TRIUMPH GROUP INC
Form 10-Q
February 04, 2013
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United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended December 31, 2012

or

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

For the Transition Period From _________ to ________

Commission File Number: 1-12235

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

Delaware	51-0347963
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
899 Cassatt Road, Suite 210, Berwyn, PA	19312
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

Common Stock, par value $0.001 per share, 50,119,288 shares outstanding as of February 1, 2013.

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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)

	December 31, 2012 (unaudited)	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$33,452	$29,662
Trade and other receivables, less allowance for doubtful accounts of $5,611 and $3,900	322,144	440,608
Inventories, net of unliquidated progress payments of $141,283 and $164,450	937,797	817,956
Rotable assets	35,392	34,554
Deferred income taxes	53,226	72,377
Prepaid and other current assets	18,144	23,344
Total current assets	1,400,155	1,418,501
Property and equipment, net	770,110	733,380
Goodwill	1,593,120	1,546,138
Intangible assets, net	883,127	829,676
Other, net	58,208	26,944
Total assets	$4,704,720	$4,554,639
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$133,951	$142,237
Accounts payable	246,092	266,124
Accrued expenses	236,124	311,620
Total current liabilities	616,167	719,981
Long-term debt, less current portion	1,040,954	1,016,625
Accrued pension and other postretirement benefits, noncurrent	571,702	700,125
Deferred income taxes, noncurrent	327,126	188,252
Other noncurrent liabilities	120,685	136,287
Stockholders' equity:		
Common stock, $.001 par value, 100,000,000 shares authorized, 50,109,935 and 49,590,273 shares issued; 50,109,935 and 49,531,740 shares outstanding	50	50
Capital in excess of par value	842,485	833,935
Treasury stock, at cost, 0 and 58,533 shares	—	(1,716)
Accumulated other comprehensive loss	(8,560)	(9,306)
Retained earnings	1,194,111	970,406
Total stockholders' equity	2,028,086	1,793,369
Total liabilities and stockholders' equity	$4,704,720	$4,554,639

SEE ACCOMPANYING NOTES.

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

	Three Months Ended December 31,		Nine Months Ended December 31,		
	2012	2011	2012	2011	
Net sales	$890,565	$825,962	$2,716,434	$2,461,553	
Operating costs and expenses:					
Cost of sales (exclusive of depreciation and amortization shown separately below)	663,800	618,602	2,018,732	1,858,600	
Selling, general and administrative	57,794	57,494	175,947	178,714	
Depreciation and amortization	32,331	30,131	96,144	89,064	
Integration expenses	250	2,095	2,227	3,699	
Early retirement incentive expense	2,030	—	5,137	—	
	756,205	708,322	2,298,187	2,130,077	
Operating income	134,360	117,640	418,247	331,476	
Interest expense and other	16,768	14,543	50,668	58,676	
Income from continuing operations before income taxes	117,592	103,097	367,579	272,800	
Income tax expense	42,369	37,194	135,834	97,429	
Income from continuing operations	75,223	65,903	231,745	175,371	
Loss from discontinued operations, net	—	—	—	(765)	
Net income	$75,223	$65,903	$231,745	$174,606	
Earnings per share—basic:					
Income from continuing operations	$1.51	$1.35	$4.67	$3.60	
Loss from discontinued operations, net	—	—	—	(0.02)	
Net income	$1.51	$1.35	$4.67	$3.59	*
Weighted-average common shares outstanding—basic	49,750	48,912	49,608	48,692	
Earnings per share—diluted:					
Income from continuing operations	$1.43	$1.27	$4.43	$3.39	
Loss from discontinued operations, net	—	—	—	(0.01)	
Net income	$1.43	$1.27	$4.43	$3.38	
Weighted-average common shares outstanding—diluted	52,464	51,968	52,343	51,689	
Dividends declared and paid per common share	$0.04	$0.04	$0.12	$0.10	

