

TransDigm Group INC  
Form 10-Q  
February 06, 2019  
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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 December 29, 2018

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-32833

TransDigm Group Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

41-2101738

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

1301 East 9th Street, Suite 3000, Cleveland, Ohio 44114

(Address of principal executive offices) (Zip Code)

(216) 706-2960

(Registrant's telephone number, including area code)

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

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

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

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

LARGE ACCELERATED FILER  ACCELERATED FILER   
NON-ACCELERATED FILER  SMALLER REPORTING COMPANY   
EMERGING GROWTH COMPANY

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of TransDigm Group Incorporated's common stock, par value \$.01 per share, was 52,897,155 as of February 1, 2019.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share amounts)

(Unaudited)

	December 29, 2018	September 30, 2018
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$2,337,316	\$2,073,017
Trade accounts receivable - Net	657,684	704,310
Inventories - Net	838,705	805,292
Prepaid expenses and other	92,913	74,668
Total current assets	3,926,618	3,657,287
<b>PROPERTY, PLANT AND EQUIPMENT - NET</b>	<b>395,970</b>	<b>388,333</b>
<b>GOODWILL</b>	<b>6,228,913</b>	<b>6,223,290</b>
<b>OTHER INTANGIBLE ASSETS - NET</b>	<b>1,772,554</b>	<b>1,788,404</b>
<b>DERIVATIVE ASSETS</b>	<b>26,044</b>	<b>97,286</b>
<b>OTHER</b>	<b>39,179</b>	<b>42,867</b>
<b>TOTAL ASSETS</b>	<b>\$12,389,278</b>	<b>\$12,197,467</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$75,847	\$75,817
Short-term borrowings - trade receivable securitization facility	299,662	299,519
Accounts payable	176,010	173,603
Accrued liabilities	399,747	351,443
Total current liabilities	951,266	900,382
<b>LONG-TERM DEBT</b>	<b>12,507,616</b>	<b>12,501,946</b>
<b>DEFERRED INCOME TAXES</b>	<b>375,048</b>	<b>399,496</b>
<b>OTHER NON-CURRENT LIABILITIES</b>	<b>222,241</b>	<b>204,114</b>
Total liabilities	14,056,171	14,005,938
<b>STOCKHOLDERS' DEFICIT:</b>		
Common stock - \$.01 par value; authorized 224,400,000 shares; issued 57,005,381 and 56,895,686 at December 29, 2018 and September 30, 2018, respectively	570	569
Additional paid-in capital	1,239,561	1,208,742
Accumulated deficit	(2,050,727 )	(2,246,578 )
Accumulated other comprehensive (loss) income	(80,993 )	4,100
Treasury stock, at cost; 4,161,326 shares at December 29, 2018 and September 30, 2018, respectively	(775,304 )	(775,304 )
Total stockholders' deficit	(1,666,893 )	(1,808,471 )
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$12,389,278</b>	<b>\$12,197,467</b>
See notes to condensed consolidated financial statements.		

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TRANSDIGM GROUP INCORPORATED  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 FOR THE THIRTEEN WEEK PERIODS ENDED  
 DECEMBER 29, 2018 AND DECEMBER 30, 2017  
 (Amounts in thousands, except per share amounts)  
 (Unaudited)

	Thirteen Week Periods Ended	
	December 29, 2018	December 30, 2017
NET SALES	\$ 993,302	\$ 847,960
COST OF SALES	429,185	371,310
GROSS PROFIT	564,117	476,650
SELLING AND ADMINISTRATIVE EXPENSES	122,183	106,528
AMORTIZATION OF INTANGIBLE ASSETS	20,034	17,112
INCOME FROM OPERATIONS	421,900	353,010
INTEREST EXPENSE - NET	172,000	160,933
REFINANCING COSTS	136	1,113
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	249,764	190,964
INCOME TAX PROVISION	53,722	(121,047 )
INCOME FROM CONTINUING OPERATIONS	196,042	312,011
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	—	2,764
NET INCOME	\$ 196,042	\$ 314,775
NET INCOME APPLICABLE TO COMMON STOCK	\$ 171,733	\$ 258,627
Net earnings per share:		
Net earnings per share from continuing operations - basic and diluted	\$ 3.05	\$ 4.60
Net earnings per share from discontinued operations - basic and diluted	—	0.05
Net earnings per share	\$ 3.05	\$ 4.65

Weighted-average shares  
outstanding:

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Basic and diluted	56,266	55,600
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See notes to condensed consolidated financial statements.

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TRANSDIGM GROUP INCORPORATED  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 FOR THE THIRTEEN WEEK PERIODS ENDED  
 DECEMBER 29, 2018 AND DECEMBER 30, 2017

(Amounts in thousands)

(Unaudited)

	Thirteen Week Periods Ended	
	December 29, 2018	December 30, 2017
Net income	\$ 196,042	\$ 314,775
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments	(11,228 )	5,152
Interest rate swap and cap agreements	(73,865 )	18,248
Other comprehensive (loss) income, net of tax	(85,093 )	23,400
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 110,949</b>	<b>\$ 338,175</b>

See notes to condensed consolidated financial statements.

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TRANSDIGM GROUP INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT  
FOR THE THIRTEEN WEEK PERIODS ENDED DECEMBER 29, 2018 AND DECEMBER 30, 2017  
(Amounts in thousands, except share amounts)  
(Unaudited)

	Common Stock			Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock		Total
	Number of Shares	Par Value	Additional Paid-In Capital			Number of Shares	Value	
BALANCE, SEPTEMBER 30, 2017	56,093,659	\$ 561	\$ 1,095,319	\$(3,187,220)	\$( 85,143 )	(4,159,207)	\$(774,721)	\$(2,951,204)
Accrued unvested dividend equivalents and other	—	—	—	(4,509)	—	—	—	(4,509)
Compensation expense recognized for employee stock options and restricted stock	—	—	10,533	—	—	—	—	10,533
Exercise of employee stock options, restricted stock activity and other, net	189,082	2	7,290	—	—	—	—	7,292
Net income	—	—	—	314,775	—	—	—	314,775
Foreign currency translation adjustments	—	—	—	—	5,152	—	—	5,152
Interest rate swaps and caps, net of tax	—	—	—	—	18,248	—	—	18,248
BALANCE, DECEMBER 30, 2017	56,282,741	\$ 563	\$ 1,113,142	\$(2,876,954)	\$( 61,743 )	(4,159,207)	\$(774,721)	\$(2,599,713)

	Common Stock			Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock		Total
	Number of Shares	Par Value	Additional Paid-In Capital			Number of Shares	Value	
BALANCE, SEPTEMBER 30, 2018	56,895,686	\$ 569	\$ 1,208,742	\$(2,246,578)	\$ 4,100	(4,161,326)	\$(775,304)	\$(1,808,471)
	—	—	—	3,284	—	—	—	3,284

Cumulative effect of ASC 606, adopted October 1, 2018								
Cumulative effect of ASU 2016-16, adopted October 1, 2018	—	—	—	(353)	)	—	—	(353)
Accrued unvested dividend equivalents and other	—	—	—	(3,122)	)	—	—	(3,122)
Compensation expense recognized for employee stock options	—	—	16,645	—	—	—	—	16,645
Exercise of employee stock options	109,695	1	14,174	—	—	—	—	14,175
Net income	—	—	—	196,042	—	—	—	196,042
Foreign currency translation adjustments	—	—	—	—	(11,228)	)	—	(11,228)
Interest rate swaps and caps, net of tax	—	—	—	—	(73,865)	)	—	(73,865)
BALANCE, DECEMBER 29, 2018	57,005,381	\$ 570	\$ 1,239,561	\$(2,050,727)	\$ (80,993)	)	(4,161,326)	\$(775,304)
								\$(1,666,893)

See notes to condensed consolidated financial statements.



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TRANSDIGM GROUP INCORPORATED  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE THIRTEEN WEEK PERIODS ENDED  
 DECEMBER 29, 2018 AND DECEMBER 30, 2017  
 (Amounts in thousands)  
 (Unaudited)

	Thirteen Week Periods Ended	
	December 29, 2018	December 30, 2017
<b>OPERATING ACTIVITIES:</b>		
Net income	\$196,042	\$314,775
Net income from discontinued operations	—	(2,764 )
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,242	13,385
Amortization of intangible assets	20,176	17,254
Amortization of debt issuance costs, original issue discount and premium	5,967	5,319
Refinancing costs	136	1,113
Non-cash equity compensation	17,730	11,113
Deferred income taxes	3	(170,137 )
Changes in assets/liabilities, net of effects from acquisitions of businesses:		
Trade accounts receivable	45,413	81,175
Inventories	(25,393 )	(12,508 )
Income taxes receivable/payable	51,541	50,468
Other assets	(9,242 )	1,531
Accounts payable	2,897	(4,428 )
Accrued interest	20,975	1,672
Accrued and other liabilities	(11,599 )	(15,157 )
Net cash provided by operating activities	329,888	292,811
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(23,805 )	(15,290 )
Payments made in connection with acquisitions	(28,718 )	—
Net cash used in investing activities	(52,523 )	(15,290 )
<b>FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	14,174	7,290
Dividend equivalent payments	(24,309 )	(56,148 )
Proceeds from term loans, net	—	793,864
Repayments on term loans	—	(815,631 )
Other	(260 )	(362 )
Net cash used in financing activities	(10,395 )	(70,987 )
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2,671 )	767
NET INCREASE IN CASH AND CASH EQUIVALENTS	264,299	207,301
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,073,017	650,561
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$2,337,316	\$857,862
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for interest	\$153,806	\$153,929
Cash paid (refunded) during the period for income taxes	\$2,123	\$(267 )
See notes to condensed consolidated financial statements.		



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TRANSDIGM GROUP INCORPORATED  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THIRTEEN WEEK PERIODS ENDED DECEMBER 29, 2018 AND DECEMBER 30, 2017  
(UNAUDITED)

1. DESCRIPTION OF THE BUSINESS

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

Major product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, NiCad batteries and chargers, engineered latching and locking devices, rods and locking devices, engineered connectors and elastomers, databus and power controls, cockpit security components and systems, specialized cockpit displays, aircraft audio systems, specialized lavatory components, seat belts and safety restraints, engineered interior surfaces and related components, lighting and control technology, military personnel parachutes, high performance hoists, winches and lifting devices, and cargo loading, handling and delivery systems.

2. UNAUDITED INTERIM FINANCIAL INFORMATION

The financial information included herein is unaudited; however, the information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the Company’s financial position and results of operations and cash flows for the interim periods presented. These financial statements and notes should be read in conjunction with the financial statements and related notes for the year ended September 30, 2018 included in TD Group’s Form 10-K filed on November 9, 2018. As disclosed therein, the Company’s annual consolidated financial statements were prepared in conformity with generally accepted accounting principles in the United States (“GAAP”). The September 30, 2018 condensed consolidated balance sheet was derived from TD Group’s audited financial statements. The results of operations for the thirteen week period ended December 29, 2018 are not necessarily indicative of the results to be expected for the full year.

3. ACQUISITIONS AND DIVESTITURES

On October 9, 2018, the Company entered into a merger agreement with Esterline Technologies Corporation, (“Esterline”), under which the Company agreed to acquire Esterline. All required regulatory reviews of the Esterline acquisition are complete, other than the European Commission antitrust review and the French foreign investment review. Subject to satisfactory completion of these reviews and other customary closing conditions, the Company currently expects the closing of the acquisition to occur in March or April 2019.

Under the terms of the merger agreement, the Company will purchase each share of Esterline common stock outstanding for \$122.50 per share in cash. TransDigm anticipates that the total transaction value will be approximately \$4.0 billion, representing the \$122.50 price paid per share for common stock outstanding plus existing debt. In connection with the merger agreement, the Company entered into a commitment letter for a senior secured term facility up to \$3.7 billion. On January 30, 2019, in lieu of the term loans borrowings contemplated by the commitment letter, the Company entered into a purchase agreement in connection with a private offering of \$3.8 billion aggregate principal amount in 6.25% senior secured notes due 2026. In addition, on February 1, 2019, the Company entered into a purchase agreement in connection with a private offering of \$200 million aggregate principal amount of 6.25% senior secured notes due 2026. The Company intends to use the net proceeds from both secured notes offerings to fund the purchase price of the Esterline acquisition. Refer to Note 16, "Subsequent Events," for further information. During the thirteen week period ended December 29, 2018, Extant Aerospace ("Extant"), a wholly owned subsidiary of the Company, completed the acquisition of substantially all of the assets and technical data rights of NavCom

Defense Electronics ("NavCom"). During the fiscal year ended September 30, 2018, the Company completed the acquisitions of Skandia Inc. ("Skandia"), Extant, and the Kirkhill elastomers business ("Kirkhill"). The Company accounted for the acquisitions using the acquisition method and included the results of operations of the acquisitions in its condensed consolidated financial statements from the effective date of each acquisition. As of December 29, 2018, the one-year measurement period is open for NavCom, Skandia, Extant and Kirkhill; therefore, the assets acquired and liabilities assumed related to these acquisitions are subject to adjustment until the end of their respective one-year measurement

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periods. The Company is in the process of obtaining a third-party valuation of certain intangible assets and tangible assets of NavCom and Skandia. Pro forma net sales and results of operations for the acquisitions had they occurred at the beginning of the applicable thirteen week period ended December 29, 2018 or December 30, 2017 are not material and, accordingly, are not provided.

