TRIUMPH GROUP INC
Form 10-Q
August 04, 2014
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United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2014

or

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

For the Transition Period From _________ to ________

Commission File Number: 1-12235

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

Delaware	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	ý	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, 51,423,808 shares outstanding as of July 31, 2014.

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Part I. Financial Information

Item 1. Financial Statements.

Triumph Group, Inc.
Condensed Consolidated Balance Sheets
(dollars in thousands, except per share data)

	June 30, 2014 (unaudited)	March 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$25,465	$28,998
Trade and other receivables, less allowance for doubtful accounts of $6,528 and $6,535	667,202	517,707
Inventories, net of unliquidated progress payments of $189,976 and $165,019	1,202,163	1,111,767
Rotable assets	43,230	41,666
Deferred income taxes	46,898	57,308
Prepaid and other current assets	25,249	24,897
Total current assets	2,010,207	1,782,343
Property and equipment, net	965,424	930,973
Goodwill	1,867,668	1,791,831
Intangible assets, net	976,464	978,182
Other, net	38,849	69,954
Total assets	$5,858,612	$5,553,283
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$43,323	$49,575
Accounts payable	301,808	317,334
Accrued expenses	237,814	273,290
Total current liabilities	582,945	640,199
Long-term debt, less current portion	1,714,310	1,500,808
Accrued pension and other postretirement benefits, noncurrent	448,767	508,524
Deferred income taxes, noncurrent	386,686	385,085
Other noncurrent liabilities	372,356	234,756
Stockholders' equity:		
Common stock, $.001 par value, 100,000,000 shares authorized, 52,460,920 and 52,459,020 shares issued; 51,423,808 and 52,159,020 shares outstanding	52	52
Capital in excess of par value	856,496	866,281
Treasury stock, at cost, 1,037,112 and 300,000 shares	(70,178)	(19,134)
Accumulated other comprehensive loss	(14,629)	(18,908)
Retained earnings	1,581,807	1,455,620
Total stockholders' equity	2,353,548	2,283,911
Total liabilities and stockholders' equity	$5,858,612	$5,553,283

SEE ACCOMPANYING NOTES.

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

	Three Months Ended June 30,	
	2014	2013
Net sales	$896,905	$943,683
Operating costs and expenses:		
Cost of sales (exclusive of depreciation and amortization shown separately below)	684,816	696,471
Selling, general and administrative	65,710	66,717
Depreciation and amortization	37,551	37,934
Relocation costs	2,997	1,215
Gain on legal settlement, net of expenses	(134,693)	—
	656,381	802,337
Operating income	240,524	141,346
Interest expense and other	42,360	19,710
Income before income taxes	198,164	121,636
Income tax expense	69,921	42,593
Net income	$128,243	$79,043
Earnings per share—basic:	$2.48	$1.56
Weighted-average common shares outstanding—basic	51,691	50,815
Earnings per share—diluted:	$2.46	$1.50
Weighted-average common shares outstanding—diluted	52,089	52,806
Dividends declared and paid per common share	$0.04	$0.04

SEE ACCOMPANYING NOTES.

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

	Three Months Ended June 30, 2014	2013
Net income	$128,243	$79,043
Other comprehensive (loss) income:		
Foreign currency translation adjustment	7,204	(509)
Defined benefit pension plans and other postretirement benefits:		
Reclassifications from accumulated other comprehensive income - (gains) losses, net of tax expense (benefits):		
Amortization of net loss, net of taxes of $0 and ($1,700) for the three months ended	—	2,831
Recognized prior service credits, net of taxes of $921 and $1,056 for the three months ended	(1,533)	(1,759)
Total defined benefit pension plans and other postretirement benefits, net of taxes	(1,533)	1,072
Cash flow hedges:		
Unrealized gain (loss) arising during period, net of tax of $905 and $140 for the three months ended	(1,357)	(235)
Reclassification of (gain) loss included in net earnings, net of tax of $20 and ($9) for the three months ended	(35)	15
Net unrealized loss cash flow hedges, net of tax	(1,392)	(220)
Total other comprehensive income	4,279	343
Total comprehensive income	$132,522	$79,386

SEE ACCOMPANYING NOTES.

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

	Three Months Ended June 30,	
	2014	2013
Operating Activities		
Net income	$128,243	$79,043
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	37,551	37,934
Amortization of acquired contract liabilities	(8,967)	(11,150)
Accretion of debt discount	1,577	145
Other amortization included in interest expense	5,323	1,064
Provision for doubtful accounts receivable	(40)	678
Provision for deferred income taxes	71,106	41,924
Employee stock-based compensation	996	1,328
Changes in assets and liabilities, excluding the effects of acquisitions and dispositions of businesses:		
Trade and other receivables	(84,970)	42,082
Rotable assets	(1,564)	1,705
Inventories	(49,274)	(72,569)
Prepaid expenses and other current assets	2,388	3,225
Accounts payable, accrued expenses and other current liabilities	(93,657)	(74,490)
Accrued pension and other postretirement benefits	(62,636)	(37,458)
Other	1,872	(1,579)
Net cash (used in) provided by operating activities	(52,052)	11,882
Investing Activities		
Capital expenditures	(23,077)	(56,229)
Reimbursements of capital expenditures	—	2,869
Proceeds from sale of assets	651	10,321
Acquisitions, net of cash acquired	(60,901)	(31,329)
Net cash used in investing activities	(83,327)	(74,368)
Financing Activities		
Net increase in revolving credit facility	259,534	153,935
Proceeds from issuance of long-term debt and capital leases	323,505	25,000
Repayment of debt and capital lease obligations	(390,223)	(125,186)
Purchase of common stock	(51,043)	—
Payment of deferred financing costs	(5,194)	(357)
Dividends paid	(2,056)	(2,069)
Repayment of government grant	(3,198)	—
Repurchase of restricted shares for minimum tax obligation	(673)	(2,726)
Proceeds from exercise of stock options	356	109
Net cash provided by financing activities	131,008	48,706
Effect of exchange rate changes on cash	838	272
Net change in cash	(3,533)	(13,508)
Cash and cash equivalents at beginning of period	28,998	32,037
Cash and cash equivalents at end of period	$25,465	$18,529

SEE ACCOMPANYING NOTES.