* Differences due to rounding.
SEE ACCOMPANYING NOTES.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
Net income	$75,223	$65,903	$231,745	$174,606
Other comprehensive income (loss):				
Foreign currency translation adjustment	637	(3,301)	306	(8,171)
Pension and postretirement adjustments, net of income taxes of $(109), $427, $(327) and $1,281, respectively	177	(698)	532	(2,094)
Unrealized gain (loss) on cash flow hedge, net of tax of $36, $49, $58 and $(39), respectively	(58)	(80)	(95)	152
Total other comprehensive income (loss)	756	(4,079)	743	(10,113)
Total comprehensive income	$75,979	$61,824	$232,488	$164,493

SEE ACCOMPANYING NOTES.

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

	Nine Months Ended December 31, 2012	2011
Operating Activities		
Net income	$231,745	$174,606
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96,144	89,064
Amortization of acquired contract liabilities	(19,774)	(18,504)
Accretion of debt discount	407	4,399
Other amortization included in interest expense	2,687	8,750
Provision for doubtful accounts receivable	1,774	664
Provision for deferred income taxes	134,622	96,532
Employee stock-based compensation	4,854	3,752
Changes in assets and liabilities, excluding the effects of acquisitions and dispositions of businesses:		
Trade and other receivables	124,572	7,338
Rotable assets	(839)	(6,677)
Inventories	(119,404)	(65,854)
Prepaid expenses and other current assets	4,155	(317)
Accounts payable, accrued expenses and other current liabilities	(101,473)	(19,506)
Accrued pension and other postretirement benefits	(127,564)	(131,073)
Changes in discontinued operations	—	241
Other	(1,281)	104
Net cash provided by operating activities	230,625	143,519
Investing Activities		
Capital expenditures	(89,656)	(58,911)
Reimbursements of capital expenditures	2,604	229
Proceeds from sale of assets	940	8,523
Acquisitions, net of cash acquired	(140,982)	11,705
Net cash used in investing activities	(227,094)	(38,454)
Financing Activities		
Net (decrease) increase in revolving credit facility	(2,429)	267,862
Proceeds from issuance of long-term debt and capital leases	78,066	75,400
Repayment of debt and capital lease obligations	(68,713)	(447,200)
Payment of deferred financing costs	(2,312)	(3,927)
Dividends paid	(6,001)	(4,920)
Proceeds from government grant	1,000	—
Repurchase of restricted shares for minimum tax obligation	(1,840)	(608)
Proceeds from exercise of stock options	2,024	2,947
Net cash used in financing activities	(205)	(110,446)
Effect of exchange rate changes on cash	464	(1,265)
Net change in cash	3,790	(6,646)
Cash and cash equivalents at beginning of period	29,662	39,328

Cash and cash equivalents at end of period	$33,452	$32,682

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 and nine months ended December 31, 2012 are not necessarily indicative of results that may be expected for the year ending March 31, 2013. The accompanying consolidated financial statements are unaudited and should be read in conjunction with the fiscal 2012 audited consolidated financial statements and notes thereto, included in the Company's Form 10-K for the year ended March 31, 2012 filed in May 2012.

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.

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

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

Adjustments to original estimates for a contract's revenues, estimated costs at completion and estimated total profit are often required as work progresses under a contract, as experience is gained and as more information is obtained, even though the scope of work required under the contract may not change, or if contract modifications occur. These estimates are also

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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-Type and Production-Type Contracts topic. Revisions in contract estimates, if significant, can materially affect results of operations and cash flows, as well as valuation of inventory. Furthermore, certain contracts are combined or segmented for revenue recognition in accordance with the Construction-Type and Production-Type Contracts topic.