The acquisitions strengthen and expand the Company's position to design, produce and supply highly engineered proprietary aerospace components in niche markets with significant aftermarket content and provide opportunities to create value through the application of our three core value-driven operating strategies (obtaining profitable new business, improving our cost structure, and providing highly engineered value-added products to customers). The purchase price paid for each acquisition reflects the current earnings before interest, taxes, depreciation and amortization (EBITDA) and cash flows, as well as the future EBITDA and cash flows expected to be generated by the business, which are driven in most cases by the recurring aftermarket consumption over the life of a particular aircraft, estimated to be approximately 25 to 30 years.

NavCom – On October 1, 2018, the Company's Extant subsidiary completed the acquisition of substantially all of the assets and technical data rights from the Corona, California operations of NavCom for approximately \$27 million in cash. NavCom develops, manufactures, and supports high-reliability, mission-critical electronics, avionics and sub-assemblies. NavCom is included as a product line of Extant, which is included in TransDigm's Power and Control segment. The Company expects that approximately \$11 million goodwill recognized for the acquisition will be deductible for tax purposes over 15 years.

Skandia – On July 13, 2018, the Company acquired all of the outstanding stock of Skandia for a total purchase price of approximately \$84.3 million, which includes a \$0.2 million working capital settlement paid in the fourth quarter of fiscal 2018. Skandia provides highly engineered seating foam, foam fabrication, flammability testing and acoustic solutions for the business jet market. Skandia is included as a product line within an existing reporting unit in TransDigm's Airframe segment. The Company expects that no goodwill recognized for the acquisition will be deductible for tax purposes.

Extant – On April 24, 2018, the Company acquired all of the outstanding stock of Extant for a total purchase price of approximately \$533.4 million in cash, which is net of a \$0.2 million working capital settlement received in the third quarter of fiscal 2018. Extant provides a broad range of proprietary aftermarket products and repair and overhaul services to the aerospace and defense end markets. Extant is included in TransDigm's Power and Control segment. Prior to the Company's acquisition of Extant, Extant was owned by an equity fund sponsored by Warburg Pincus LLC. Michael Graff, a director of TransDigm, is a managing director of Warburg Pincus LLC and was chairman of the board of Extant. Robert Henderson, Vice Chairman of TransDigm, was also on the board of Extant and owned less than 2% of Extant on a fully diluted basis. In addition, Mr. Graff, Mr. W. Nicholas Howley, TransDigm's Executive Chairman, and Messrs. Douglas Peacock and David Barr, directors of TransDigm, each had minority interests of less than 1% in the Warburg Pincus LLC fund that owned Extant.

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

## Assets acquired:

Current assets, excluding cash acquired	\$56,031
Property, plant, and equipment	4,096
Intangible assets	105,000
Goodwill	403,158
Total assets acquired	568,285

## Liabilities assumed:

Current liabilities	9,876
Other noncurrent liabilities	25,028
Total liabilities assumed	34,904

Net assets acquired \$533,381

The Company expects that approximately \$44 million of the \$105 million intangibles recognized for the acquisition will be deductible for tax purposes over 15 years. Of the \$403 million of goodwill recognized for the acquisition, none will be deductible for tax purposes.

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Kirkhill – On March 15, 2018, the Company acquired the assets and certain liabilities of the Kirkhill elastomers business from Esterline for a total purchase price of approximately \$49.3 million, which is net of a \$0.6 million working capital settlement received in the third quarter of fiscal 2018. Kirkhill's products are primarily proprietary, sole source with significant aftermarket content and used in a broad variety of most major commercial transport and military platforms. Kirkhill is included in TransDigm's Airframe segment. The Company expects that no goodwill recognized for the acquisition will be deductible for tax purposes.

The Kirkhill acquisition includes loss contract reserves recorded at a fair value of approximately \$37.5 million at December 29, 2018 and \$39.2 million at September 30, 2018. As of December 29, 2018 and September 30, 2018, \$7.3 million and \$9.0 million is classified as a component of accrued liabilities and \$30.2 million at both December 29, 2018 and September 30, 2018 is classified as a component of other non-current liabilities in the condensed consolidated balance sheets. The Company is committed under certain existing Kirkhill agreements to supply products to our customers at selling prices that are not sufficient to cover the costs to produce such product. These agreements were existing at the time of the acquisition. The value of this reserve is analyzed and adjusted at each reporting period.

Schroth – On February 22, 2017, the Company acquired all of the outstanding stock of Schroth Safety Products GmbH and certain aviation and defense assets and liabilities from subsidiaries of Takata Corporation (collectively, "Schroth"), for a total purchase price of approximately \$89.7 million, which consisted primarily of \$79.7 million paid in cash during fiscal 2017 and an approximately \$9.0 million indemnity holdback, of which \$8.5 million was paid in April 2018 and \$0.5 million remains a reserve as of December 29, 2018.

In connection with the settlement of a Department of Justice investigation into the competitive effects of the acquisition, during the fourth quarter of 2017, the Company committed to dispose of the Schroth business. Therefore, Schroth was classified as held-for-sale beginning in the fourth quarter of 2017 and the results of operations of were reflected as discontinued operations in the consolidated financial statements.

On January 26, 2018, the Company completed the sale of Schroth in a management buyout to a private equity fund and certain members of Schroth management for approximately \$61.4 million, which included a working capital adjustment of \$0.3 million that was paid in July 2018.

There was no activity from discontinued operations in the thirteen week period ended December 29, 2018. Income from discontinued operations was \$2.8 million in the condensed consolidated statements of income for the thirteen week period ended December 30, 2017, which is summarized as follows (amounts in thousands):

	Thirteen Week Period Ended December 30, 2017
Net sales	\$ 9,129
Income from discontinued operations before income taxes	810
Income tax benefit	(1,954 )
Income from discontinued operations	\$ 2,764

#### 4. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, which created a new topic in the Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers." In addition to superseding and replacing nearly all existing U.S. GAAP revenue recognition guidance, including industry-specific guidance, ASC 606 requires an entity to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also specifies the accounting of some costs to obtain or fulfill a contract with a customer and expands the disclosure requirements around contracts with customers. The Company adopted this standard in the first quarter of 2019 using the modified retrospective method. The adoption of this standard did not have a material impact on our consolidated results of operations, financial position or cash flows. Refer to Note 5, "Revenue Recognition," for additional disclosures relating to ASC

606.

In February 2016, the FASB issued ASU 2016-02, "Leases (ASC 842)," which will require that a lessee recognize assets and liabilities on the balance sheet for all leases with a lease term of more than twelve months, with the result being the recognition of a right of use asset and a lease liability. Additionally, in July 2018, the FASB issued ASU 2018-10, "Codification Improvements to ASC 842, Leases" which provides narrow amendments to clarify how to apply certain aspects of the new leases standard. The new leases standard guidance is effective for the Company for annual reporting periods, including interim periods therein, beginning October 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on our consolidated financial statements and disclosures.

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In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13)," which changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019 and early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is currently evaluating the impact of adopting this standard on our consolidated financial statements and disclosures.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory" (ASU 2016-16). This accounting standard requires companies to recognize the income tax effects of intercompany sales and transfers of assets, other than inventory, in the period in which the transfer occurs. Under previous guidance companies were required to defer the income tax effects of intercompany transfers of assets by recording prepaid taxes, until such assets were sold to an outside party or otherwise recognized. Current guidance requires companies to write off any income tax amounts previously deferred as prepaid taxes from past intercompany transactions, and to record deferred tax balances for amounts not previously recognized, through a cumulative-effect adjustment to retained earnings. ASU 2016-16 is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those years. The Company adopted this standard in the first quarter of fiscal 2019. The adoption of this standard did not have a material impact on our consolidated financial statements. Refer to the condensed consolidated statements of stockholders' deficit for the impact of the adoption of ASU 2016-16 on retained earnings.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment," to eliminate Step 2 from the goodwill impairment test in order to simplify the subsequent measurement of goodwill. The guidance is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our consolidated financial statements and disclosures.

In March 2017, the FASB issued ASU 2017-07, "Compensation—Retirement Benefits (ASC 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," that changes how employers that sponsor defined benefit and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Under previous guidance, companies included all components of the net periodic benefit costs in the same lines as the service cost component. Current guidance requires employers to present the other components of the net periodic benefit costs separately from the line items that include the service cost and outside of any subtotal of operating income. In addition, only the service cost component will be eligible for capitalization in assets. Employers will have to disclose the lines used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The standard is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within the fiscal year. The Company adopted this standard in the first quarter of fiscal 2019. The adoption of this standard did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation—Stock Compensation (ASC 718): Scope of Modification Accounting," which provides clarity on which changes to the terms or conditions of share-based payment awards require an entity to apply the modification accounting provisions required in ASC 718. The standard is effective for all entities for annual periods beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. The Company adopted this standard in the first quarter of fiscal 2019. The adoption of this standard did not have a material impact on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (ASC 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which gives entities the option to reclassify tax effects stranded in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act (the "Act") into retained earnings. The guidance allows entities to reclassify from accumulated other comprehensive income to retained earnings stranded tax effects resulting from the Act's new federal corporate income tax rate. The guidance also allows entities to elect to reclassify other stranded tax effects that relate to the Act but do not directly relate to the change in the federal tax rate (e.g., state taxes, changing from a worldwide tax system to a territorial system). Tax effects that are stranded in accumulated other comprehensive income for other reasons (e.g.,

prior changes in tax law, a change in valuation allowance) may not be reclassified. The standard is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within the fiscal year. Early adoption is permitted, including adoption in any interim period for which financial statements have not yet been issued. Entities have the option to apply the guidance retrospectively or in the period of adoption. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, "Income Taxes (ASC 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118." The ASU adds various SEC paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which was effective immediately. The SEC issued SAB 118 to address concerns about reporting entities' ability to timely comply with the accounting requirements to recognize all of the effects of the Tax Cuts and Jobs Act in

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the period of enactment. SAB 118 allowed disclosure that timely determination of some or all of the income tax effects from the Tax Cuts and Jobs Act were incomplete by the due date of the financial statements and if possible to provide a reasonable estimate. We have finalized our accounting for the tax effects of the Tax Cuts and Jobs Act under the guidance of SAB 118. Such finalization did not result in a material impact to the provisional tax effects previously recorded in our consolidated financial statements. Refer to Note 10, "Income Taxes," for further information.

In accordance with SEC Final Rule Release No. 33-10532, we have adopted Rule 3-04 of Regulation S-X during the first quarter of fiscal 2019 and have disclosed changes in the Consolidated Condensed Statements of Stockholders' Deficit for all periods presented.

#### 5. REVENUE RECOGNITION

The Company adopted ASC 606, "Revenue from Contracts with Customers," beginning October 1, 2018 using the modified retrospective method.

The new standard primarily impacted the Company's timing of revenue recognition for certain contracts and subcontracts with the U.S. government that contain termination for convenience clauses and resulted in an increase to retained earnings of \$3.3 million. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The cumulative effect of the changes made to our condensed consolidated balance sheet as of October 1, 2018 for the adoption of ASC 606 were as follows (in thousands):

	September 30, 2018	Adjustments due to ASC 606	October 1, 2018
<b>Assets</b>			
Unbilled receivables <sup>(1)</sup>	\$ 10,056	\$ 8,272	\$ 18,328
Inventories - Net	805,292	(3,977 )	801,315
<b>Liabilities and Shareholders' Equity</b>			
Deferred income taxes	\$ 399,496	\$ 1,011	\$ 400,507
Accumulated deficit	(2,246,578)	3,284	(2,243,294)

<sup>(1)</sup> Included in prepaid expenses and other on the condensed consolidated balance sheet.

The Company does not expect the impact of the adoption of ASC 606 to be material on an ongoing basis.

The impact of the adoption of ASC 606 on the condensed consolidated statement of income and condensed consolidated balance sheet was not material for the thirteen week period ended December 29, 2018.

Accounting Policy —Revenue is recognized from the sale of products when control transfers to the customer, which is demonstrated by our right to payment, a transfer of title, a transfer of the risk and rewards of ownership, or the customer acceptance, but most frequently upon shipment where the customer obtains physical possession of the good. The majority of the Company's revenue is recorded at a point in time.

In some contracts, the Company found that under ASC 606 control transferred to the customer over time, primarily in contracts where the customer is required to pay for the cost of both the finished and unfinished goods at the time of cancellation plus a reasonable profit relative to the work performed for products that were customized for the customer. Upon adoption of ASC 606, we recognize revenue over time for those agreements that have a right to margin and where the products being produced have no alternative use. Prior to the adoption date, revenue related to these agreements was recognized when the goods were shipped; as a result of the adoption of ASC 606, a portion of our revenue may be earned in periods earlier than it would have been in prior years. The cumulative adjustment to retained earnings upon adoption, which is presented in the table above, represents those earnings that would have been recognized in the previous year had ASC 606 been in effect during that time.