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

1. BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements of Triumph Group, Inc. (the "Company") have been prepared in conformity with accounting principles generally accepted in the United States ('U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position and cash flows. The results of operations for the three months ended June 30, 2014 are not necessarily indicative of results that may be expected for the year ending March 31, 2015. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the fiscal 2014 audited condensed consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended March 31, 2014 filed in May 2014.

The Company designs, engineers, manufactures, repairs and overhauls a broad portfolio of aerostructures, aircraft components, accessories, subassemblies and systems. The Company serves a broad, worldwide spectrum of the aviation industry, including original equipment manufacturers of commercial, regional, business and military aircraft and aircraft components, as well as commercial and regional airlines and air cargo carriers.
In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance codified in Accounting Standards Codification ("ASC") 606, Revenue Recognition - Revenue from Contracts with Customers, which amends the guidance in former ASC 605, Revenue Recognition. The objective of ASC 606 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance. The principle of ASC 606 is that an entity will recognize revenue at the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled. ASC 606 is effective for interim and annual reporting periods beginning after December 15, 2016 and can be adopted by the Company using either a full retrospective or modified retrospective approach, with early adoption prohibited. The Company is currently evaluating ASC 606 and has not determined the impact it may have on the Company's consolidated results of operations, financial position or cash flows nor decided on the method of adoption.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

Revenues are generally recognized in accordance with the contract terms when products are shipped, delivery has occurred or services have been rendered, pricing is fixed and determinable, and collection is reasonably assured. A significant portion of the Company's contracts are within the scope of the Revenue Recognition - Construction-Type and Production-Type Contracts topic of the ASC 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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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

For the three months ended June 30, 2014, cumulative catch-up adjustments from changes in estimates decreased operating income, net income and earnings per share by approximately \$(723), \$(468) and \$(0.01) net of tax, respectively. The cumulative catch-up adjustments to operating income for the three months ended June 30, 2014 included gross favorable adjustments of approximately \$5,279 and gross unfavorable adjustments of approximately \$(6,002). For the three months ended June 30, 2013, cumulative catch-up adjustments from changes in estimates decreased operating income, net income and earnings per share by approximately \$(4,685), \$(3,044) and \$(0.06) 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.

While the Company is currently projecting its recurring production contracts to be profitable, there is still a substantial amount of risk similar to what the Company has experienced on certain programs. Particularly, the Company's ability to manage risks related to supplier performance, execution of cost reduction strategies, hiring and retaining skilled production and management personnel, quality and manufacturing execution, program schedule delays and many other risks, will determine the ultimate performance of these programs.

For example, significant cost growth experienced on the 747-8 program during prior fiscal year resulted in lower-than-expected margins during the year, but the deliveries are still profitable. We have assessed the profitability of future production related to the 747-8 program and currently projected that the program will continue to be profitable. However, if significant cost growth is experienced, cost reduction strategies are not successfully implemented and/or production rates are further

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

reduced by our customers, profit margin on the 747-8 program could continue to deteriorate or a loss might be incurred on future recurring production blocks.

Included in net sales of the Aerostructures and Aerospace Systems group is the non-cash amortization of acquired contract liabilities recognized as fair value adjustments through purchase accounting from various acquisitions. For the three months ended June 30, 2014 and 2013, the Company recognized $8,967 and $11,150, respectively, into net sales in the accompanying condensed consolidated statements of income.

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

Concentration of Credit Risk

The Company's trade accounts receivable are exposed to credit risk. However, the risk is limited due to the diversity of the customer base and the customer base's wide geographical area. Trade accounts receivable from The Boeing Company ("Boeing") (representing commercial, military and space) represented approximately 27% and 32% of total trade accounts receivable as of June 30, 2014 and March 31, 2014, respectively. The Company had no other concentrations of credit risk of more than 10%. Sales to Boeing for the three months ended June 30, 2014 were $382,106, or 43% of net sales, of which $355,678, $20,691 and $5,737 were from the Aerostructures segment, the Aerospace Systems segment and Aftermarket Services segment, respectively. Sales to Boeing for the three months ended June 30, 2013 were $425,114, or 45% of net sales, of which $397,314, $20,774 and $7,026 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, 2014 and 2013 was $996 and $1,328, 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 issues new shares.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	June 30, 2014 Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	16.5	$660,166	$(147,403)	$512,763
Product rights, technology and licenses	11.7	52,405	(29,629)	22,776
Non-compete agreements and other	15.9	2,929	(404)	2,525
Tradenames	Indefinite-lived	438,400	—	438,400
Total intangibles, net		$1,153,900	$(177,436)	$976,464

	March 31, 2014 Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	16.7	$650,210	$(136,970)	$513,240
Product rights, technology and licenses	11.7	52,405	(28,437)	23,968
Non-compete agreements and other	13.6	3,679	(1,105)	2,574
Tradenames	Indefinite-lived	438,400	—	438,400
Total intangibles, net		$1,144,694	$(166,512)	$978,182

Amortization expense for the three months ended June 30, 2014 and 2013 was $11,631 and $11,533, respectively.

Fair Value Measurements
Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. When determining fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and also considers assumptions that market participants would use when pricing an asset or liability. The fair value hierarchy has three levels of inputs that may be used to measure fair value: Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities; Level 2—Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability; and Level 3—Unobservable inputs for the asset or liability. The Company has applied fair value measurements to its interest rate swap (see Note 6).