For the three months ended December 31, 2012, cumulative catch-up adjustments from changes in estimates decreased operating income, net income and earnings per share by approximately $(5,492), $(3,513) and $(0.07) net of tax, respectively. The cumulative catch-up adjustments to operating income for the three months ended December 31, 2012 included gross favorable adjustments of approximately $6,753 and gross unfavorable adjustments of approximately $(12,245). For the nine months ended December 31, 2012, cumulative catch-up adjustments from changes in estimates decreased operating income, net income and earnings per share by approximately $(8,049), $(5,075) and $(0.10) net of tax, respectively. The cumulative catch-up adjustments to operating income for the nine months ended December 31, 2012 included gross favorable adjustments of approximately $10,267 and gross unfavorable adjustments of approximately $(18,316). For the three months ended December 31, 2011, cumulative catch-up adjustments from changes in estimates increased operating income, net income and earnings per share by approximately $8,441, $5,396 and $0.10 net of tax, respectively. For the nine months ended December 31, 2011, cumulative catch-up adjustments from changes in estimates increased operating income, net income and earnings per share by approximately $15,741, $10,119 and $0.20 net of tax, respectively.

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

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

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 Aircraft Industries, Inc.

("Vought") on June 16, 2010. For the three months ended December 31, 2012 and 2011, the Company recognized $6,219 and $4,994, respectively, into net sales in the accompanying consolidated statements of income. For the nine months ended December 31, 2012 and 2011, the Company recognized $19,774 and $18,504, respectively, into net sales in the accompanying consolidated statements of income.

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

Concentration of Credit Risk

The Company's trade accounts receivable are exposed to credit risk. However, the risk is limited due to the diversity of the customer base and the customer base's wide geographical area. Trade accounts receivable from The Boeing Company ("Boeing") (representing commercial, military and space) represented approximately 32.5% and 37.1% of total trade accounts receivable as of December 31, 2012 and March 31, 2012, respectively. The Company had no other concentrations of credit risk of more than 10%. Sales to Boeing for the nine months ended December 31, 2012 were $1,345,199, or 50% of net sales, of which $1,267,441, $52,771 and $24,987 were from the Aerostructures segment, the Aerospace Systems segment and Aftermarket Services segment, respectively. Sales to Boeing for the nine months ended December 31, 2011 were $1,133,359, or 46% of net sales, of which $1,067,437, $47,288 and $18,634 were from the Aerostructures segment, the Aerospace Systems segment and Aftermarket Services segment, respectively. No other single customer accounted for more than 10% of the Company's net sales. However, the loss of any significant customer, including Boeing, could have a material adverse effect on the Company and its operating subsidiaries.

Stock-Based Compensation

The Company recognizes compensation expense for share-based awards based on the fair value of those awards at the date of grant. Stock-based compensation expense for the three months ended December 31, 2012 and 2011 was $1,692 and $1,355, respectively. Stock-based compensation expense for the nine months ended December 31, 2012 and 2011 was $4,854 and $3,752, 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:

	December 31, 2012			
	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	16.0	$520,366	$(92,886)	$427,480
Product rights and licenses	12.0	37,776	(26,853)	10,923
Non-compete agreements and other	8.0	3,727	(1,647)	2,080
Tradename	Indefinite-lived	442,644	—	442,644
Total intangibles, net		$1,004,513	$(121,386)	$883,127

	March 31, 2012 Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	16.3	$460,054	$(70,169)	$389,885
Product rights and licenses	12.0	37,776	(24,208)	13,568
Non-compete agreements and other	13.0	7,327	(6,104)	1,223
Tradename	Indefinite-lived	425,000	—	425,000
Total intangibles, net		$930,157	$(100,481)	$829,676

Amortization expense for the three months ended December 31, 2012 and 2011 was $8,724 and $8,497, respectively. Amortization expense for the nine months ended December 31, 2012 and 2011 was $25,847 and $25,390, respectively.

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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)

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 allows the Company to adopt the topic early to use it in its annual impairment testing for the year ending March 31, 2013. The Company does not expect this guidance to have a significant impact on the Company's consolidated balance sheets, statements of income, or statements of cash flows.