Based on our production cycle, it is generally expected that goods related to the revenue represented in that adjustment will be shipped and billed within the current year. For revenue recognized over time, we estimate the amount of revenue attributable to a contract earned at a given point during the production cycle based on certain costs, such as materials and labor incurred to date, plus the expected profit, which is a cost-to-cost input method.

The Company's payment terms vary by the type and location of the customer and the products or services offered. The Company does not offer any payment terms that would meet the requirements for consideration as a significant financing component under ASC 606.

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Shipping and handling fees and costs incurred in connection with products sold are recorded in cost of sales in the consolidated statements of income, and are not considered a performance obligation to our customers.

The Company pays sales commissions that relate to contracts for products or services that are satisfied at a point in time or over a period of one year or less and so are recorded per the practical expedient expensed as incurred. These costs are reported as a component of selling and administrative expenses in the unaudited condensed consolidated statement of operations.

We offer assurance type warranties on our products as well as separately sold warranty contracts. Revenue related to warranty contracts that are sold separately is recognized over the life of the warranty term.

Variable consideration is estimated at the expected value (sum of the probability of weighted amounts) or most likely amount, whichever method is found to be most appropriate to estimate the consideration to which the Company will be entitled, and only to the extent it is probable that a subsequent change in estimate will not result in a significant revenue reversal when estimating the amount of revenue to recognize. Variable consideration is treated as a change to the sales transaction price and based largely on an assessment of all information (i.e., historical, current and forecasted) that is reasonably available to the Company. Variable consideration is estimated at contract inception and updated at the end of each reporting period as additional information becomes available.

Contract Assets and Liabilities - Contract assets reflect revenue recognized and performance obligations satisfied in advance of customer billing or reimbursable costs related to a specific contract. Contract liabilities relate to payments received in advance of the satisfaction of performance under the contract. We receive payments from customers based on the terms established in our contracts. The following table summarizes our contract assets and liabilities balances (in thousands):

	December 29, 2018	October 1, 2018	Change
Contract assets, current <sup>(1)</sup>	\$ 16,581	\$ 18,328	\$(1,747)
Contract assets, non-current <sup>(2)</sup>	118	118	—
Total contract assets	16,699	18,446	(1,747 )
Contract liabilities, current <sup>(3)</sup>	5,385	2,742	2,643
Contract liabilities, non-current <sup>(4)</sup>	—	—	—
Total contract liabilities	5,385	2,742	2,643
Net contract asset	\$ 11,314	\$ 15,704	\$(4,390)

<sup>(1)</sup> Included in prepaid expenses and other on the condensed consolidated balance sheet.

<sup>(2)</sup> Included in other non-current assets on the condensed consolidated balance sheet.

<sup>(3)</sup> Included in accrued liabilities on the condensed consolidated balance sheet.

<sup>(4)</sup> Included in other non-current liabilities on the condensed consolidated balance sheet.

The net decrease in contract assets was primarily driven by invoices to the customer that reduced unbilled receivables. For the thirteen week period ended December 29, 2018, we recognized revenue of \$0.2 million that was previously included in the beginning balance of contract liabilities.

See Note 13, "Segments," for disclosures related to disaggregation of revenue.

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## 6. EARNINGS PER SHARE (TWO-CLASS METHOD)

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

	Thirteen Week Periods Ended	
	December 29, 2018	December 30, 2017
Numerator for earnings per share:		
Net income from continuing operations	\$ 196,042	\$ 312,011
Less dividends paid on participating securities	(24,309 )	(56,148 )
	\$ 171,733	\$ 255,863
Net income from discontinued operations	—	2,764
Net income applicable to common stock - basic and diluted	\$ 171,733	\$ 258,627
Denominator for basic and diluted earnings per share under the two-class method:		
Weighted average common shares outstanding	52,793	52,024
Vested options deemed participating securities	3,473	3,576
Total shares for basic and diluted earnings per share	56,266	55,600
Net earnings per share from continuing operations - basic and diluted	\$ 3.05	\$ 4.60
Net earnings per share from discontinued operations - basic and diluted	—	0.05
Net earnings per share	\$ 3.05	\$ 4.65

## 7. INVENTORIES

Inventories are stated at the lower of cost or market. Cost of inventories is generally determined by the average cost and the first-in, first-out (FIFO) methods and includes material, labor and overhead related to the manufacturing process.

Inventories consist of the following (in thousands):

	December 29, 2018	September 30, 2018
Raw materials and purchased component parts	\$581,694	\$540,290
Work-in-progress	236,909	237,335
Finished goods	121,834	127,018
Total	940,437	904,643
Reserves for excess and obsolete inventory	(101,732 )	(99,351 )
Inventories - Net	\$838,705	\$805,292

## 8. INTANGIBLE ASSETS

Other intangible assets - net in the condensed consolidated balance sheets consist of the following (in thousands):

	December 29, 2018			September 30, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks and trade names	\$796,348	\$ —	\$796,348	\$799,749	\$ —	\$799,749
Technology	1,348,881	433,382	915,499	1,347,314	416,579	930,735
Order backlog	12,700	7,035	5,665	12,200	5,409	6,791
Other	78,967	23,925	55,042	73,434	22,305	51,129
Total	\$2,236,896	\$ 464,342	\$ 1,772,554	\$2,232,697	\$ 444,293	\$ 1,788,404

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Intangible assets acquired during the thirteen week period ended December 29, 2018 were as follows (in thousands):

	Gross Amount	Amortization Period
Intangible assets not subject to amortization:		
Goodwill	\$ 8,256	
Trademarks and trade names	2,700	
	10,956	
Intangible assets subject to amortization:		
Technology	2,700	20 years
Order backlog	500	1 year
	3,200	17 years
Total	\$ 14,156	

The aggregate amortization expense on identifiable intangible assets for the thirteen week periods ended December 29, 2018 and December 30, 2017 was approximately \$20.0 million and \$17.1 million, respectively. The estimated amortization expense is \$76.7 million for fiscal year 2019 and \$70.9 million for each of the five succeeding fiscal years 2020 through 2024.

The following is a summary of changes in the carrying value of goodwill by segment from September 30, 2018 through December 29, 2018 (in thousands):

	Power & Control	Airframe	Non- aviation	Total
Balance - September 30, 2018	\$3,677,683	\$2,452,332	\$93,275	\$6,223,290
Goodwill acquired during the year	8,256	—	—	8,256
Purchase price allocation adjustments	738	—	—	738
Currency translation adjustment	—	(3,371 )	—	(3,371 )
Balance - December 29, 2018	\$3,686,677	\$2,448,961	\$93,275	\$6,228,913

## 9. DEBT

The Company's debt consists of the following (in thousands):

	December 29, 2018			Net Amount
	Gross Amount	Debt Issuance Costs	Original Issue Discount or Premium	
Short-term borrowings—trade receivable securitization facility	\$300,000	\$(338 )	\$—	\$299,662
Term loans	\$7,599,932	\$(66,289)	\$(20,076)	\$7,513,567
5.50% senior subordinated notes due 2020 (2020 Notes)	550,000	(1,923 )	—	548,077
6.00% senior subordinated notes due 2022 (2022 Notes)	1,150,000	(5,141 )	—	1,144,859
6.50% senior subordinated notes due 2024 (2024 Notes)	1,200,000	(6,571 )	—	1,193,429
6.50% senior subordinated notes due 2025 (2025 Notes)	750,000	(3,373 )	3,499	750,126
6.375% senior subordinated notes due 2026 (6.375% 2026 Notes)	950,000	(7,546 )	—	942,454
6.875% senior subordinated notes due 2026 (6.875% 2026 Notes)	500,000	(5,561 )	(3,488 )	490,951
	12,699,932	(96,404 )	(20,065 )	12,583,463
Less current portion	76,428	(581 )	—	75,847
Long-term debt	\$12,623,504	\$(95,823)	\$(20,065)	\$12,507,616

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	September 30, 2018			
	Gross Amount	Debt Issuance Costs	Original Issue Discount or Premium	Net Amount
Short-term borrowings—trade receivable securitization facility	\$300,000	\$(481)	\$—	\$299,519
Term loans	\$7,599,932	\$(69,697)	\$(21,030)	\$7,509,205
5.50% 2020 Notes	550,000	(2,187)	—	547,813
6.00% 2022 Notes	1,150,000	(5,501)	—	1,144,499
6.50% 2024 Notes	1,200,000	(6,866)	—	1,193,134
6.50% 2025 Notes	750,000	(3,505)	3,636	750,131
6.375% 2026 Notes	950,000	(7,798)	—	942,202
6.875% 2026 Notes	500,000	(5,616)	(3,605)	490,779
	12,699,932	(101,170)	(20,999)	12,577,763
Less current portion	76,427	(610)	—	75,817
Long-term debt	\$12,623,505	\$(100,560)	\$(20,999)	\$12,501,946

Accrued interest which is included in accrued liabilities was \$117.6 million and \$96.6 million as of December 29, 2018 and September 30, 2018, respectively.

#### 10. INCOME TAXES

At the end of each reporting period, TD Group makes an estimate of its annual effective income tax rate. The estimate used in the year-to-date period may change in subsequent periods. During the thirteen week periods ended December 29, 2018 and December 30, 2017, the effective income tax rate was 21.5% and (63.4)%, respectively. The Company's higher effective tax rate for the thirteen week period ended December 29, 2018 was primarily due to the discrete benefit recognized in the thirteen week period ended December 30, 2017 related to the remeasurement of deferred tax balances resulting from the provisions of The Tax Cuts and Jobs Act enacted on December 22, 2017 (the "Act"). The Company's effective tax rate for the period ended December 29, 2018 was higher than the Federal statutory rate of 21% primarily resulting from our net interest expense limitation under IRC Section 163(j) offset by the benefit associated with the deduction for foreign-derived intangible income (FDII) and excess tax benefits for share-based payments. The Company's effective tax rate for the period ended December 30, 2017 was less than the Federal statutory tax rate primarily due to the discrete adjustment related to the enactment of the Act described above. FDII was introduced, and interest deductibility under IRC Section 163(j) was modified by the Act and were both effective for TD Group beginning the thirteen week period ended December 29, 2018.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions as well as foreign jurisdictions located in Belgium, Canada, China, France, Germany, Hong Kong, Hungary, Japan, Malaysia, Mexico, Norway, Singapore, Sri Lanka, Sweden and the United Kingdom. The Company is no longer subject to U.S. federal examinations for years before fiscal 2014. The Company is currently under U.S. federal examination for fiscal 2014. In addition, the Company is subject to state income tax examinations for fiscal years 2011 and later.

At December 29, 2018 and September 30, 2018, TD Group had \$14.0 million and \$14.1 million in unrecognized tax benefits, the recognition of which would have an effect of approximately \$13.0 million and \$13.1 million on the effective tax rate at December 29, 2018 and September 30, 2018, respectively. The Company believes the tax positions that comprise the unrecognized tax benefits will be reduced by approximately \$1.4 million over the next 12 months. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense.

The Act reduced the U.S. federal corporate tax rate from 35% to 21% and required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries. The Company recorded provisional tax benefits of \$176.4 million related to the remeasurement of our net U.S. deferred tax liabilities to reflect the reduction in the corporate tax rate. The one-time transition tax is based on our total post-1986 earnings and profits (E&P), the tax on which the



Company previously deferred from US income taxes under US tax law. The Company recorded a provisional amount for our one-time transition tax liability for each of our foreign subsidiaries resulting in an aggregate transition tax liability of \$30.0 million at September 30, 2018.

Upon further analysis of the Act and notices and regulations issued and proposed by the U.S. Department of the Treasury and the Internal Revenue Service, the Company finalized its calculations for the deferred remeasurement and the transition tax liability during the thirteen week period ended December 29, 2018. Such finalization did not have a material impact on the Company's consolidated financial statements. As a result, no adjustment to the provisional tax benefit of \$176.4 million for deferred remeasurement or the \$30.0 million for transition tax was recorded for the thirteen week period ended

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December 29, 2018. The Company has elected to pay the transition tax over an eight-year period as provided for in the Act.