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

warranty reserves as of ended June 30, 2014 and 2013, were $37,751 and $22,066, respectively.

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(dollars in thousands, except per share data)
(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Supplemental Cash Flow Information
The Company paid $591 and $672 for income taxes, net of refunds received, for the three months ended June 30, 2014 and 2013, respectively. The Company made interest payments of $45,589 and $11,589 for the three months ended June 30, 2014 and 2013, respectively.
During the three months ended June 30, 2014 and 2013, the Company financed $0 and $26 of property and equipment additions through capital leases, respectively. During the three months ended June 30, 2014 and 2013, the Company issued 0 and 1,849,548 shares, respectively, in connection with certain conversions of convertible senior subordinated notes (see Note 6).
During the three months ended June 30, 2014, under the existing stock repurchase program, the Company repurchased 750,000 shares for $51,044. As a result, as of June 30, 2014, the Company remains able to purchase an additional 4,450,800 shares under the existing stock repurchase program.

3. ACQUISITIONS
Acquisition of GE Aviation - Hydraulic Actuation
Effective June 27, 2014, the Company acquired the hydraulic actuation business of GE Aviation ("GE"). GE's hydraulic actuation business consists of three facilities located in Yakima, Washington, Cheltenham, England and the Isle of Man and is a technology leader in actuation systems. GE's key product offerings include complete landing gear actuation systems, door actuation, nose-wheel steerings, hydraulic fuses, manifolds flight control actuation and locking mechanisms for the commercial, military and business jet markets. The acquired business will operate as Triumph Actuation Systems-Yakima and Triumph Actuation Systems-UK & IOM and its results are included in Aerospace Systems Group from the date of acquisition.
The purchase price for the GE acquisition was $71,509, which includes cash paid at closing and deferred payments. Goodwill in the amount of $70,209 was recognized for this acquisition and is calculated as the excess of consideration transferred over the net assets recognized and represents future economic benefits arising from other assets acquired that could not be individually identified and separately recognized such as assembled workforce. The goodwill is deductible for tax purposes. The Company has also identified an intangible asset related to customer relationships valued at $9,000 with a weighted-average life of 13.0 years.
The accounting for the business combination is dependent upon obtaining valuations and other information for certain assets and liabilities which have not yet been completed or obtained to a point where definitive estimates can be made. The process for estimating the fair values of identified intangible assets, certain tangible assets and assumed liabilities requires the use of judgment to determine the appropriate assumptions.
As the acquisition date occurred at the end of our fiscal quarter, substantially all of the purchase price allocation for GE is provisional. As the Company finalizes estimates of the fair value of assets acquired and liabilities assumed, additional purchase price adjustments will be recorded during the measurement period not to exceed one year beyond the acquisition date. These adjustments may have a material impact on the Company's results of operations and financial position.
The table below presents the provisional estimated fair value of assets acquired and liabilities assumed on the acquisition date based on the best information the Company has received to date, in accordance with Accounting Standards Codification Topic 805, Business Combinations ("ASC 805"). These estimates will be revised as the Company receives final appraisal of tangible and intangible assets, certain liabilities assumed and other information related to the GE acquisition. Accordingly, the amounts below report the Company's best estimate of fair value based on the information available at this time:

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

3. ACQUISITIONS (Continued)

	June 27, 2014
Cash	$4,608
Accounts receivable	36,730
Inventory	47,601
Property and equipment	41,004
Goodwill	70,209
Intangible assets	9,000
Deferred taxes	53,919
Other assets	2,506
Total assets	$265,577
Accounts payable	$19,080
Accrued expenses	26,104
Acquired contract liabilities	148,884
Total liabilities	$194,068

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

The GE acquisition has been accounted for under the acquisition method and, accordingly, is included in the condensed consolidated financial statements from the effective date of acquisition. The GE acquisition was funded by the Company's long-term borrowings in place at the date of acquisition. The Company incurred $812 in acquisition-related costs in connection with the GE acquisition, which is recorded in selling, general and administrative expenses in the accompanying Condensed Consolidated Statement of Income.

FISCAL 2014 ACQUISITIONS

Acquisition of Insulfab Product Line (Chase Corporation)

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

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

Acquisition of General Donlee Canada, Inc.

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

The purchase price for the General Donlee acquisition was $56,622 plus assumed debt of $32,382, which was settled at closing. Additionally, on October 7, 2013, the Company, at its option, called General Donlee's Convertible Notes for $26,000, which were paid on November 12, 2013. Goodwill in the amount of $46,468 was recognized for this acquisition and is

(dollars in thousands, except per share data)

3. ACQUISITIONS (Continued)

calculated as the excess of consideration transferred over the net assets recognized and represents future economic benefits arising from other assets acquired that could not be individually identified and separately recognized such as assembled workforce. The goodwill is not deductible for tax purposes. The Company has also identified intangible assets related to customer relationships valued at approximately $24,607 with a weighted-average life of 15.0 years. The accounting for a business combination is dependent upon obtaining valuations and other information for certain assets and liabilities which have not yet been completed or obtained to a point where definitive estimates can be made. The process for estimating the fair values of identified intangible assets, certain tangible assets and assumed liabilities require the use of judgment to determine the appropriate assumptions.