Warranty Reserves
A reserve has been established to provide for the estimated future cost of warranties on our delivered products. The Company periodically reviews the reserves and adjustments are made accordingly. A provision for warranty on products delivered is made on the basis of historical experience and identified warranty issues. Warranties cover such factors as non-conformance to specifications and defects in material and workmanship. The majority of the Company's agreements include a three-year warranty, although certain programs have warranties up to 20 years.
The following is a rollforward of the warranty reserves for the nine months ended December 31, 2012.

Balance, March 31, 2012	$14,473	
Charges to costs and expenses	436	
Settlements made during the year	(2,353	)
Exchange rate changes	(2	)
Balance, September 30, 2012	$12,554	

Supplemental Cash Flow Information

The Company paid $3,026 and $282 for income taxes, net of refunds received, for the nine months ended December 31, 2012 and 2011, respectively. The Company made interest payments of $43,936 and $52,872 for the nine months ended December 31, 2012 and 2011, respectively.

During the nine months ended December 31, 2012 and 2011, the Company financed $3,192 and $61 of property and equipment additions through capital leases, respectively. During the nine months ended December 31, 2012 and 2011, the Company issued 387,147 and 772,398 shares, respectively, in connection with certain redemptions of convertible senior subordinated notes (see Note 6).

3. ACQUISITIONS
Acquisition of Embee Inc.

Effective December 19, 2012, the Company acquired all of the outstanding shares of Embee, Inc. ("Embee"), renamed Triumph Processing - Embee Division, Inc. which is a leading commercial metal finishing provider offering more than seventy metal finishing, inspecting and testing processes primarily for the aerospace industry. The acquisition of Embee expands our current capabilities and to provide comprehensive processing services on precision engineered parts for hydraulics, landing gear, spare parts and electronic actuation systems. The results for Triumph Processing - Embee Division, Inc. are included in the Aerospace Systems Group segment.

The purchase price for the Embee acquisition included cash paid at closing in the amount of $141,732. Goodwill in the amount of $38,053 was recognized for this acquisition and is calculated as the excess of consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized such as assembled workforce. The goodwill is deductible for tax purposes. The Company has also identified intangible assets valued at approximately $79,298 with a weighted-average life of 13.8 years. The Company is awaiting final appraisal of tangible assets, intangible assets and certain contingent liabilities related to the Embee acquisition. Accordingly,

(dollars in thousands, except per share data)

3. ACQUISITIONS (Continued)

the Company has recorded its best estimate of the value of intangible assets, property and equipment and contingent liabilities. Therefore, the allocation of the purchase price of the Embee acquisition is not complete.

The following table summarizes the provisional recording of assets acquired and liabilities assumed as of the acquisition date:

	December 19, 2012
Cash	$750
Accounts receivable	7,101
Inventory	411
Prepaid expenses and other	449
Deferred taxes	459
Property and equipment	21,683
Goodwill	38,053
Intangibles assets	79,298
Other assets	181
Total assets	$148,385
Accounts payable	$1,463
Accrued expenses	1,553
Other noncurrent liabilities	3,637
Total liabilities	$6,653

The following table is a summary of the preliminary fair value estimates of the identifiable intangible assets and their estimated useful lives:

	Estimated Useful Life	Estimated Fair Value
Non-compete agreement	7 years	1,400
Tradename	Indefinite-lived	17,644
Customer relationships	14 years	60,254
		79,298

The pro forma results presented below include the effects of the acquisition of Embee as if it had been consummated as of April 1, 2011 for fiscal year 2012 and as of April 1, 2012 for fiscal year 2013. The pro forma results include the amortization associated with an estimate of acquired intangible assets as well depreciation expense for property and equipment as a result of recording fair value adjustments to these assets. To better reflect the combined operating results, nonrecurring charges directly attributable to the transaction have been excluded. In addition, the pro forma results do not include any expected benefits of the acquisition. Accordingly, the 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, 2011.

