodic Benefit Plan Costs**

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

	<b>Pension benefits</b>	
	<b>Three months ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 4,114	\$ 969
Interest cost	27,015	5,014
Expected return on plan assets	(31,901)	(5,085)
Amortization of prior service costs	(2,753)	18
Amortization of net loss	29	46
Net periodic benefit cost	\$ (3,496)	\$ 962

	<b>Other postretirement benefits</b>	
	<b>Three months ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 848	\$ 183
Interest cost	4,602	898
Expected return on plan assets		
Amortization of prior service costs	(1,125)	
Net periodic benefit cost	\$ 4,325	\$ 1,081

12. COMMITMENTS AND CONTINGENCIES

*Sale of the Charleston 787 business*

On July 30, 2009, Vought Aircraft Industries sold the assets and operations of its 787 business conducted at North Charleston, South Carolina ( the Boeing sale agreement ) to a wholly owned subsidiary of The Boeing Company ( Boeing ). Following the acquisition of Vought by the Company, Boeing has asserted various breaches to the Boeing sale agreement. In July 2011, the Company and Boeing agreed to a settlement. As of June 30, 2011, the Company had recognized a liability and an indemnification asset, which resulted in a net amount of \$5,000. The amounts recognized were based on the Company's best estimates using information that it has obtained as of the reporting date. The Company finalized its estimates during the quarter ended June 30, 2011 once it was able to determine that it had obtained all necessary information that existed as of the acquisition date.

*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.

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Triumph Group, Inc.

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

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

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

Segment 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. 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.



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13. SEGMENTS (Continued)

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

	<b>THREE MONTHS ENDED</b>	
	<b>JUNE 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Net sales:</b>		
Aerostructures	\$ 643,306	\$ 231,335
Aerospace systems	133,010	117,433
Aftermarket services	70,368	59,797
Elimination of inter-segment sales	(1,621)	(1,356)
	<b>\$ 845,063</b>	<b>\$ 407,209</b>
<b>Income from continuing operations before income taxes:</b>		
<b>Operating income (loss):</b>		
Aerostructures	\$ 87,974	\$ 36,067
Aerospace systems	22,417	18,348
Aftermarket services	6,961	4,121
Corporate	(11,972)	(25,686)
	105,380	32,850
Interest expense and other	26,462	11,791
	<b>\$ 78,918</b>	<b>\$ 21,059</b>
<b>Depreciation and amortization:</b>		
Aerostructures	\$ 21,845	\$ 8,044
Aerospace systems	4,345	4,189
Aftermarket services	2,430	3,043
Corporate	847	380
	<b>\$ 29,467</b>	<b>\$ 15,656</b>
<b>Amortization of acquired contract liabilities, net:</b>		
Aerostructures	\$ 7,740	\$ 859
<b>EBITDA:</b>		
Aerostructures	\$ 102,079	\$ 43,252
Aerospace systems	26,762	22,537
Aftermarket services	9,391	7,164
Corporate	(11,125)	(25,306)
	<b>\$ 127,107</b>	<b>\$ 47,647</b>

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Capital expenditures:				
Aerostructures	\$	9,134	\$	5,297
Aerospace systems		3,505		2,504
Aftermarket services		1,762		894
Corporate		1,263		8,245
	\$	15,664	\$	16,940

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13. SEGMENTS (Continued)

	JUNE 30, 2011	MARCH 31, 2011
Total Assets:		
Aerostructures	\$ 3,551,475	\$ 3,567,294
Aerospace systems	550,095	564,235
Aftermarket services	299,666	307,413
Corporate	16,631	19,721
Discontinued operations	4,439	4,574
	\$ 4,422,306	\$ 4,463,237

During the three months ended June 30, 2011 and 2010, the Company had foreign sales of \$113,088 and \$70,522, respectively.

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

The 2017 Notes and the 2018 Notes are fully and unconditionally guaranteed on a joint and several basis by Guarantor Subsidiaries. The total assets, stockholder's equity, revenue, earnings and cash flows from operating activities of the Guarantor Subsidiaries exceeded a majority of the consolidated total of such items as of and for the periods reported. The only consolidated subsidiaries of the Company that are not guarantors of the 2017 Notes and the 2018 Notes (the Non-Guarantor Subsidiaries) are: (a) the receivables securitization special-purpose entity, and (b) the international operating subsidiaries. The following tables present condensed consolidating financial statements including the Company (the Parent), the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries. Such financial statements include summary consolidating balance sheets as of June 30, 2011 and March 31, 2011, condensed consolidating statements of income for the three months ended June 30, 2011 and 2010, and condensed consolidating statements of cash flows for the three months ended June 30, 2011 and 2010.

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

**SUMMARY CONSOLIDATING BALANCE SHEETS:**

	Parent	Guarantor Subsidiaries	June 30, 2011 Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
<b>Current assets:</b>					
Cash and cash equivalents	\$ 15,489	\$ 1,070	\$ 19,866	\$	\$ 36,425
Trade and other receivables, net	260	191,991	194,362		386,613
Inventories		716,991	25,399		742,390
Rotable assets		23,595	7,704		31,299
Prepaid expenses and other	7,238	9,642	1,226		18,106
Assets held for sale		4,439			4,439
Total current assets	22,987	947,728	248,557		1,219,272
Property and equipment, net	10,157	671,184	46,594		727,935
Goodwill and other intangible assets, net	1,509	2,330,551	51,863		2,383,923
Other, net	27,512	57,723	5,941		91,176
Intercompany investments and advances	792,684	(18,895)	883	(774,672)	
Total assets	\$ 854,849	\$ 3,988,291	\$ 353,838	\$ (774,672)	\$ 4,422,306
<b>Current liabilities:</b>					
Current portion of long-term debt	\$ 150,492	\$ 17,240	\$ 2,403	\$	\$ 170,135
Accounts payable	6,934	256,122	7,426		270,482
Accrued expenses	22,597	264,407	8,697		295,701
Deferred income taxes		105,799			105,799
Liabilities related to assets held for sale		856			856
Total current liabilities	180,023	644,424	18,526		842,973
Long-term debt, less current portion	881,538	53,621	133,300		1,068,459
Intercompany debt	(1,916,446)	1,785,972	130,474		
Accrued pension and other postretirement benefits, noncurrent		647,381			647,381
Deferred income taxes and other	19,660	155,124	(1,365)		173,051