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

The table below presents the provisional estimated fair value of assets acquired and liabilities assumed on the acquisition date based on the best information it has received to date, in accordance with ASC 805. The Company is awaiting final appraisal of tangible assets, intangible assets and certain contingent liabilities related to the General Donlee acquisition. Accordingly, the Company has recorded the value of intangible assets and property and equipment to draft appraisals. The allocation of the purchase price of the General Donlee acquisition is not complete and the amounts below represent the Company's best estimates of the fair value based on the current information:

	October 4, 2013
Accounts receivable	$10,976
Inventory	15,645
Prepaid expenses and other	184
Property and equipment	31,495
Goodwill	46,468
Intangibles assets	24,607
Total assets	$129,375
Accounts payable	$2,841
Accrued expenses	3,620
Deferred taxes	11,336
Debt	54,956
Total liabilities	$72,753

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

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

Acquisition of Primus Composites

Effective May 6, 2013, the Company acquired four related entities collectively comprising the Primus Composites ("Primus") business from Precision Castparts Corp. The acquired business, which includes two manufacturing facilities in Farnborough, England and Rayong, Thailand, will operate as Triumph Structures - Farnborough and Triumph Structures -

(dollars in thousands, except per share data)

3. ACQUISITIONS (Continued)

Thailand and be included in the Aerostructures Group from the date of acquisition. Together, Triumph Structures - Farnborough and Triumph Structures - Thailand constitute a global supplier of composite and metallic propulsion and structural composites and assemblies. In addition to its composite operations, the Thailand operation also machines and processes metal components.

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

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

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

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

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

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3. ACQUISITIONS (Continued)

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

	Three Months Ended June 30,	
	2014	2013
Net Sales	$947,842	$1,015,825
Net income	129,467	82,244
Earnings per share—basic	$2.50	$1.62
Earnings per share—diluted	$2.49	$1.56

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Sale of Triumph Aerospace Systems - Wichita

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

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

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

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

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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:

	June 30, 2014	March 31, 2014
Raw materials	$83,605	$106,552
Work-in-process, including manufactured and purchased components	1,199,720	1,102,626
Finished goods	108,814	67,608
Less: unliquidated progress payments	(189,976)	(165,019)
Total inventories	$1,202,163	$1,111,767

Work-in-process inventory includes capitalized pre-production costs. Capitalized pre-production costs include nonrecurring engineering, planning and design, including applicable overhead, incurred before production is manufactured on a regular basis. Significant customer-directed work changes can also cause pre-production costs to be incurred. These costs are typically recovered over a contractually determined number of ship-set deliveries and the Company believes these amounts will be fully recovered. The balance of capitalized pre-production costs related to the Company's contracts with Bombardier for the Global 7000/8000 program ("Bombardier") and Embraer for the second generation E-Jet ("Embraer") as of June 30, 2014 is $165,764. The balance of capitalized pre-production costs related to the Company's contracts with Bombardier and Embraer as of March 31, 2014 was $131,358.

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

6. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30, 2014	March 31, 2014
Revolving line of credit	$453,940	$194,406
Term loan	370,313	375,000
Receivable securitization facility	164,600	162,400
Equipment leasing facility and other capital leases	80,720	74,342
Senior notes due 2018	—	348,423
Senior notes due 2021	375,000	375,000
Senior notes due 2022	300,000	—
Convertible senior subordinated notes	5,082	12,834
Other debt	7,978	7,978
	1,757,633	1,550,383
Less current portion	43,323	49,575
	$1,714,310	$1,500,808

6. LONG-TERM DEBT (Continued)

Revolving Credit Facility

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

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

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

The obligations under the Credit Facility and related documents are secured by liens on substantially all assets of the Company and its domestic subsidiaries pursuant to a Second Amended and Restated Guarantee and Collateral Agreement, dated as of November 19, 2013, among the administrative agent, the Company and the subsidiaries of the Company party thereto.

Pursuant to the Credit Facility, the Company can borrow, repay and re-borrow revolving credit loans, and cause to be issued letters of credit, in an aggregate principal amount not to exceed $1,000,000 outstanding at any time. The Credit Facility bears interest at either: (i) LIBOR plus between 1.38% and 2.50%; (ii) the prime rate; or (iii) an overnight rate at the option of the Company. The applicable interest rate is based upon the Company's ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization. In addition, the Company is required to pay a commitment fee of between 0.25% and 0.45% on the unused portion of the Credit Facility. The Company's obligations under the Credit Facility are guaranteed by the Company's domestic subsidiaries.

At June 30, 2014, there were $453,940 in borrowings and $36,907 in letters of credit outstanding under the Revolving Line of Credit provisions of the Credit Facility primarily to support insurance policies. At March 31, 2014, there were $194,406 in borrowings and $36,445 in letters of credit outstanding under the Revolving Line of Credit provisions of the Credit Facility primarily to support insurance policies. The level of unused borrowing capacity under the Revolving Line of Credit provisions of the Credit Facility varies from time to time depending in part upon its compliance with financial and other covenants set forth in the related agreement. The Credit Facility contains certain affirmative and negative covenants including limitations on specified levels of indebtedness to earnings before interest, taxes, depreciation and amortization, and interest coverage requirements, and includes limitations on, among other things, liens, mergers, consolidations, sales of assets, and incurrence of debt. If an event of default were to occur under the Credit Facility, the lenders would be entitled to declare all amounts borrowed under it immediately due and payable. The occurrence of an event of default under the Credit Facility could also cause the acceleration of obligations under certain other agreements. The Company is currently in compliance with all such covenants. As of June 30, 2014, the Company had borrowing capacity under this facility of $509,153 after reductions for borrowings and letters of credit outstanding under the facility.