## 11. FAIR VALUE MEASUREMENTS

The following table presents our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following summarizes the carrying amounts and fair values of financial instruments (in thousands):

	Level	December 29, 2018		September 30, 2018	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	1	\$2,337,316	\$2,337,316	\$2,073,017	\$2,073,017
Interest rate cap agreements <sup>(1)</sup>	2	21,732	21,732	36,160	36,160
Interest rate swap agreements <sup>(2)</sup>	2	12,424	12,424	11,634	11,634
Interest rate swap agreements <sup>(1)</sup>	2	4,312	4,312	61,126	61,126
Liabilities:					
Interest rate swap agreements <sup>(3)</sup>	2	614	614	528	528
Interest rate swap agreements <sup>(4)</sup>	2	26,547	26,547	142	142
Short-term borrowings - trade receivable securitization facility <sup>(5)</sup>	1	299,662	299,662	299,519	299,519
Long-term debt, including current portion:					
Term loans <sup>(5)</sup>	2	7,513,567	7,125,065	7,509,205	7,607,323
5.50% 2020 Notes <sup>(5)</sup>	1	548,077	544,500	547,813	548,625
6.00% 2022 Notes <sup>(5)</sup>	1	1,144,859	1,132,750	1,144,499	1,155,750
6.50% 2024 Notes <sup>(5)</sup>	1	1,193,429	1,158,000	1,193,134	1,215,000
6.50% 2025 Notes <sup>(5)</sup>	1	750,126	716,250	750,131	757,500
6.375% 2026 Notes <sup>(5)</sup>	1	942,454	888,250	942,202	942,875
6.875% 2026 Notes <sup>(5)</sup>	1	490,951	480,000	490,779	507,500

<sup>(1)</sup> Included in other non-current assets on the condensed consolidated balance sheet.

<sup>(2)</sup> Included in prepaid expenses and other on the condensed consolidated balance sheet.

<sup>(3)</sup> Included in accrued liabilities on the condensed consolidated balance sheet.

<sup>(4)</sup> Included in other non-current liabilities on the condensed consolidated balance sheet.

<sup>(5)</sup> The carrying amount of the debt instrument is presented net of debt issuance costs, premium and discount. Refer to Note 9, "Debt," for gross carrying amounts.

The Company values its financial instruments using an industry standard market approach, in which prices and other relevant information are generated by market transactions involving identical or comparable assets or liabilities. No financial instruments were recognized using unobservable inputs.

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Interest rate swaps were measured at fair value using quoted market prices for the swap interest rate indexes over the term of the swap discounted to present value versus the fixed rate of the contract. The interest rate caps were measured at fair value using implied volatility rates of each individual caplet and the yield curve for the related periods. The estimated fair value of the Company's term loans was based on information provided by the agent under the Company's senior secured credit facility. The estimated fair values of the Company's notes were based upon quoted market prices. There has not been any impact to the fair value of derivative liabilities due to the Company's own credit risk. Similarly, there has not been any impact to the fair value of derivative assets based on the Company's evaluation of counterparties' credit risks.

The fair value of cash and cash equivalents, trade accounts receivable-net and accounts payable approximated book value due to the short-term nature of these instruments at December 29, 2018 and September 30, 2018.

**12. DERIVATIVES AND HEDGING ACTIVITIES**

The Company is exposed to, among other things, the impact of changes in interest rates in the normal course of business. The Company's risk management program is designed to manage the exposure and volatility arising from these risks, and utilizes derivative financial instruments to offset a portion of these risks. The Company uses derivative financial instruments only to the extent necessary to hedge identified business risks and does not enter into such transactions for trading purposes. The Company generally does not require collateral or other security with counterparties to these financial instruments and is therefore subject to credit risk in the event of nonperformance; however, the Company monitors credit risk and currently does not anticipate nonperformance by other parties. The Company has agreements with each of its swap and cap counterparties that contain a provision whereby if the Company defaults on the credit facility the Company could also be declared in default on its swaps and caps, resulting in an acceleration of payment under the swaps and caps.

Interest rate swap and cap agreements are used to manage interest rate risk associated with floating-rate borrowings under our credit facility. The interest rate swap and cap agreements utilized by the Company effectively modify the Company's exposure to interest rate risk by converting a portion of the Company's floating-rate debt to a fixed rate basis through the expiration date of the interest rate swap and cap agreements, thereby reducing the impact of interest rate changes on future interest expense. These agreements involve the receipt of floating rate amounts in exchange for fixed rate interest payments over the term of the agreements without an exchange of the underlying principal amount. These derivative instruments qualify as effective cash flow hedges under GAAP. For these cash flow hedges, the effective portion of the gain or loss from the financial instruments was initially reported as a component of accumulated other comprehensive (loss) income in stockholders' deficit and subsequently reclassified into earnings in the same line as the hedged item in the same period or periods during which the hedged item affected earnings. As the interest rate swap and cap agreements are used to manage interest rate risk, any gains or losses from the derivative instruments that are reclassified into earnings are recognized in interest expense - net in the condensed consolidated statements of income.

The following table summarizes the Company's interest rate swap agreements:

Aggregate Notional Amount (in millions)	Start Date	End Date	Related Term Loans	Conversion of Related Variable Rate Debt to Fixed Rate of:
\$750	3/31/2016	6/30/2020	Tranche E	5.3% (2.8% plus the 2.5% margin percentage)
\$500	6/29/2018	3/31/2025	Tranche E	5.5% (3.0% plus the 2.5% margin percentage)
\$750	6/30/2020	6/30/2022	Tranche E	5.0% (2.5% plus the 2.5% margin percentage)
\$1,500	6/30/2022	3/31/2025	Tranche E	5.6% (3.1% plus the 2.5% margin percentage)
\$1,000	9/30/2014	6/28/2019	Tranche F	4.9% (2.4% plus the 2.5% margin percentage)
\$1,000	6/28/2019	6/30/2021	Tranche F	4.3% (1.8% plus the 2.5% margin percentage)
\$1,400	6/30/2021	3/31/2023	Tranche F	5.5% (3.0% plus the 2.5% margin percentage)
\$500	12/30/2016	12/31/2021	Tranche G	4.4% (1.9% plus the 2.5% margin percentage)
\$400	9/30/2017	9/30/2022	Tranche G	4.4% (1.9% plus the 2.5% margin percentage)
\$900	12/31/2021	6/28/2024	Tranche G	5.6% (3.1% plus the 2.5% margin percentage)
\$400	9/30/2022	6/28/2024	Tranche G	5.5% (3.0% plus the 2.5% margin percentage)



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The following table summarizes the Company's interest rate cap agreements:

Aggregate Notional Amount (in millions)	Start Date	End Date	Related Term Loans	Offsets Variable Rate Debt Attributable to Fluctuations Above:
\$750	9/30/2015	6/30/2020	Tranche E	Three month LIBO rate of 2.5%
\$750	6/30/2020	6/30/2022	Tranche E	Three month LIBO rate of 2.5%
\$400	6/30/2016	6/30/2021	Tranche F	Three month LIBO rate of 2.0%
\$400	12/30/2016	12/31/2021	Tranche G	Three month LIBO rate of 2.5%

All interest rate swap and cap agreements are recognized in our condensed consolidated balance sheets at fair value. Certain derivative asset and liability balances are offset where master netting agreements provide for the legal right of setoff. For classification purposes, we record the net fair value of each type of derivative position that is expected to settle in less than one year with each counterparty as a net current asset or liability and each type of long-term position as a net non-current asset or liability. The amounts shown in the table below represent the gross amounts of recognized assets and liabilities, the amounts offset in the condensed consolidated balance sheet and the net amounts of assets and liabilities presented therein.

	December 29, 2018		September 30, 2018	
	Asset	Liability	Asset	Liability
Interest rate cap agreements	\$21,732	\$—	\$36,160	\$—
Interest rate swap agreements	35,960	(46,385 )	72,090	—
Total	57,692	(46,385 )	108,250	—
Effect of counterparty netting	(19,224 )	19,224	670	(670 )
Net derivatives as classified in the balance sheet <sup>(1)</sup>	\$38,468	\$(27,161)	\$108,920	\$(670 )

<sup>(1)</sup> Refer to Note 11, "Fair Value Measurements," for the condensed consolidated balance sheet classification of our interest rate swap and cap agreements.

Based on the fair value amounts of the interest rate swap and cap agreements determined as of December 29, 2018, the estimated net amount of existing gains and losses and caplet amortization expected to be reclassified into interest income within the next twelve months is approximately \$7.6 million.

Effective September 30, 2016, the Company redesignated the interest rate cap agreements related to the \$400 million and the \$750 million aggregate notional amount with cap rates of 2.0% and 2.5%, respectively, based on the expected probable cash flows associated with the 2016 term loans and 2015 term loans in consideration of the Company's ability to select one-month, two-month, three-month, or six-month LIBO rate set forth in the Second Amended and Restated Credit Agreement. Accordingly, amounts previously recorded as a component of accumulated other comprehensive (loss) income in stockholder's deficit amortized into interest expense was \$1.1 million and \$1.0 million for the thirteen week periods ended December 29, 2018 and December 30, 2017, respectively. The accumulated other comprehensive loss to be reclassified into interest expense over the remaining term of the cap agreements is \$9.9 million with a related tax benefit of \$2.3 million as of December 29, 2018.

Effective December 30, 2017, the Company redesignated the existing interest rate swap agreements related to the \$750 million, \$500 million, \$1,000 million and \$750 million aggregate notional amounts with swap rates of 5.0%, 4.4%, 4.3% and 5.3%, respectively, based on the expected probable cash flows associated with certain term loans in consideration of the Company's removal of the LIBO rate floor on the certain term loans as set forth in Amendment No. 4 to the Second Amended and Restated Credit Agreement. Accordingly, the amount recorded as a component of accumulated other comprehensive (loss) income in stockholders' deficit related to these redesignated interest rate swap hedges will be amortized into earnings based on the original maturity date of the related interest rate swap agreements. Amounts previously recorded as a component of accumulated other comprehensive (loss) income in stockholder's deficit amortized into interest expense was \$0.3 million for the thirteen week period ended December 29, 2018. The accumulated other comprehensive income to be reclassified into interest income over the remaining term of the swaps agreements is \$0.9 million with a related tax expense of \$0.2 million as of December 29, 2018.

Effective March 31, 2018, the Company redesignated the existing interest rate swap agreements related to the \$1,000 million and the \$400 million aggregate notional amount with swap rates of 4.9% and 4.4%, respectively, based on the expected probable cash flows associated with certain term loans in consideration of the Company's removal of the LIBO rate floor on the certain term loans as set forth in the refinancing facility agreement dated February 22, 2018 related to the Second Amended and Restated Credit Agreement. Accordingly, the amount recorded as a component of accumulated

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other comprehensive (loss) income in stockholders' deficit related to these redesignated interest rate swap hedges will be amortized into earnings based on the original maturity date of the related interest rate swap agreements. Amounts previously recorded as a component of accumulated other comprehensive (loss) income in stockholder's deficit amortized into interest income was \$0.7 million for the thirteen week period ended December 29, 2018. The accumulated other comprehensive income to be reclassified into interest income over the remaining term of the swaps agreements is \$10.7 million with a related tax expense of \$2.5 million as of December 29, 2018.

13. SEGMENTS

The Company's businesses are organized and managed in three reporting segments: Power & Control, Airframe and Non-aviation.

The Power & Control segment includes operations that primarily develop, produce and market systems and components that predominately provide power to or control power of the aircraft utilizing electronic, fluid, power and mechanical motion control technologies. Major product offerings include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, databus and power controls, high performance hoists, winches and lifting devices and cargo loading and handling systems. Primary customers of this segment are engine and power system and subsystem suppliers, airlines, third party maintenance suppliers, military buying agencies and repair depots. Products are sold in the original equipment and aftermarket market channels.

The Airframe segment includes operations that primarily develop, produce and market systems and components that are used in non-power airframe applications utilizing airframe and cabin structure technologies. Major product offerings include engineered latching and locking devices, rods and locking devices, engineered connectors and elastomers, cockpit security components and systems, aircraft audio systems, specialized lavatory components, seat belts and safety restraints, engineered interior surfaces and related components, lighting and control technology, military personnel parachutes and cargo delivery systems. Primary customers of this segment are airframe manufacturers and cabin system suppliers and subsystem suppliers, airlines, third party maintenance suppliers, military buying agencies and repair depots. Products are sold in the original equipment and aftermarket market channels.

The Non-aviation segment includes operations that primarily develop, produce and market products for non-aviation markets. Major product offerings include seat belts and safety restraints for ground transportation applications, mechanical/electro-mechanical actuators and controls for space applications, hydraulic/electromechanical actuators and fuel valves for land based gas turbines, and refueling systems for heavy equipment used in mining, construction and other industries and turbine controls for the energy and oil and gas markets. Primary customers of this segment are off-road vehicle suppliers and subsystem suppliers, child restraint system suppliers, satellite and space system suppliers, manufacturers of heavy equipment used in mining, construction and other industries and turbine original equipment manufacturers, gas pipeline builders and electric utilities.

The primary measurement used by management to review and assess the operating performance of each segment is EBITDA As Defined. The Company defines EBITDA As Defined as earnings before interest, taxes, depreciation and amortization plus certain non-operating items recorded as corporate expenses including refinancing costs, acquisition-related costs, transaction-related costs, foreign currency gains and losses, and non-cash compensation charges incurred in connection with the Company's stock option plans. Acquisition-related costs represent accounting adjustments to inventory associated with acquisitions of businesses and product lines that were charged to cost of sales when the inventory was sold; costs incurred to integrate acquired businesses and product lines into the Company's operations, facility relocation costs and other acquisition-related costs; transaction related costs comprising deal fees; legal, financial and tax diligence expenses and valuation costs that are required to be expensed as incurred and other acquisition accounting adjustments.