(dollars in thousands, except per share data)

3. ACQUISITIONS (Continued)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
Net Sales	$900,139	$836,588	$2,751,153	$2,493,657
Income from continuing operations	75,414	66,513	234,088	176,242
Income from continuing operations, per share—basic	$1.52	$1.36	$4.72	$3.62
Income from continuing operations, per share—diluted	$1.44	$1.28	$4.47	$3.41

The Embee acquisition has been accounted for under the acquisition method and, accordingly, is included in the consolidated financial statements from the effective date of acquisition. The Embee acquisition was funded by the Company's long-term borrowings in place at the date of acquisition. The Company incurred $689 in acquisition-related costs in connection with the Embee acquisition, which is recorded in selling, general and administrative expenses in the accompanying consolidated statement of income.

Aviation Network Services, LLC

In October 2011, the Company's wholly-owned subsidiary, Triumph Interiors, LLC, acquired the assets of Aviation Network Services, LLC ("ANS"), a leading provider of repair and refurbishment of aircraft interiors primarily for commercial airlines. ANS provides Triumph Interiors, LLC with additional capacity and expanded product offerings, such as the repair and refurbishment of passenger service units and other interior products. The results of Triumph Interiors, LLC are included in the Company's Aftermarket Services segment.

The purchase price for ANS of $9,180 included cash paid at closing and the estimated acquisition-date fair value of contingent consideration. The estimated acquisition-date fair value of contingent consideration relates to an earnout note contingent upon the achievement of certain earnings levels during the earnout period. The maximum amounts payable pursuant to the earnout for fiscal 2013, 2014 and 2015 are $1,100, $900 and $1,000, respectively. The estimated fair value of the earnout note at the acquisition date was $1,926, classified as a Level 3 liability in the fair value hierarchy. The excess of the purchase price over the estimated fair value of the net assets acquired of $3,517 was recorded as goodwill, which is deductible for tax purposes. The Company has also identified intangible assets of $4,222 with a weighted-average life of 9.9 years. The Company finalized the allocation of the purchase price in the fourth quarter of fiscal 2012.

The following condensed balance sheet represents the amounts assigned to each major asset and liability caption in the aggregate for the acquisition of ANS:

	October 31, 2011
Trade and other receivables	$625
Inventory	545
Prepaid expenses and other	12
Deferred income taxes	118
Property and equipment	264
Goodwill	3,517
Intangible assets	4,222
Total assets	$9,303

Accounts payable	$79
Accrued expenses	44
Other noncurrent liabilities	1,926
Total liabilities	$2,049

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

3. ACQUISITIONS (Continued)

The ANS acquisition has been accounted for under the acquisition method of accounting and, accordingly, is included in the consolidated financial statements from the date of acquisition. The ANS acquisition was funded by the Company's long-term borrowings in place at the date of acquisition. The Company incurred $168 in acquisition-related costs in connection with the ANS acquisition.

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 $286 for the nine months ended December 31, 2011. The loss from discontinued operations was $765, net of income tax benefit $412 for the nine months ended December 31, 2011. Interest expense of $68 was allocated to discontinued operations for the nine months ended December 31, 2011, based upon the actual borrowings of the operations, and such interest expense is included in the loss from discontinued operations.

5. INVENTORIES

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

	December 31, 2012	March 31, 2012
Raw materials	$68,099	$53,103
Work-in-process, including manufactured and purchased components	963,284	887,686
Finished goods	47,697	41,617
Less: unliquidated progress payments	(141,283)	(164,450)
Total inventories	$937,797	$817,956

Work-in-process inventory includes capitalized pre-production costs. Capitalized pre-production costs include certain contract costs, including applicable overhead, incurred before a product is manufactured on a recurring basis. Significant customer-directed work changes can also cause pre-production costs to be incurred. These costs are typically recovered over a contractually determined number of ship set deliveries and the Company believes these amounts will be fully recovered. The balance of capitalized pre-production costs at December 31, 2012 and March 31, 2012 was $53,216 and $19,385, respectively, related to the Bombardier wing program.