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

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6. LONG-TERM DEBT (Continued)
Company also formally assesses, both at the hedge's inception and on a quarterly basis, whether the derivative item is highly effective offsetting changes in cash flows.
As of June 30, 2014 and March 31, 2014, the interest rate swap agreement had a notional amount of $370,313 and $375,000, respectively. As of June 30, 2014 and March 31, 2014, the interest rate swap agreement had a fair value of $(96) and $2,426, respectively, which is recorded in other comprehensive income net of applicable taxes (Level 2). The interest rate swap settles on a monthly basis when interest payments are made. These settlements occur through the maturity date.
Receivables Securitization Facility
In February 2013, the Company amended its $175,000 Securitization Facility, extending the term through February 2016. 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, 2014, the maximum amount available under the Securitization Facility was $175,000. Interest rates are based on LIBOR plus a program fee and a commitment fee. The program fee is 0.43% on the amount outstanding under the Securitization Facility. Additionally, the commitment fee is 0.43% on 100.00% of the maximum amount available under the Securitization Facility. At June 30, 2014, there was $164,600 outstanding under the Securitization Facility. In connection with amending the Securitization Facility, the Company incurred approximately $196 of financing costs. These costs, along with the $537 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 all or substantially all of the Company's assets.
Capital Leases
During the three months ended June 30, 2014 and 2013, the Company entered into new capital leases in the amount of $0 and $26, respectively, to finance a portion of the Company’s capital additions for the period. During the three months ended June 30, 2014 and 2013, the Company obtained financing for existing fixed assets in the amount of $10,905 and $0, respectively.

Senior Subordinated Notes Due 2017

On November 16, 2009, the Company issued $175,000 principal amount of 8.00% Senior Subordinated Notes due 2017 (the “2017 Notes”). The 2017 Notes were sold at 98.56% of principal amount and 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.
On November 15, 2013, the Company completed the redemption of the 2017 Notes. The principal amount of $175,000 was redeemed at a price of 104% plus accrued and unpaid interest. As a result of the redemption, the Company recognized a pre-tax loss on redemption of $11,069, consisting of early termination premium, write-off of unamortized discount and deferred financing fees and was recorded on the Consolidated Statements of Income as a component of "Interest expense and other" for the fiscal year ended March 31, 2014.

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6. LONG-TERM DEBT (Continued)
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 had an effective interest yield of 8.75%. Interest on the 2018 Notes accrued at the rate of 8.63% per annum and was payable semiannually in cash in arrears on January 15 and July 15 of each year. In connection with the issuance of the 2018 Notes, the Company incurred approximately $7,307 of costs, which were deferred and were amortized on the effective interest method over the term of the 2018 Notes.
On June 23, 2014, the Company completed the redemption of the 2018 Notes. The principal amount of $350,000 was redeemed at a price of 104.79% plus accrued and unpaid interest. As a result of the redemption, the Company recognized a pre-tax loss on redemption of $22,615, consisting of early termination premium, write-off of unamortized discount and deferred financing fees and was recorded on the Condensed Consolidated Statements of Income as a component of "Interest expense and other" for the three months ended June 30, 2014.
Senior Notes Due 2021
On February 26, 2013, the Company issued $375,000 principal amount of 4.875% Senior Notes due 2021 (the "2021 Notes"). The 2021 Notes were sold at 100% of principal amount and have an effective interest yield of 4.875%. Interest on the 2021 Notes accrues at the rate of 4.875% per annum and is payable semiannually in cash in arrears on April 1 and October 1 of each year, commencing on October 1, 2013. In connection with the issuance of the 2021 Notes, the Company incurred approximately $6,327 of costs, which were deferred and are being amortized on the effective interest method over the term of the 2021 Notes.
The 2021 Notes are the Company's senior unsecured obligations and rank equally in right of payment with all of its other existing and future senior unsecured indebtedness and senior in right of payment to all of its existing and future subordinated indebtedness. The 2021 Notes are guaranteed on a full, joint and several basis by each of the Guarantor Subsidiaries.
The Company may redeem some or all of the 2021 Notes prior to April 1, 2017 by paying a "make-whole" premium. The Company may redeem some or all of the 2021 Notes on or after April 1, 2017 at specified redemption prices. In addition, prior to April 1, 2016, the Company may redeem up to 35% of the 2021 Notes with the net proceeds of certain equity offerings at a redemption price equal to 104.875% of the aggregate principal amount plus accrued and unpaid interest, if any, subject to certain limitations set forth in the indenture governing the 2021 Notes (the "2021 Indenture").
The Company is obligated to offer to repurchase the 2021 Notes at a price of (i) 101% of their principal amount plus accrued and unpaid interest, if any, as a result of certain change-of-control events and (ii) 100% of their principal amount plus accrued and unpaid interest, if any, in the event of certain asset sales. These restrictions and prohibitions are subject to certain qualifications and exceptions.
The 2021 Indenture contains covenants that, among other things, limit the Company's ability and the ability of any of the Guarantor Subsidiaries to (i) grant liens on its assets, (ii) make dividend payments, other distributions or other restricted payments, (iii) incur restrictions on the ability of the Guarantor Subsidiaries to pay dividends or make other payments, (iv) enter into sale and leaseback transactions, (v) merge, consolidate, transfer or dispose of substantially all of their assets, (vi) incur additional indebtedness, (vii) use the proceeds from sales of assets, including capital stock of restricted subsidiaries, and (viii) enter into transactions with affiliates.
Senior Notes Due 2022
On June 3, 2014, the Company issued $300,000 principal amount of 5.250% Senior Notes due 2022 (the "2022 Notes"). The 2022 Notes were sold at 100% of principal amount and have an effective interest yield of 5.250%. Interest on the 2022 Notes accrues at the rate of 5.250% per annum and is payable semiannually in cash in arrears on June 1 and December 1 of each year, commencing on December 1, 2014. In connection with the issuance of the 2022

Notes, the Company incurred approximately $4,990 of costs, which were deferred and are being amortized on the effective interest method over the term of the 2022 Notes.