EBITDA As Defined is not a measurement of financial performance under GAAP. Although the Company uses EBITDA As Defined to assess the performance of its business and for various other purposes, the use of this non-GAAP financial measure as an analytical tool has limitations, and it should not be considered in isolation or as a substitute for analysis of the Company's results of operations as reported in accordance with GAAP.

The Company's segments are reported on the same basis used internally for evaluating performance and for allocating resources. The accounting policies for each segment are the same as those described in the summary of significant accounting policies in the Company's consolidated financial statements. Intersegment sales and transfers are recorded at values based on market prices, which creates intercompany profit on intersegment sales or transfers that is eliminated in consolidation. Intersegment sales were insignificant for the periods presented below. Certain corporate-level expenses are allocated to the operating segments.



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The following table presents net sales by reportable segment (in thousands):

	Thirteen Week Periods Ended	
	December 29, 2018	December 30, 2017
Net sales to external customers		
Power & Control		
Commercial OEM	132,601	115,593
Commercial Aftermarket	157,507	149,516
Defense	270,201	217,609
Total Power & Control	\$560,309	\$482,718
Airframe		
Commercial OEM	133,146	106,501
Commercial Aftermarket	177,034	158,237
Defense	88,640	68,654
Total Airframe	398,820	333,392
Total Non-aviation	34,173	31,850
	\$993,302	\$847,960

The following table reconciles EBITDA As Defined by segment to consolidated income from continuing operations before income taxes (in thousands):

	Thirteen Week Periods Ended	
	December 29, 2018	December 30, 2017
EBITDA As Defined		
Power & Control	\$299,933	\$244,775
Airframe	191,480	158,419
Non-aviation	10,719	8,996
Total segment EBITDA As Defined	502,132	412,190
Unallocated corporate expenses	15,444	10,657
Total Company EBITDA As Defined	486,688	401,533
Depreciation and amortization expense	35,418	30,639
Interest expense - net	172,000	160,933
Acquisition-related costs	11,739	2,074
Stock compensation expense	17,730	11,113
Refinancing costs	136	1,113
Other, net	(99)	4,697
Income from continuing operations before income taxes	\$249,764	\$190,964

The following table presents total assets by segment (in thousands):

	December 29, 2018	September 30, 2018
Total assets		
Power & Control	\$5,737,549	\$5,698,524
Airframe	4,094,626	4,091,011
Non-aviation	232,756	234,770
Corporate	2,324,347	2,173,162
	\$12,389,278	\$12,197,467

The Company's sales principally originate from the United States, and the Company's long-lived assets are principally located in the United States.

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## 14. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table presents the components of accumulated other comprehensive (loss) income, net of taxes, for the thirteen week period ended December 29, 2018 (in thousands):

	Unrealized (loss) gain on derivatives designated and qualifying as cash flow hedges <sup>(1)</sup>	Defined benefit pension plan activity	Currency translation adjustment	Total
Balance at September 30, 2018	\$ 67,191	\$(10,729)	\$(52,362 )	\$4,100
Current-period other comprehensive loss	(74,394 )	—	(11,228 )	(85,622 )
Amounts reclassified from AOCI related to interest rate swap and cap agreements	529	—	—	529
Balance at December 29, 2018	\$(6,674 )	\$(10,729)	\$(63,590 )	\$(80,993)

(1) Unrealized (loss) gain represents interest rate swap and cap agreements, net of taxes of \$22,270 and \$(10,435) for the thirteen week periods ended December 29, 2018 and December 30, 2017, respectively.

A summary of reclassifications out of accumulated other comprehensive (loss) income for the thirteen week periods ended December 29, 2018 and December 30, 2017 is provided below (in thousands):

Description of reclassifications out of accumulated other comprehensive (loss) income	Amount reclassified Thirteen Week Periods Ended December 29, 2018	December 30, 2017
Amortization from redesignated interest rate swap and cap agreements <sup>(1)</sup>	\$692	\$ 970
Deferred tax benefit from redesignated interest rate swap and cap agreements	(163 )	(267 )
Losses reclassified into earnings, net of tax	\$529	\$ 703

(1) This component of accumulated other comprehensive loss is included in interest expense (see Note 12, "Derivatives and Hedging Activities," for additional information).

## 16. SUPPLEMENTAL GUARANTOR INFORMATION

TransDigm Inc.'s 2020 Notes, 2022 Notes, 2024 Notes, 2025 Notes and 6.375% 2026 Notes are jointly and severally guaranteed, on a senior subordinated basis, by TD Group, TransDigm UK Holdings plc ("TransDigm UK") and TransDigm Inc.'s Domestic Restricted Subsidiaries, as defined in the applicable Indentures. TransDigm UK's 6.875% 2026 Notes are jointly and severally guaranteed, on a senior subordinated basis, by TD Group, TransDigm Inc. and TransDigm Inc.'s Domestic Restricted Subsidiaries as defined in the applicable indenture. The following supplemental condensed consolidating financial information presents, in separate columns, the balance sheets of the Company as of December 29, 2018 and September 30, 2018 and its statements of income and comprehensive income and cash flows for the thirteen week periods ended December 29, 2018 and December 30, 2017 for (i) TransDigm Group on a parent only basis with its investment in subsidiaries recorded under the equity method, (ii) TransDigm Inc. including its directly owned operations and non-operating entities, excluding TransDigm UK, (iii) TransDigm UK (iv) the Subsidiary Guarantors (other than TransDigm UK) on a combined basis, (v) Non-Guarantor Subsidiaries and (vi) the Company on a consolidated basis.

Separate financial statements of TransDigm Inc. are not presented because TransDigm Inc.'s 2020 Notes, 2022 Notes, 2024 Notes, 2025 Notes and 6.375% 2026 Notes are fully and unconditionally guaranteed on a senior subordinated basis by TD Group, TransDigm UK and all of TransDigm Inc's Domestic Restricted Subsidiaries and because TD Group has no significant operations or assets separate from its investment in TransDigm Inc.

Separate financial statements of TransDigm UK are not presented because TransDigm UK's 6.875% 2026 Notes, issued in May 2018, are fully and unconditionally guaranteed on a senior subordinated basis by TD Group, TransDigm Inc. and all of TransDigm Inc.'s Domestic Restricted Subsidiaries.

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TRANSDIGM GROUP INCORPORATED  
CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 29, 2018  
(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	TransDigm UK	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Total Consolidated
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and cash equivalents	\$6,540	\$2,231,849	\$268	\$(1,219)	) \$99,878	\$—	\$2,337,316
Trade accounts receivable - Net	—	—	—	5,704	651,980	—	657,684
Inventories - Net	—	46,203	—	672,103	124,856	(4,457)	) 838,705
Prepaid expenses and other	—	51,813	—	27,749	13,351	—	92,913
Total current assets	6,540	2,329,865	268	704,337	890,065	(4,457)	) 3,926,618
INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES	(1,673,433)	) 10,345,860	1,104,265	9,609,274	2,178,915	(21,564,881)	) —
PROPERTY, PLANT AND EQUIPMENT - NET	—	15,541	—	320,898	59,531	—	395,970
GOODWILL	—	82,924	—	5,472,406	673,583	—	6,228,913
OTHER INTANGIBLE ASSETS - NET	—	26,131	—	1,508,131	238,292	—	1,772,554
DERIVATIVE ASSETS	—	26,044	—	—	—	—	26,044
OTHER	—	3,807	—	29,269	6,103	—	39,179
TOTAL ASSETS	\$(1,666,893)	\$12,830,172	\$1,104,533	\$17,644,315	\$4,046,489	\$(21,569,338)	\$12,389,278
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>							
<b>CURRENT LIABILITIES:</b>							
Current portion of long-term debt	\$—	\$75,847	\$—	\$—	\$—	\$—	\$75,847
Short-term borrowings - trade receivable securitization facility	—	—	—	—	299,662	—	299,662
Accounts payable	—	17,374	—	118,609	40,027	—	176,010
Accrued liabilities	—	204,918	4,298	130,885	59,646	—	399,747
Total current liabilities	—	298,139	4,298	249,494	399,335	—	951,266
LONG-TERM DEBT	—	12,016,665	490,951	—	—	—	12,507,616
DEFERRED INCOME TAXES	—	318,839	—	(264)	) 56,473	—	375,048
OTHER NON-CURRENT LIABILITIES	—	100,454	—	99,567	22,220	—	222,241
Total liabilities	—	12,734,097	495,249	348,797	478,028	—	14,056,171
STOCKHOLDERS' (DEFICIT) EQUITY	(1,666,893)	) 96,075	609,284	17,295,518	3,568,461	(21,569,338)	) (1,666,893)
TOTAL LIABILITIES AND STOCKHOLDERS'	\$(1,666,893)	\$12,830,172	\$1,104,533	\$17,644,315	\$4,046,489	\$(21,569,338)	\$12,389,278

(DEFICIT) EQUITY

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TRANSDIGM GROUP INCORPORATED  
CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF SEPTEMBER 30, 2018  
(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	TransDigm UK	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Total Consolidated
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and cash equivalents	\$389	\$1,821,437	\$125	\$(1,763	) \$252,829	\$—	\$2,073,017
Trade accounts receivable - Net	—	—	—	40,916	663,394	—	704,310
Inventories - Net	—	45,262	—	648,574	115,913	(4,457	) 805,292
Prepaid expenses and other	—	16,231	—	47,020	11,417	—	74,668
Total current assets	389	1,882,930	125	734,747	1,043,553	(4,457	) 3,657,287
<b>INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES</b>							
PROPERTY, PLANT AND EQUIPMENT - NET	—	15,562	—	319,567	53,204	—	388,333
GOODWILL	—	97,002	—	5,466,148	660,140	—	6,223,290
OTHER INTANGIBLE ASSETS - NET	—	31,362	—	1,514,983	242,059	—	1,788,404
DERIVATIVE ASSETS	—	97,286	—	—	—	—	97,286
OTHER	—	7,347	—	29,805	5,715	—	42,867
TOTAL ASSETS	\$(1,808,471)	\$12,590,986	\$1,100,011	\$16,993,976	\$4,164,907	\$(20,843,942)	\$12,197,467
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>							
<b>CURRENT LIABILITIES:</b>							
Current portion of long-term debt	\$—	\$75,817	\$—	\$—	\$—	\$—	\$75,817
Short-term borrowings - trade receivable securitization facility	—	—	—	—	299,519	—	299,519
Accounts payable	—	18,470	—	115,735	39,398	—	173,603

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Accrued liabilities	—	118,600	13,274	162,618	56,951	—	351,443
Total current liabilities	—	212,887	13,274	278,353	395,868	—	900,382
LONG-TERM DEBT	—	12,011,166	490,780	—	—	—	12,501,946
DEFERRED INCOME TAXES	—	345,357	—	(2,329	) 56,468	—	399,496
OTHER NON-CURRENT LIABILITIES	—	77,573	—	104,829	21,712	—	204,114
Total liabilities	—	12,646,983	504,054	380,853	474,048	—	14,005,938
STOCKHOLDERS' EQUITY	(1,808,471 )	(55,997 )	595,957	16,613,123	3,690,859	(20,843,942 )	(1,808,471 )
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$(1,808,471)	\$12,590,986	\$1,100,011	\$16,993,976	\$4,164,907	\$(20,843,942)	\$12,197,467



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TRANSDIGM GROUP INCORPORATED  
 CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME  
 FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 29, 2018

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	TransDigm UK	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Total Consolidated
NET SALES	\$—	\$41,264	\$—	\$809,513	\$161,595	\$(19,070)	\$993,302
COST OF SALES	—	22,971	—	338,473	86,811	(19,070)	429,185
GROSS PROFIT	—	18,293	—	471,040	74,784	—	564,117
SELLING AND ADMINISTRATIVE EXPENSES	—	41,432	—	64,214	16,537	—	122,183
AMORTIZATION OF INTANGIBLE ASSETS	—	230	—	17,753	2,051	—	20,034
(LOSS) INCOME FROM OPERATIONS	—	(23,369)	—	389,073	56,196	—	421,900
INTEREST EXPENSE (INCOME) - NET	—	175,634	4,672	323	(8,629)	—	172,000
REFINANCING COSTS	—	136	—	—	—	—	136
EQUITY IN INCOME OF SUBSIDIARIES	(196,042)	(324,644)	—	—	—	520,686	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	196,042	125,505	(4,672)	388,750	64,825	(520,686)	249,764
INCOME TAX PROVISION	—	(70,537)	—	118,607	5,652	—	53,722
INCOME FROM CONTINUING OPERATIONS	196,042	196,042	(4,672)	270,143	59,173	(520,686)	196,042
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	—	—	—	—	—	—	—
NET INCOME	\$196,042	\$196,042	\$(4,672)	\$270,143	\$59,173	\$(520,686)	\$196,042
OTHER COMPREHENSIVE INCOME, NET OF TAX	(85,093)	(73,864)	—	11,816	(13,085)	75,133	(85,093)
TOTAL COMPREHENSIVE INCOME	\$110,949	\$122,178	\$(4,672)	\$281,959	\$46,088	\$(445,553)	\$110,949