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6. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2012	March 31, 2012
Revolving credit facility	$317,571	$320,000
Receivable securitization facility	145,000	120,000
Equipment leasing facility and other capital leases	64,597	61,301
Senior subordinated notes due 2017	173,271	173,061
Senior notes due 2018	348,064	347,867
Convertible senior subordinated notes	109,738	128,655
Subordinated promissory note	8,686	—
Other debt	7,978	7,978
	1,174,905	1,158,862
Less current portion	133,951	142,237
	$1,040,954	$1,016,625

Revolving Credit Facility

On May 23, 2012, 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 $1,000,000, with a $50,000 accordion feature, from $850,000, (ii) extend the maturity date to May 23, 2017, and (iii) amend certain other terms and covenants. In connection with the amendment to the Credit Facility, the Company incurred $2,066 of financing costs. These costs, along with the $6,955 of unamortized financing costs prior to the closing, are being amortized over the remaining term of the Credit Facility.

On April 5, 2011, in connection with a prior amendment and restatement of the Credit Facility, the Company extinguished its then-outstanding term loan credit agreement (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 for the nine months ended December 31, 2011.

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 1.50% and 2.75%; (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 0.30% and 0.50% on the unused portion of the Credit Facility. The Company's obligations under the Credit Facility are guaranteed by the Company's domestic subsidiaries.

At December 31, 2012, there were $317,571 in borrowings and $31,402 in letters of credit outstanding under the Credit Facility primarily to support insurance policies. At March 31, 2012, there were $320,000 in borrowings and $33,240 in letters of credit outstanding under the Credit Facility primarily to support insurance policies. The level of unused borrowing capacity

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6. LONG-TERM DEBT (CONTINUED)
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 December 31, 2012, the Company had borrowing capacity under this facility of $651,027 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 December 31, 2012, the Company had no availability under the Securitization Facility above the amount outstanding due to the level of receivables. 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 0.55% on the amount outstanding under the Securitization Facility. Additionally, the commitment fee is 0.55% on 102.00% of the maximum amount available under the Securitization Facility. At December 31, 2012, there was $145,000 outstanding under the Securitization Facility. In connection with amending the Securitization Facility, the Company incurred approximately $351 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 Accounting Standards Codification.
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.
Capital Leases
During the nine months ended December 31, 2012 and 2011, the Company entered into new capital leases in the amount of $3,192 and $61, respectively, to finance a portion of the Company’s capital additions for the period. During the nine months ended December 31, 2012, the Company obtained financing for existing fixed assets in the amount of $11,199.

Senior Subordinated Notes Due 2017

On November 16, 2009, the Company issued $175,000 principal amount of 8.00% Senior Subordinated Notes due 2017 (the “2017 Notes”). The 2017 Notes were sold at 98.56% of principal amount and 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.
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 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

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6. LONG-TERM DEBT (CONTINUED)
Company's domestic restricted subsidiaries incurred under any credit facility (collectively, the "Guarantor Subsidiaries"), in each case on a senior subordinated basis. If the Company is unable to make payments on the 2017 Notes when they are due, each of the Guarantor Subsidiaries would be obligated to make such payments.

The Company has the option to redeem all or a portion of the 2017 Notes at any time prior to November 15, 2013 at a redemption price equal to 100% of the principal amount of the 2017 Notes redeemed, plus an applicable premium set forth in the Indenture and accrued and unpaid interest, if any. The 2017 Notes are also subject to redemption, in whole or in part, at any time on or after November 15, 2013, at redemption prices equal to (i) 104% of the principal amount of the 2017 Notes redeemed, if redeemed prior to November 15, 2014, (ii) 102% of the principal amount of the 2017 Notes redeemed, if redeemed prior to November 15, 2015, and (iii) 100% of the principal amount of the 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.