6. LONG-TERM DEBT (Continued)
The 2022 Notes are the Company's senior unsecured obligations and rank equally in right of payment with all of its other existing and future senior unsecured indebtedness and senior in right of payment to all of its existing and future subordinated indebtedness. The 2022 Notes are guaranteed on a full, joint and several basis by each of the Guarantor Subsidiaries.
The Company may redeem some or all of the 2022 Notes prior to June 1, 2017 by paying a "make-whole" premium. The Company may redeem some or all of the 2022 Notes on or after June 1, 2017 at specified redemption prices. In addition, prior to June 1, 2017, the Company may redeem up to 35% of the 2022 Notes with the net proceeds of certain equity offerings at a redemption price equal to 105.250% of the aggregate principal amount plus accrued and unpaid interest, if any, subject to certain limitations set forth in the indenture governing the 2022 Notes (the "2022 Indenture").
The Company is obligated to offer to repurchase the 2022 Notes at a price of (i) 101% of their principal amount plus accrued and unpaid interest, if any, as a result of certain change-of-control events and (ii) 100% of their principal amount plus accrued and unpaid interest, if any, in the event of certain asset sales. These restrictions and prohibitions are subject to certain qualifications and exceptions.
The 2022 Indenture contains covenants that, among other things, limit the Company's ability and the ability of any of the Guarantor Subsidiaries to (i) grant liens on its assets, (ii) make dividend payments, other distributions or other restricted payments, (iii) incur restrictions on the ability of the Guarantor Subsidiaries to pay dividends or make other payments, (iv) enter into sale and leaseback transactions, (v) merge, consolidate, transfer or dispose of substantially all of their assets, (vi) incur additional indebtedness, (vii) use the proceeds from sales of assets, including capital stock of restricted subsidiaries, and (viii) enter into transactions with affiliates.
Convertible Senior Subordinated Notes
On September 18, 2006, the Company issued $201,250 in convertible senior subordinated notes (the “Convertible Notes”). The Convertible Notes 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 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 June 30, 2014 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.
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 36.8679 shares per $1 principal amount of the Convertible Notes

(dollars in thousands, except per share data)

6. LONG-TERM DEBT (Continued)

(equal to an initial conversion price of approximately $27.12 per share), subject to adjustment as described in the indenture governing the Convertible Notes. Upon conversion, the Company 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 June 30, 2014, the Convertible Notes were eligible for conversion. During the three months ended June 30, 2014, the Company settled the conversion of $7,752 in principal value of the Convertible Notes, as requested by the respective holders, with the principal and the conversion benefit settled in cash. During the three months ended June 30, 2013, the Company settled the conversion of $77,260 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 1,849,548 shares. During June 2014, the Company received notice of conversion from holders of $5,082 in principal value of the Convertible Notes. These conversions were settled in the second quarter of fiscal 2015 with the principal and the conversion benefit settled in cash. Accordingly, the balance sheet classification of the Convertible Notes was short term.

On May 22, 2014, the Company announced the redemption of the Convertible Notes. The redemption price for the Convertible Notes was equal to the sum of 100% of the principal amount of the Convertible Notes outstanding, plus accrued and unpaid interest on the Convertible Notes up to, but not including, the redemption date of June 23, 2014. The Convertible Notes were able to be converted at the option of the holder. Holders of $34 in Convertible Notes elected not to convert prior to the redemption date.

To be included in the calculation of diluted earnings per share, the average price of the Company’s common stock for the quarter must exceed the conversion price per share of $27.12. The average price of the Company’s common stock for the three months ended June 30, 2014 and 2013 was $67.45 and $77.45, respectively. Therefore, for the three months ended June 30, 2014 and 2013, there were 197,830 and 1,692,709 additional shares, respectively, included in the calculation of diluted earnings per share.

Financial Instruments Not Recorded at Fair Value

The carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximate fair value because of their short maturities (Level 1 inputs). Carrying amounts and the related estimated fair values of the Company’s financial instruments not recorded at fair value in the financial statements are as follows:

	June 30, 2014		March 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$1,757,633	$1,761,503	$1,550,383	$1,580,447

The fair value of the long-term debt was calculated based on interest rates available for debt with terms and maturities similar to the Company’s existing debt arrangements, unless quoted market prices were available (Level 2 inputs).

7. EARNINGS PER SHARE

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

	Three Months Ended June 30, (in thousands)	
	2014	2013
Weighted-average common shares outstanding – basic	51,691	50,815
Net effect of dilutive stock options and nonvested stock	200	298
Potential common shares – convertible debt	198	1,693
Weighted-average common shares outstanding – diluted	52,089	52,806

8. 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 de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company has classified uncertain tax positions as noncurrent income tax liabilities unless expected to be paid in one year. Penalties and tax-related interest expense are reported as a component of income tax expense. As of June 30, 2014 and March 31, 2014, the total amount of accrued income tax-related interest and penalties was $185 and $204, respectively.

As of June 30, 2014 and March 31, 2014, the total amount of unrecognized tax benefits was $7,814 and $8,865, respectively, of which $6,031 and $7,082, respectively, would impact the effective rate, if recognized. The Company does not anticipate that total unrecognized tax benefits will be reduced in the next 12 months.

The effective income tax rate for the three months ended June 30, 2014 was 35.3% as compared to 35.0% for the three months ended June 30, 2013. For the three months ended June 30, 2014, the income tax provision was reduced to reflect
unrecognized tax benefits of $1,051 and an additional tax benefit related to the a net operating loss carryback claim of $367.

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

As of June 30, 2014, the Company was not subject to examination in any state jurisdiction. The Company has filed appeals in a prior state examination related to fiscal years ended March 31, 1999 through March 31, 2005. The IRS examination of the fiscal year ended March 31, 2011 was completed during the quarter, with no material changes. 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.

The Company expects to receive a refund claim of $26,001, which had previously been filed for in the second quarter of the fiscal year ended March 31, 2013. The refund claim receivable is included in "Trade and other receivables" in the Condensed Consolidated Balance Sheet as of June 30, 2014.