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TRANSDIGM GROUP INCORPORATED  
 CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME  
 FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 30, 2017

(Amounts in thousands)

	TransDigm Group	TransDigm Inc.	TransDigm UK	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Total Consolidated
NET SALES	\$—	\$36,128	\$	-\$685,362	\$145,530	\$(19,060 )	\$847,960
COST OF SALES	—	19,964	—	277,662	91,387	(17,703 )	371,310
GROSS PROFIT	—	16,164	—	407,700	54,143	(1,357 )	476,650
SELLING AND ADMINISTRATIVE EXPENSES	—	24,519	—	(85,640 )	165,430	2,219	106,528
AMORTIZATION OF INTANGIBLE ASSETS	—	357	—	14,693	2,062	—	17,112
(LOSS) INCOME FROM OPERATIONS	—	(8,712 )	—	478,647	(113,349 )	(3,576 )	353,010
INTEREST EXPENSE (INCOME) - NET	—	165,860	—	281	(5,208 )	—	160,933
REFINANCING COSTS	—	1,113	—	—	—	—	1,113
EQUITY IN INCOME OF SUBSIDIARIES	(314,775 )	(309,919 )	—	—	—	624,694	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	314,775	134,234	—	478,366	(108,141 )	(628,270 )	190,964
INCOME TAX PROVISION	—	(180,541 )	—	54,938	4,556	—	(121,047 )
INCOME FROM CONTINUING OPERATIONS	314,775	314,775	—	423,428	(112,697 )	(628,270 )	312,011
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	—	—	—	1,686	1,078	—	2,764
NET INCOME	\$314,775	\$314,775	\$	-\$425,114	\$(111,619 )	\$(628,270 )	\$314,775
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	23,400	18,932	—	8,975	13,419	(41,326 )	23,400
TOTAL COMPREHENSIVE INCOME	\$338,175	\$333,707	\$	-\$434,089	\$(98,200 )	\$(669,596 )	\$338,175

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TRANSDIGM GROUP INCORPORATED  
 CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
 FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 29, 2018  
 (Amounts in thousands)

	TransDigm Group	TransDigm Inc.	TransDigm UK	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Total Consolidated
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ —	\$(19,362 )	\$ (106 )	\$284,915	\$ 64,441	\$ —	—\$329,888
INVESTING ACTIVITIES:							
Capital expenditures	—	(623 )	—	(19,110 )	(4,072 )	—	(23,805 )
Payments made in connection with acquisitions	—	—	—	(28,718 )	—	—	(28,718 )
Net cash used in investing activities	—	(623 )	—	(47,828 )	(4,072 )	—	(52,523 )
FINANCING ACTIVITIES:							
Intercompany activities	16,286	430,458	448	(236,543 )	(210,649 )	—	—
Proceeds from exercise of stock options	14,174	—	—	—	—	—	14,174
Dividend equivalent payments	(24,309 )	—	—	—	—	—	(24,309 )
Other	—	(61 )	(199 )	—	—	—	(260 )
Net cash provided by (used in) financing activities	6,151	430,397	249	(236,543 )	(210,649 )	—	(10,395 )
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	—	—	(2,671 )	—	(2,671 )
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,151	410,412	143	544	(152,951 )	—	264,299
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	389	1,821,437	125	(1,763 )	252,829	—	2,073,017
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 6,540	\$2,231,849	\$ 268	\$(1,219 )	\$ 99,878	\$ —	—\$2,337,316

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TRANSDIGM GROUP INCORPORATED  
 CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
 FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 30, 2017  
 (Amounts in thousands)

	TransDigm Group	TransDigm Inc.	TransDigm UK	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Total Consolidated
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ —	\$(157,604)	\$ —	-\$482,518	\$(30,324 )	\$(1,779 )	\$ 292,811
INVESTING ACTIVITIES:							
Capital expenditures	—	(268 )	—	(13,836 )	(1,186 )	—	(15,290 )
Net cash used in investing activities	—	(268 )	—	(13,836 )	(1,186 )	—	(15,290 )
FINANCING ACTIVITIES:							
Intercompany activities	50,213	499,177	—	(468,165 )	(83,004 )	1,779	—
Proceeds from exercise of stock options	7,290	—	—	—	—	—	7,290
Special dividend and dividend equivalent payments	(56,148 )	—	—	—	—	—	(56,148 )
Proceeds from term loans, net	—	793,864	—	—	—	—	793,864
Repayment on term loans	—	(815,631 )	—	—	—	—	(815,631 )
Other	(279 )	(83 )	—	—	—	—	(362 )
Net cash provided by (used in) financing activities	1,076	477,327	—	(468,165 )	(83,004 )	1,779	(70,987 )
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS							
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,076	319,455	—	517	(113,747 )	—	207,301
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,416	439,473	—	(203 )	208,875	—	650,561
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 3,492	\$ 758,928	\$ —	-\$314	\$ 95,128	\$ —	\$ 857,862

## 16. SUBSEQUENT EVENTS

On January 30, 2019, the Company entered into a purchase agreement in connection with a private offering of \$3.8 billion aggregate principal amount in 6.25% senior secured notes due 2026 (the “first secured notes offering”). In addition, on February 1, 2019, the Company entered into a purchase agreement in connection with a private offering of \$200 million aggregate principal amount of 6.25% senior secured notes due 2026 (the “second secured notes offering”). All \$4.0 billion aggregate principal amount of the secured notes will constitute a single class and will be issued under a single indenture. The notes in the first secured notes offering will be issued at a price of 100% of their principal amount and the notes in the second secured notes offering will be issued at a price of 101% of their principal amount. The Notes will be guaranteed, with certain exceptions, by TransDigm Group, TransDigm UK and all of TransDigm Inc.’s existing and future U.S. subsidiaries on a senior secured basis. The Company expects the secured notes offerings to close on or about February 13, 2019, subject to customary closing conditions. The Company intends to use the net proceeds from the secured notes offerings to fund the purchase price of the Esterline acquisition.

On February 1, 2019, the Company entered into a purchase agreement in connection with a private offering of \$550 million in new 7.50% senior subordinated notes due 2027. The offering is expected to close on February 13, 2019, subject to customary closing conditions. The net proceeds, plus existing cash on hand, are intended to be used to

redeem all of the Company's outstanding 2020 Notes. Upon the redemption of the 2020 notes, approximately \$2 million of unamortized debt issuance costs will be written off.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Statements

The following discussion of the Company's financial condition and results of operations should be read together with TD Group's consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q. References in this section to "TransDigm," "the Company," "we," "us," "our," and similar references refer to TD Group, TransDigm Inc. and TransDigm Inc.'s subsidiaries, unless the context otherwise indicates.

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, in particular, the statements about the Company's plans, strategies and prospects under this section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." When used in this Quarterly Report on Form 10-Q, the words "believe," "may," "will," "should," "expect," "intend," "plan," "predict," "anticipate," "estimate," "continue" and other words and terms of similar meaning are intended to identify forward-looking statements. Although the Company believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from the forward-looking statements made in this report. Many such factors are outside the control of the Company. Consequently, such forward-looking statements should be regarded solely as our current plans, estimates and beliefs. The Company does not undertake, and specifically declines, any obligation, to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

Important factors that could cause actual results to differ materially from the forward-looking statements made in this Quarterly Report on Form 10-Q include but are not limited to: the sensitivity of our business to the number of flight hours that our customers' planes spend aloft and our customers' profitability, both of which are affected by general economic conditions; future geopolitical or other worldwide events; cyber-security threats and natural disasters; our reliance on certain customers; the U.S. defense budget and risks associated with being a government supplier; failure to maintain government or industry approvals; failure to complete or successfully integrate acquisitions; our substantial indebtedness; potential environmental liabilities; increases in raw material costs, taxes and labor costs that cannot be recovered in product pricing; risks and costs associated with our international sales and operations; and other factors. Please refer to the other information included in this Quarterly Report on Form 10-Q and to Item 1A of the Annual Report on Form 10-K for additional information regarding the foregoing factors that may affect our business.

Overview

We believe we are a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly every commercial and military aircraft in service today. Our business is well diversified due to the broad range of products we offer to our customers. Some of our more significant product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, NiCad batteries and chargers, engineered latching and locking devices, rods and locking devices, engineered connectors and elastomers, databus and power controls, cockpit security components and systems, specialized cockpit displays, aircraft audio systems, specialized lavatory components, seat belts and safety restraints, engineered interior surfaces and related components, lighting and control technology, military personnel parachutes, high performance hoists, winches and lifting devices, and cargo loading, handling and delivery systems. Each of these product offerings is composed of many individual products that are typically customized to meet the needs of a particular aircraft platform or customer.

For the first quarter of fiscal 2019, we generated net sales of \$993.3 million and net income of \$196.0 million. EBITDA As Defined was \$486.7 million, or 49.0% of net sales. See the "Non-GAAP Financial Measures" section for certain information regarding EBITDA and EBITDA As Defined, including reconciliations of EBITDA and EBITDA

As Defined to net income and net cash provided by operating activities.

**Critical Accounting Policies and Estimates**

The preparation and fair presentation of the consolidated unaudited interim financial statements and accompanying notes included in this report are the responsibility of management. The financial statements and footnotes have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and contain certain amounts that were based upon management's best estimates, judgments and assumptions that were believed to be reasonable under the circumstances. On an ongoing basis, we evaluate the accounting policies and estimates used to prepare financial statements. Estimates are based on historical experience, judgments and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates used by management.

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A comprehensive discussion of the Company's critical accounting policies and management estimates and significant accounting policies followed in the preparation of the financial statements is included in Item 7 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2018. Other than the adoption of ASC 606, "Revenue from Contracts with Customers," there have been no significant changes in critical accounting policies, management estimates or accounting policies followed since the fiscal year ended September 30, 2018. Refer to Note 4, "Recent Accounting Pronouncements," and Note 5, "Revenue Recognition," for a discussion of accounting standards recently adopted or required to be adopted in the future.

## Acquisitions

Recent acquisitions are described in Note 3, "Acquisitions and Divestitures," to the condensed consolidated financial statements included herein.

## Results of Operations

The following table sets forth, for the periods indicated, certain operating data of the Company, including presentation of the amounts as a percentage of net sales (amounts in thousands):

	Thirteen Week Periods Ended					
	December 29, 2018	% of Sales		December 30, 2017	% of Sales	
Net sales	\$993,302	100.0	%	\$847,960	100.0	%
Cost of sales	429,185	43.2	%	371,310	43.8	%
Selling and administrative expenses	122,183	12.3	%	106,528	12.6	%
Amortization of intangible assets	20,034	2.0	%	17,112	2.0	%
Income from operations	421,900	42.5	%	353,010	41.6	%
Interest expense, net	172,000	17.4	%	160,933	19.0	%
Refinancing costs	136	—	%	1,113	0.1	%
Income tax provision	53,722	5.4	%	(121,047)	(14.3)	%
Income from continuing operations	\$196,042	19.7	%	\$312,011	36.8	%
Income from discontinued operations, net of tax	—	—	%	2,764	0.3	%
Net income	\$196,042	19.7	%	\$314,775	37.1	%

## Changes in Results of Operations

Thirteen week period ended December 29, 2018 compared with the thirteen week period ended December 30, 2017

## Total Company

Net Sales. Net organic sales and acquisition sales and the related dollar and percentage changes for the thirteen week periods ended December 29, 2018 and December 30, 2017 were as follows (amounts in millions):

	Thirteen Week Periods Ended			% Change	
	December 29, 2018	December 30, 2017	Change	Total Sales	
Organic sales	\$ 946.5	\$ 848.0	\$ 98.5	11.6	%
Acquisition sales	46.8	—	46.8	5.5	%
	\$ 993.3	\$ 848.0	\$ 145.3	17.1	%

The increase in organic sales is primarily related to an increase in defense sales of \$46.2 million, or 16.1%, an increase in commercial OEM sales of \$29.5 million, or 13.8%, and an increase in commercial aftermarket sales of \$19.6 million, or 6.5%.

Acquisition sales represent sales of acquired businesses prior to the application of the Company's core value-driven operating strategies impacting sales (i.e., obtaining profitable new business and providing highly engineered value-added products to customers) for the period up to one year subsequent to their respective acquisition dates. The amount of acquisition sales shown in the table above for the thirteen week period ended December 29, 2018 were attributable to the acquisitions of Skandia, Extant (including Extant's acquisition of NavCom), and Kirkhill described in Note 3, "Acquisitions and Divestitures."