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. The Company is currently in compliance with all such covenants.

Senior Notes Due 2018

On June 16, 2010, in connection with the acquisition of Vought, the Company issued $350,000 principal amount of 8.63% Senior Notes due 2018 (the "2018 Notes"). The 2018 Notes were sold at 99.27% of principal amount and have an effective interest yield of 8.75%. Interest on the 2018 Notes accrues at the rate of 8.63% 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.

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

6. LONG-TERM DEBT (CONTINUED)
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. The Company is currently in compliance with all such covenants.

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 net proceeds from the sale were used for prepayment of the Company’s then-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 were fully amortized as of September 30, 2011.

The Convertible Notes bear interest at a fixed rate of 2.63% per annum, payable in cash semiannually in arrears on each April 1 and October 1. During the period commencing on October 6, 2011 and ending on, but excluding, April 1, 2012 and for each six-month period from October 1 to March 31 or from April 1 to September 30 thereafter, the Company 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. The Company expects that this contingent interest will continue to be payable on principal that remains outstanding. This contingent interest feature represents an embedded derivative. The value of the derivative was not deemed material at December 31, 2012 due to overall market volatility, recent conversions by holders of the Convertible Notes, as well as the Company's ability to call the Convertible Notes at any time after October 6, 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, 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, 2016 and 2021, at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased plus accrued and unpaid interest, including contingent interest and additional amounts, if any, up to, but not including, the date of repurchase. On September 2, 2011, the Company submitted a tender offer of repurchase to the holders of the Convertible Notes, expiring October 3, 2011, and no notes were tendered for repurchase. The Convertible Notes are convertible into the Company’s common stock at a rate equal to 36.8060 shares per $1 principal amount of the Convertible Notes (equal to an initial conversion price of approximately $27.16 per share), subject to adjustment as described in the indenture governing the Convertible Notes. Upon conversion, the Company will deliver to the holder surrendering the Convertible Notes for conversion, for each $1 principal amount of Convertible Notes, an amount consisting of cash equal to the lesser of $1 and the Company’s total conversion obligation and, to the extent that the Company’s total conversion obligation exceeds $1, at the Company's election, cash or shares of the Company's common stock in respect of the remainder. 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 December 31, 2012, the Convertible Notes were eligible for conversion. During the fiscal year ended March 31, 2012, the Company settled the conversion of $50,395 in principal value

6. LONG-TERM DEBT (CONTINUED)

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 772,438 shares. During the nine months ended December 31, 2012, the Company settled the conversion of $18,917 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 387,147 shares. In December 2012, the Company received notice of conversion from holders of $369 in principal value of the Convertible Notes. These conversions were settled in the fourth quarter of fiscal 2013 with the principal settled in cash and the conversion benefit settled through the issuance of approximately 8,123 shares. In January 2013, 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 December 31, 2012, 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 March 31, 2013. 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 $27.16. The average price of the Company's common stock for the three months ended December 31, 2012 and 2011 was $64.03 and $55.30, respectively. Therefore, for the three months ended December 31, 2012 and 2011, there were 2,325,762 and 2,595,449 additional shares, respectively, included in the calculation of diluted earnings per share. The average price of the Company's common stock for the nine months ended December 31, 2012 and 2011 was $61.61 and $50.15, respectively. Therefore, for the nine months ended December 31, 2012 and 2011, there were 2,258,467 and 2,555,096 additional shares, respectively, included in the calculation of diluted earnings per share. If the Company undergoes a fundamental change, holders of the Convertible Notes will have the right, subject to certain conditions, to require the Company to repurchase for cash all or a portion of their Convertible Notes 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.

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

The following table provides the assets (liabilities) reported at fair value and measured on a recurring basis as of December 31, 2012 and March 31, 2012:

Description	Level	December 31, 2012		March 31, 2012
Contingent consideration	3	$(2,542	)	$(2,019