(dollars in thousands, except per share data)

9. GOODWILL

The following is a summary of the changes in the carrying value of goodwill by reportable segment, from March 31, 2014 through June 30, 2014:

	Aerostructures	Aerospace Systems	Aftermarket Services	Total
Balance, March 31, 2014	$1,339,993	$395,852	$55,986	$1,791,831
Goodwill recognized in connection with acquisitions	—	70,209	—	70,209
Effect of exchange rate changes	3,734	1,894	—	5,628
Balance, June 30, 2014	$1,343,727	$467,955	$55,986	$1,867,668

10. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

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

In addition to the defined benefit pension plans, the Company provides certain healthcare and life insurance benefits for eligible retired employees. Such benefits are unfunded. Employees achieve eligibility to participate in these contributory plans upon retirement from active service if they meet specified age and years of service requirements. Election to participate for some employees must be made at the date of retirement. Qualifying dependents at the date of retirement are also eligible for medical coverage. Current plan documents reserve the right to amend or terminate the plans at any time, subject to applicable collective bargaining requirements for represented employees. From time to time, changes have been made to the benefits provided to various groups of plan participants. Premiums charged to most retirees for medical coverage prior to age 65 are based on years of service and are adjusted annually for changes in the cost of the plans as determined by an independent actuary. In addition to this medical inflation cost-sharing feature, the plans also have provisions for deductibles, co-payments, coinsurance percentages, out-of-pocket limits, schedules of reasonable fees, preferred provider networks, coordination of benefits with other plans and a Medicare carve-out.

In accordance with the Compensation – Retirement Benefits topic of the ASC, the Company has recognized the funded status of the benefit obligation as of the date of the last remeasurement, in the accompanying Condensed Consolidated Balance Sheets. The funded status is measured as the difference between the fair value of the plan’s assets and the PBO or accumulated postretirement benefit obligation of the plan. In order to recognize the funded status, the Company determined the fair value of the plan assets. The majority of the plan assets are publicly traded investments which were valued based on the market price as of the date of remeasurement. Investments that are not publicly traded were valued based on the estimated fair value of those investments based on our evaluation of data from fund managers and comparable market data.

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10. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

Net Periodic Benefit Plan Costs

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

	Pension benefits	
	Three Months Ended June 30,	
	2014	2013
Components of net periodic benefit expense (income):		
Service cost	$3,256	$3,293
Interest cost	21,951	23,216
Expected return on plan assets	(36,913)	(37,018)
Amortization of prior service credits	(1,321)	(1,683)
Amortization of net loss	—	4,531
Net periodic benefit income	$(13,027)	$(7,661)

	Other postretirement benefits	
	Three Months Ended June 30,	
	2014	2013
Components of net periodic benefit expense:		
Service cost	$717	$765
Interest cost	3,082	3,138
Amortization of prior service credits	(1,132)	(1,132)
Net periodic benefit expense	$2,667	$2,771

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11. STOCKHOLDERS' EQUITY
Accumulated Other Comprehensive Loss
Changes in accumulated other comprehensive income (loss) ("AOCI") by component for the three months ended June 30, 2014 and 2013, respectively, were as follows:

	Currency Translation Adjustment	Unrealized Gains and Losses on Derivative Instruments	Defined Benefit Pension Plans and Other Postretirement Benefits		Total (1)
Balance March 31, 2014	$198	$1,496	$(20,602)		$(18,908)
AOCI before reclassifications	7,204	(1,357)	—		5,847
Amounts reclassified from AOCI	—	(35)	(1,533)	(2)	(1,568)
Net current period AOCI	7,204	(1,392)	(1,533)		4,279
Balance June 30, 2014	$7,402	$104	$(22,135)		$(14,629)

	Currency Translation Adjustment	Unrealized Gains and Losses on Derivative Instruments	Defined Benefit Pension Plans and Other Postretirement Benefits		Total (1)
Balance March 31, 2013	$3,513	$131	$(64,616)		$(60,972)
AOCI before reclassifications	(509)	(235)	—		(744)
Amounts reclassified from AOCI	—	15	1,072	(2)	1,087
Net current period AOCI	(509)	(220)	1,072		343
Balance June 30, 2013	$3,004	$(89)	$(63,544)		$(60,629)

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

12. SEGMENTS

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

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

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

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

Segment Adjusted EBITDA is total segment revenue reduced by operating expenses (less depreciation and amortization) identifiable with that segment. Corporate includes general corporate administrative costs and any other costs not identifiable with one of the Company's segments, including a gain on legal settlement, net of expenses, of $134,693 for the three months ended June 30, 2014.

The Company does not accumulate net sales information by product or service or groups of similar products and services and, therefore, the Company does not disclose net sales by product or service because to do so would be impracticable. Selected financial information for each reportable segment and the reconciliation of Adjusted EBITDA to operating income is as follows:

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12. SEGMENTS (Continued)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
Net sales:		
Aerostructures	$611,863	$651,888
Aerospace systems	219,852	219,526
Aftermarket services	67,608	74,353
Elimination of inter-segment sales	(2,418)	(2,084)
	$896,905	$943,683
Income before income taxes:		
Operating income (expense):		
Aerostructures	$70,866	$100,387
Aerospace systems	37,352	42,643
Aftermarket services	10,504	11,279
Corporate	121,802	(12,963)
	240,524	141,346
Interest expense and other	42,360	19,710
	$198,164	$121,636
Depreciation and amortization:		
Aerostructures	$24,979	$26,313
Aerospace systems	9,517	8,539
Aftermarket services	1,877	1,877
Corporate	1,178	1,205
	$37,551	$37,934
Amortization of acquired contract liabilities, net:		
Aerostructures	$5,117	$6,141
Aerospace systems	3,850	5,009
	$8,967	$11,150
Adjusted EBITDA:		
Aerostructures	$90,728	$120,559
Aerospace systems	43,019	46,173
Aftermarket services	12,381	13,156
Corporate	(11,713)	(11,758)
	$134,415	$168,130
Capital expenditures:		
Aerostructures	$15,369	$45,945
Aerospace systems	5,663	4,432
Aftermarket services	1,680	4,152
Corporate	365	1,700
	$23,077	$56,229

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12. SEGMENTS (Continued)

	June 30, 2014	March 31, 2014
Total Assets:		
Aerostructures	$3,867,170	$3,880,645
Aerospace systems	1,457,601	1,255,033
Aftermarket services	318,067	316,643
Corporate	215,774	100,962
	$5,858,612	$5,553,283

During the three months ended June 30, 2014 and 2013, the Company had international sales of $159,834 and $145,091, respectively.