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Cost of Sales and Gross Profit. Cost of sales increased by \$57.9 million, or 15.6%, to \$429.2 million for the thirteen week period ended December 29, 2018 compared to \$371.3 million for the thirteen week period ended December 30, 2017. Cost of sales and the related percentage of total sales for the thirteen week periods ended December 29, 2018 and December 30, 2017 were as follows (amounts in millions):

	Thirteen Week Periods Ended		Change	% Change	
	December 29, 2018	December 30, 2017			
Cost of sales - excluding costs below	\$ 423.3	\$ 366.5	\$ 56.8	15.5	%
% of total sales	42.6	% 43.3			%
Foreign currency (gain) loss	(1.7 )	2.8	(4.5 )	(160.7 )	%
% of total sales	(0.2 )%	0.3			%
Inventory purchase accounting adjustments	4.1	—	4.1	100.0	%
% of total sales	0.4	% —			%
Stock compensation expense	1.8	1.1	0.7	63.6	%
% of total sales	0.2	% 0.1			%
Acquisition integration costs	1.7	0.9	0.8	88.9	%
% of total sales	0.2	% 0.1			%
Total cost of sales	\$ 429.2	\$ 371.3	\$ 57.9	15.6	%
% of total sales	43.2	% 43.8			%
Gross profit	\$ 564.1	\$ 476.7	\$ 87.4	18.3	%
Gross profit percentage	56.8	% 56.2	0.6		%

The net increase in the dollar amount of cost of sales during the thirteen week period ended December 29, 2018 was primarily due to increased volume associated with the sales from acquisitions and organic sales growth from the commercial OEM, commercial aftermarket and defense markets. Partially offsetting the net increase in cost of sales were gains in foreign currency as presented in the table above.

Gross profit as a percentage of sales increased by 0.6 percentage points to 56.8% for the thirteen week period ended December 29, 2018 from 56.2% for the thirteen week period ended December 30, 2017. The dollar amount of gross profit increased by \$87.4 million, or 18.3%, for the quarter ended December 29, 2018 compared to the comparable quarter in the prior year due to the following items:

Gross profit on the sales from acquisitions (excluding acquisition-related costs) was approximately \$11.6 million for the quarter ended December 29, 2018, which represented gross profit of approximately 25% of the acquisition sales. Organic sales growth as described above, application of our three core value-driven operating strategies (obtaining profitable new business, continually improving our cost structure, and providing highly engineered value-added products to customers) and positive leverage on our fixed overhead costs spread over a higher production volume resulted in a net increase in gross profit of approximately \$76.9 million for the quarter ended December 29, 2018. This increase in gross profit were offset by an increase of \$4.1 million in inventory purchase accounting adjustments, an increase of \$0.8 million in acquisition integration costs, and an increase of \$0.7 million in stock compensation expense partially offset by \$4.5 million in foreign currency gains primarily due to the U.S. dollar appreciating against the Euro.

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**Selling and Administrative Expenses.** Selling and administrative expenses increased by \$15.7 million to \$122.2 million, or 12.3% of sales, for the thirteen week period ended December 29, 2018 from \$106.5 million, or 12.6% of sales, for the thirteen week period ended December 30, 2017. Selling and administrative expenses and the related percentage of total sales for the thirteen week periods ended December 29, 2018 and December 30, 2017 were as follows (amounts in millions):

	Thirteen Week Periods Ended				Change	% Change
	December 29, 2018	December 30, 2017				
Selling and administrative expenses - excluding costs below	\$ 100.3	\$ 95.4	\$ 4.9	5.1	%	
% of total sales	10.1	% 11.3	%			
Stock compensation expense	16.0	10.0	6.0	60.0	%	
% of total sales	1.6	% 1.2	%			
Acquisition-related expenses	5.9	1.1	4.8	436.4	%	
% of total sales	0.6	% 0.1	%			
Total selling and administrative expenses	\$ 122.2	\$ 106.5	\$ 15.7	14.7	%	
% of total sales	12.3	% 12.6	%			

The increase in the dollar amount of selling and administrative expenses during the quarter ended December 29, 2018 is primarily due to higher stock compensation expense of \$6.0 million, higher acquisition-related expenses of \$4.8 million, and higher selling and administrative expenses resulting from the businesses acquired in fiscal 2018 and fiscal 2019.

**Amortization of Intangible Assets.** Amortization of intangible assets was \$20.0 million for the quarter ended December 29, 2018 compared to \$17.1 million in the quarter ended December 30, 2017. The increase in amortization expense of \$2.9 million was primarily due to the amortization expense on the definite-lived intangible assets (i.e., technology and order backlog) recorded in connection with the fiscal 2018 acquisitions of Skandia, Extant and Kirkhill and the fiscal 2019 acquisition of NavCom.

**Refinancing Costs.** Refinancing costs of \$0.1 million were recorded for the quarter ended December 29, 2018.

Refinancing costs of \$1.1 million were recorded for the quarter ended December 30, 2017 representing debt issuance costs expensed in connection with the debt financing activity during the previous fiscal year.

**Interest Expense-Net.** Interest expense-net includes interest on borrowings outstanding, amortization of debt issuance costs, original issue discount and premium and revolving credit facility fees slightly offset by interest income. Interest expense-net increased \$11.1 million, or 6.9%, to \$172.0 million for the quarter ended December 29, 2018 from \$160.9 million for the comparable quarter last year. The net increase in interest expense-net was primarily due to an increase in the weighted average level of outstanding borrowings, which was approximately \$13.0 billion for the quarter ended December 29, 2018 and approximately \$11.9 billion for the quarter ended December 30, 2017. The increase in weighted average level of borrowings was primarily due to the activity in the third quarter of fiscal 2018 consisting of the issuance of additional term loans of \$700 million (gross) and issuance of \$500 million in new 6.875% 2026 Notes. The increases in new debt described above were partially offset by principal payments on the term loans over the comparable period. The weighted average interest rate for cash interest payments on the total borrowings outstanding at December 29, 2018 was 5.4%.

**Income Taxes.** Income tax expense as a percentage of income before income taxes was approximately 21.5% for the quarter ended December 29, 2018 compared to (63.4)% for the quarter ended December 30, 2017. The Company's higher effective tax rate for the thirteen week period ended December 29, 2018 was primarily due to the discrete benefit recognized in the thirteen week period ended December 30, 2017 related to the remeasurement of deferred tax balances resulting from the provisions of the Tax Cuts and Jobs Act described in Note 10, "Income Taxes." The Company's effective tax rate for the period ended December 29, 2018 was higher than the Federal statutory rate of 21% primarily resulting from our net interest expense limitation under IRC Section 163(j) offset by the benefit associated with the deduction for foreign-derived intangible income (FDII) and excess tax benefits for share-based payments.

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Income from Discontinued Operations. On January 26, 2018, the Company completed the sale of Schroth in a management buyout to a private equity fund and certain members of Schroth management for approximately \$61.4 million which includes a working capital adjustment of \$0.3 million that was paid in July 2018. There was no activity from the discontinued operations for the quarter ended December 29, 2018. Income from discontinued operations was \$2.8 million for the quarter ended December 30, 2017.

Net Income. Net income decreased \$118.8 million, or 37.7%, to \$196.0 million for the quarter ended December 29, 2018 compared to net income of \$314.8 million for the quarter ended December 30, 2017, primarily as a result of the factors referred to above.

Earnings per Share. Basic and diluted earnings per share was \$3.05 for the quarter ended December 29, 2018 and \$4.65 per share for the quarter ended December 30, 2017. There was no impact on earnings per share from discontinued operations

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for the quarter ended December 29, 2018. For the quarter ended December 30, 2017, basic and diluted earnings per share from continuing operations and discontinued operations were \$4.60 and \$0.05, respectively. Net income for the quarter ended December 29, 2018 of \$196.0 million was decreased by dividend equivalent payments of \$24.3 million resulting in net income available to common shareholders of \$171.7 million. Net income for the quarter ended December 30, 2017 of \$314.8 million was decreased by dividend equivalent payments of \$56.2 million resulting in net income available to common shareholders of \$258.6 million.

**Business Segments**

Segment Net Sales. Net sales by segment for the thirteen week periods ended December 29, 2018 and December 30, 2017 were as follows (amounts in millions):

	Thirteen Week Periods Ended							
	December 29, 2018			December 30, 2017			Change	
	\$	% of Sales	\$	% of Sales	\$	%		%
Power & Control	\$560.3	56.4 %	\$ 482.7	56.9 %	\$ 77.6	16.1 %		
Airframe	398.8	40.2 %	333.4	39.3 %	65.4	19.6 %		
Non-aviation	34.2	3.4 %	31.9	3.8 %	2.3	7.2 %		
	\$993.3	100.0 %	\$ 848.0	100.0 %	\$ 145.3	17.1 %		

Acquisition sales for the Power & Control segment totaled \$21.5 million, an increase of 4.5%, resulting from the acquisition of Extant (including Extant's acquisition of NavCom). Organic sales for the Power & Control segment increased \$56.1 million, an increase of 11.6%, for the thirteen week period ended December 29, 2018 compared to the thirteen week period ended December 30, 2017. The organic sales increase resulted from increases in defense sales (\$33.2 million, an increase of 15.2%), commercial OEM sales (\$15.9 million, an increase of 14.9%) and commercial aftermarket sales (\$6.0 million, an increase of 4.1%).

Acquisition sales for the Airframe segment totaled \$25.3 million, or an increase of 7.6%, resulting from the acquisitions of Skandia and Kirkhill. Organic sales for the Airframe segment increased \$40.1 million, an increase of 12.0%, for the thirteen week period ended December 29, 2018 compared to the thirteen week period ended December 30, 2017. The organic sales increase resulted from increases in commercial aftermarket sales (\$13.8 million, an increase of 8.7%), commercial OEM sales (\$13.7 million, an increase of 13.1%) and defense sales (\$13.0 million, an increase of 19.0%).

EBITDA As Defined. EBITDA As Defined by segment for the thirteen week periods ended December 29, 2018 and December 30, 2017 were as follows (amounts in millions):

	Thirteen Week Periods Ended							
	December 29, 2018			December 30, 2017			Change	
	\$	% of Segment Sales	\$	% of Segment Sales	\$	%		%
Power & Control	\$299.9	53.5 %	\$ 244.8	50.7 %	\$ 55.1	22.5 %		
Airframe	191.5	48.0 %	158.4	47.5 %	33.1	20.9 %		
Non-aviation	10.7	31.4 %	9.0	28.2 %	1.7	18.9 %		
	\$502.1	50.6 %	\$ 412.2	48.6 %	\$ 89.9	21.8 %		

EBITDA As Defined for the Power & Control segment from the acquisition of Extant (including Extant's acquisition of NavCom) prior to the application of our core value-driven operating strategies (i.e., obtaining profitable new business, continually improving our cost structure and providing highly engineered value-added products to customers) was approximately \$10.4 million. Organic EBITDA As Defined for the Power & Control segment increased approximately \$44.7 million, an increase of 18.3%, resulting from organic sales growth in defense, commercial OEM, and commercial aftermarket sales along with the application of our three core value-driven operating strategies and positive leverage on our fixed overhead costs spread over a higher production volume. EBITDA As Defined for the Airframe segment from the acquisitions of Skandia and Kirkhill prior to the application of our core value-driven operating strategies was approximately \$(1.9) million. Including the impact of our core value-driven operating strategies (which are categorized as "organic" improvement), the EBITDA as Defined

contribution from the acquisitions of Skandia and Kirkhill was \$9.2 million for the thirteen week period ended December 29, 2018. Organic EBITDA As Defined for the Airframe segment increased approximately \$35.0 million, an increase of 22.0%, resulting from organic sales growth in the commercial aftermarket, commercial OEM and defense sales along with the application of our three core value-driven operating strategies, and positive leverage on our fixed overhead costs spread over a higher production volume.

Backlog

As of December 29, 2018, the Company estimated its sales order backlog at \$2,181 million compared to an estimated sales order backlog of \$1,706 million as of December 30, 2017. The increase in backlog is due to growth from recent acquisitions and organic growth in the commercial aftermarket, commercial OEM and defense markets. The majority of the purchase orders outstanding

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as of December 29, 2018 are scheduled for delivery within the next twelve months. Purchase orders may be subject to cancellation or deferral by the customer prior to shipment. The level of unfilled purchase orders at any given date during the year will be materially affected by the timing of the Company's receipt of purchase orders and the speed with which those orders are filled. Accordingly, the Company's backlog as of December 29, 2018 may not necessarily represent the actual amount of shipments or sales for any future period.

### Foreign Operations

Although we manufacture a significant portion of our products in the United States, we manufacture some products in Belgium, China, Germany, Hungary, Japan, Malaysia, Mexico, Norway, Sri Lanka, Sweden, and the United Kingdom. We sell our products in the United States as well as in foreign countries. Although the majority of sales of our products are made to customers (including distributors) located in the United States, our products are ultimately sold to and used by customers, including airlines and other end users of aircraft, throughout the world. A number of risks inherent in international operations could have a material adverse effect on our results of operations, including currency fluctuations, difficulties in staffing and managing multi-national operations, general economic and political uncertainties and potential for social unrest in countries in which we operate, limitations on our ability to enforce legal rights and remedies, restrictions on the repatriation of funds, change in trade policies, tariff regulation, difficulties in obtaining export and import licenses and the risk of government financed competition.

There can be no assurance that foreign governments will not adopt regulations or take other action that would have a direct or indirect adverse impact on the business or market opportunities of the Company within such governments' countries. Furthermore, there can be no assurance that the political, cultural and economic climate outside the United States will be favorable to our operations and growth strategy.