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

The 2021 Notes and the 2022 Notes are fully and unconditionally guaranteed on a joint and several basis by the Guarantor Subsidiaries. The total assets, stockholders' equity, revenue, earnings and cash flows from operating activities of the Guarantor Subsidiaries exceeded a majority of the consolidated total of such items as of and for the periods reported. The only consolidated subsidiaries of the Company that are not guarantors of the 2021 Notes and the 2022 Notes (the “Non-Guarantor Subsidiaries”) are: (a) the receivables securitization special-purpose entity; and (b) the international operating subsidiaries. The following tables present condensed consolidating financial statements including the Company (the “Parent”), the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries. Such financial statements include summary condensed consolidating balance sheets as of June 30, 2014 and March 31, 2014, condensed consolidating statements of comprehensive income for the three months ended June 30, 2014 and 2013, and condensed consolidating statements of cash flows for the three months ended June 30, 2014 and 2013.

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

SUMMARY CONDENSED CONSOLIDATING BALANCE SHEETS:

	June 30, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$621	$1,631	$23,213	$—	$25,465
Trade and other receivables, net	164,290	188,213	314,699	—	667,202
Inventories	—	1,114,818	87,345	—	1,202,163
Rotable assets	—	29,677	13,553	—	43,230
Deferred income taxes	—	46,898	—	—	46,898
Prepaid expenses and other	6,249	11,260	7,740	—	25,249
Total current assets	171,160	1,392,497	446,550	—	2,010,207
Property and equipment, net	9,420	803,131	152,873	—	965,424
Goodwill and other intangible assets, net	—	2,672,046	172,086	—	2,844,132
Other, net	26,566	8,399	3,884	—	38,849
Intercompany investments and advances	4,196,184	266,885	37,192	(4,500,261)	—
Total assets	$4,403,330	$5,142,958	$812,585	$(4,500,261)	$5,858,612
Current liabilities:					
Current portion of long-term debt	$24,096	$19,227	$—	$—	$43,323
Accounts payable	—	274,250	27,558	—	301,808
Accrued expenses	30,312	170,846	36,656	—	237,814
Total current liabilities	54,408	464,323	64,214	—	582,945
Long-term debt, less current portion	1,488,250	63,660	162,400	—	1,714,310
Intercompany advances	492,141	2,234,875	261,296	(2,988,312)	—
Accrued pension and other postretirement benefits, noncurrent	6,894	441,873	—	—	448,767
Deferred income taxes and other	8,088	718,319	32,635	—	759,042
Total stockholders' equity	2,353,549	1,219,908	292,040	(1,511,949)	2,353,548
Total liabilities and stockholders' equity	$4,403,330	$5,142,958	$812,585	$(4,500,261)	$5,858,612

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

SUMMARY CONDENSED CONSOLIDATING BALANCE SHEETS:

	March 31, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$2,820	$1,149	$25,029	$—	$28,998
Trade and other receivables, net	1,591	226,407	289,709	—	517,707
Inventories	—	1,041,719	70,048	—	1,111,767
Rotable assets	—	28,113	13,553	—	41,666
Deferred income taxes	—	57,291	17	—	57,308
Prepaid expenses and other	6,977	13,674	4,246	—	24,897
Total current assets	11,388	1,368,353	402,602	—	1,782,343
Property and equipment, net	9,933	801,560	119,480	—	930,973
Goodwill and other intangible assets, net	—	2,625,121	144,892	—	2,770,013
Other, net	58,536	7,860	3,558	—	69,954
Intercompany investments and advances	4,094,443	84,180	12,333	(4,190,956)	—
Total assets	$4,174,300	$4,887,074	$682,865	$(4,190,956)	$5,553,283
Current liabilities:					
Current portion of long-term debt	$31,844	$17,731	$—	$—	$49,575
Accounts payable	1,150	296,968	19,216	—	317,334
Accrued expenses	36,034	212,984	24,272	—	273,290
Total current liabilities	69,028	527,683	43,488	—	640,199
Long-term debt, less current portion	1,279,694	58,714	162,400	—	1,500,808
Intercompany advances	525,216	2,021,330	304,613	(2,851,159)	—
Accrued pension and other postretirement benefits, noncurrent	6,795	501,716	13	—	508,524
Deferred income taxes and other	9,656	586,174	24,011	—	619,841
Total stockholders' equity	2,283,911	1,191,457	148,340	(1,339,797)	2,283,911
Total liabilities and stockholders' equity	$4,174,300	$4,887,074	$682,865	$(4,190,956)	$5,553,283

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

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME:

	Three Months Ended June 30, 2014				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$—	$842,294	$56,593	$(1,982)	$896,905
Operating costs and expenses:					
Cost of sales	—	637,887	48,911	(1,982)	684,816
Selling, general and administrative	10,171	48,384	7,155	—	65,710
Depreciation and amortization	637	34,063	2,851	—	37,551
Relocation costs	—	2,997	—	—	2,997
Gain on legal settlement, net of expenses	(134,693)	—	—	—	(134,693)
	(123,885)	723,331			