### Liquidity and Capital Resources

We have historically maintained a capital structure comprising a mix of equity and debt financing. We vary our leverage both to optimize our equity return and to pursue acquisitions. We expect to meet our current debt obligations as they come due through internally generated funds from current levels of operations and/or through refinancing in the debt markets prior to the maturity dates of our debt.

We continually evaluate our debt facilities to assess whether they most efficiently and effectively meet the current and future needs of our business. The Company evaluates from time to time the appropriateness of its current leverage, taking into consideration the Company's debt holders, equity holders, credit ratings, acquisition opportunities and other factors.

If the Company has excess cash, it generally prioritizes allocating the excess cash in the following manner: (1) capital spending at existing businesses, (2) acquisitions of businesses, (3) payment of a special dividend and/or repurchases of our common stock and (4) prepayment of indebtedness or repurchase of debt. Whether the Company undertakes common stock repurchases or other aforementioned activities will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. In addition, the Company may issue additional debt if prevailing market conditions are favorable to doing so. The Company's ability to make scheduled interest payments on, or to refinance, the Company's indebtedness, or to fund non-acquisition related capital expenditures and research and development efforts, will depend on the Company's ability to generate cash in the future. This is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond its control.

As a result of the additional debt financing during the fiscal year ended September 30, 2018, and anticipated financing transactions described in the paragraphs below and in Note 16, "Subsequent Events," to the condensed consolidated financial statements, interest payments will increase going forward in accordance with the terms of the related debt agreements. However, in connection with the continued application of our three core value-driven operating strategies (obtaining profitable new business, continually improving our cost structure and providing highly engineered value-added products to customers), we expect our efforts will continue to generate strong margins and provide more than sufficient cash provided by operating activities to meet our interest obligations and liquidity needs. We believe our cash provided by operating activities and available borrowing capacity will enable us to make opportunistic investments in our own stock, make strategic business combinations and/or pay dividends to our shareholders.

In connection with the merger agreement to acquire Esterline for approximately \$4.0 billion, the Company entered into a commitment letter for a senior secured term facility up to \$3.7 billion. On January 30, 2019, in lieu of the term loans borrowings contemplated by the commitment letter, the Company entered into a purchase agreement in connection with a private offering of \$3.8 billion aggregate principal amount in 6.25% senior secured notes (“first secured notes offering”) due 2026. In addition, on February 1, 2019, the Company entered into a purchase agreement in connection with a private offering of \$200 million aggregate principal amount of 6.25% senior secured notes (the “second secured notes offering”) due 2026. All \$4.0 billion aggregate principal amount of the secured notes offering will constitute a single class of notes and will be issued under a single indenture offering. The first secured notes offering will be issued at a price of 100% of their principal amount and the second secured notes offering



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will be issued at a price of 101% of their principal amount. The Notes will be guaranteed, with certain exceptions, by TransDigm Group, TransDigm UK and all of TransDigm Inc.'s existing and future U.S. subsidiaries on a senior subordinated basis or senior secured basis, as applicable. The Company expects the secured notes offerings to close on or about February 13, 2019, subject to customary closing conditions. The Company intends to use the net proceeds from the secured notes offerings to fund the purchase price of the Esterline acquisition.

All required regulatory reviews of the Esterline acquisition are complete, other than the European Commission antitrust review and the French foreign investment review. Subject to satisfactory completion of these reviews and other customary closing conditions, the Company currently expects the closing of the acquisition to occur in March or April 2019.

On February 1, 2019, the Company entered into a purchase agreement in connection with a private offering of \$550 million in 7.50% new senior subordinated notes of TransDigm, Inc., a wholly-owned subsidiary of TransDigm Group, due in March 2027, pursuant to a confidential offering memorandum in a private placement under Rule 144A and Regulation S of the Securities Act of 1933. The offering is expected to close on February 13, 2019, subject to customary closing conditions. The net proceeds, plus existing cash on hand, are intended to be used to redeem all of the outstanding 2020 Notes. Upon the redemption of the 2020 notes, approximately \$2 million of unamortized debt issuance costs will be written off.

In the future, the Company may increase its borrowings in connection with acquisitions, if cash flows from operating activities become insufficient to fund current operations or for other short-term cash needs or for stock repurchases or special dividends. Our future leverage will also be impacted by the then current conditions of the credit markets.

**Operating Activities.** The Company generated \$329.9 million of net cash from operating activities during the thirteen week period ended December 29, 2018 compared to \$292.8 million during the thirteen week period ended December 30, 2017. The net increase of \$37.1 million is primarily attributable to an increase in income from continuing operations before taxes of \$58.8 million offset by an unfavorable change in working capital accounts, other assets, and accrual accounts of \$29.2 million.

The change in accounts receivable during the thirteen week period ended December 29, 2018 was a source of cash of \$45.4 million compared to a source of cash of \$81.2 million during the thirteen week period ended December 30, 2017. The decrease in the source of cash of \$35.8 million is attributable to an increase in sales during the thirteen week period ended December 29, 2018 compared to the same period in fiscal year 2018 and the related timing of receipt of payment on those sales.

The change in inventories during the thirteen week period ended December 29, 2018 was a use of cash of \$25.4 million compared to a use of cash of \$12.5 million during the thirteen week period ended December 30, 2017. The increase in the use of cash of \$12.9 million is primarily attributable to an increase in raw materials inventory in response to the growth in backlog.

The change in accounts payable during the thirteen week period ended December 29, 2018 was a source of cash of \$2.9 million compared to a use of cash of \$4.4 million during the thirteen week period ended December 30, 2017. The increase in the source of cash of \$7.3 million was primarily attributable to the timing of payments to vendors in connection with continued efforts to improve working capital management.

**Investing Activities.** Net cash used in investing activities was \$52.5 million during the thirteen week period ended December 29, 2018 consisting of capital expenditures of \$23.8 million and payments for acquisitions of \$28.7 million which primarily consisted of Extant's acquisition of NavCom for approximately \$27.0 million.

Net cash used in investing activities of \$15.3 million during the thirteen week period ended December 30, 2017 which consisted exclusively of capital expenditures.

**Financing Activities.** Net cash used financing activities during the thirteen week period ended December 29, 2018 was \$10.4 million. The use of cash was primarily attributable to the payment of \$24.3 million in dividend equivalent payments partially offset by \$14.2 million in proceeds from stock option exercises.

Net cash used in financing activities during the thirteen week period ended December 30, 2017 was \$71.0 million. The use of cash was primarily related to the payment of \$56.1 million in dividend equivalent payments and \$17.4 million in debt service payments on term loans slightly offset by \$7.3 million in proceeds from stock option exercises.



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## Description of Senior Secured Term Loans and Indentures

## Senior Secured Term Loans Facility

TransDigm has \$7,599.9 million in fully drawn term loans (the “Term Loans Facility”) and a \$600.0 million revolving credit facility. The Term Loans Facility consists of three tranches of term loans as follows (aggregate principal amount disclosed is as of December 29, 2018):

Term Loans Facility	Aggregate Principal	Maturity Date	Interest Rate
Tranche E	\$2,243.7 million	May 30, 2025	LIBO rate + 2.5%
Tranche F	\$3,559.9 million	June 9, 2023	LIBO rate + 2.5%
Tranche G	\$1,796.3 million	August 22, 2024	LIBO rate + 2.5%

The Term Loans Facility requires quarterly aggregate principal payments of \$19.1 million. The revolving commitments consist of two tranches which includes up to \$99.4 million of multicurrency revolving commitments. At December 29, 2018, the Company had \$16.1 million in letters of credit outstanding and \$583.9 million in borrowings available under the revolving commitments.

The interest rates per annum applicable to the loans under the Credit Agreement are, at TransDigm’s option, equal to either an alternate base rate or an adjusted LIBO rate for one, two, three or six-month (or to the extent agreed to by each relevant lender, nine or twelve-month) interest periods chosen by TransDigm, in each case plus an applicable margin percentage. The adjusted LIBO rate related to the tranche E, tranche F and tranche G term loans are not subject to a floor. For the thirteen week period ended December 29, 2018, the applicable interest rates ranged from approximately 4.7% to 4.8% on the existing term loans. Interest rate swaps and caps used to hedge and offset, respectively, the variable interest rates on the credit facility are described in Note 12, “Derivatives and Hedging Activities,” to the condensed consolidated financial statements included herein.

## Recent Amendments to the Credit Agreement

On November 30, 2017, the Company entered into Amendment No. 4 to the Second Amended and Restated Credit Agreement (“Amendment No. 4”). Pursuant to Amendment No. 4, TransDigm, among other things, converted approximately \$798.2 million of existing tranche D term loans into additional tranche F term loans and decreased the margin applicable to the existing tranche E term loans and tranche F term loans to LIBO rate plus 2.75% per annum and also removed the LIBO rate floor of 0.75%. The terms and conditions (other than maturity date and pricing) that apply to the tranche F term loans are substantially the same as the terms and conditions that apply to the tranche D term loans immediately prior to Amendment No. 4.

On February 22, 2018, the Company entered into a refinancing facility agreement to the Second Amended and Restated Credit Agreement. TransDigm, among other things, incurred new tranche G term loans in an aggregate principal amount equal to \$1,809 million and repaid in full all of the existing tranche G term loans outstanding under the Second and Amended Restated Credit Agreement immediately prior to the refinancing facility agreement. The refinancing facility agreement also decreased the margin applicable to the tranche G term loans to LIBO rate plus 2.5% per annum. The terms and conditions that apply to the tranche G term loans, excluding pricing, are substantially the same as the terms and conditions that apply to the tranche G term loans immediately prior to the refinancing facility agreement.

On May 30, 2018, the Company entered into Amendment No. 5 to the Second Amended and Restated Credit Agreement (“Amendment No. 5”). Pursuant to Amendment No. 5, TransDigm, among other things, incurred new tranche E term loans in an aggregate principal amount equal to \$1,322.0 million, and repaid in full all of the existing tranche E term loans outstanding under the Second Amended and Restated Credit Agreement immediately prior to Amendment No. 5. The Company also incurred incremental tranche E term loans in an aggregate principal amount equal to \$933.0 million. The new tranche E term loans and incremental tranche E term loans mature on May 30, 2025. Amendment No. 5 also decreased the margin applicable to the new tranche E term loans to LIBO rate plus 2.5% per annum. The terms and conditions that apply to the tranche E term loans, other than the maturity date and margin, are substantially the same as the terms and conditions that apply to the tranche E term loans immediately prior to Amendment No. 5.

Additionally, pursuant to Amendment No. 5, the Company incurred new tranche F term loans in an aggregate principal amount equal to \$3,577.7 million, and repaid in full all of the existing tranche F term loans outstanding

under the Second and Amended Restated Credit Agreement immediately prior to Amendment No. 5. Amendment No. 5 also decreased the margin applicable to the tranche F term loans to LIBO rate plus 2.5% per annum.

Under the terms of Amendment No. 5, the maturity date of our \$600.0 million revolving credit facility was extended to December 28, 2022. The revolving commitments consist of two tranches which includes up to \$99.4 million of multicurrency revolving commitments. The terms and conditions that apply to the revolving credit facility, other than the maturity date, are substantially the same as the terms and conditions that applied to the revolving credit facility immediately prior to Amendment No. 5.

Amendment No. 5 extended our ability to make certain additional restricted payments (including the ability of the Company to declare or pay dividends or repurchase stock) in an aggregate amount not to exceed \$1.5 billion, so long as, among other conditions, the consolidated secured net debt ratio is no greater than 4.00 to 1.00 (in the case of share repurchases) or the consolidated net

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leverage ratio is no greater than 6.75 to 1.00 (in the case of dividends or other distributions), in each case, after giving pro forma effect to such transactions. If any portion of the \$1.5 billion is not used for dividends or share repurchases prior to December 31, 2018, such amount (not to exceed \$500 million) may be used to repurchase stock at any time thereafter.

## Indentures

Senior Subordinated Notes	Aggregate Principal	Maturity Date	Interest Rate
2020 Notes	\$550 million	October 15, 2020	5.50%
2022 Notes	\$1,150 million	July 15, 2022	6.00%
2024 Notes	\$1,200 million	July 15, 2024	6.50%
2025 Notes	\$750 million	May 15, 2025	6.50%
6.875% 2026 Notes	\$500 million	May 15, 2026	6.875%
6.375% 2026 Notes	\$950 million	June 15, 2026	6.375%

The 2020 Notes, the 2022 Notes, the 2024 Notes, and the 6.375% 2026 Notes (the "TransDigm Inc. Notes") were issued at a price of 100% of the principal amount. The initial \$450 million offering of the 2025 Notes (also considered to be part of the "TransDigm Inc. Notes") were issued at a price of 100% of the principal amount and the subsequent \$300 million offering in the second quarter ended of fiscal 2017 of 2025 Notes were issued at a price of 101.5% of the principal amount, resulting in gross proceeds of \$304.5 million. The 6.875% 2026 Notes (the "TransDigm UK Notes," and together with the TransDigm Inc. Notes, the "Notes," are further described below) offered in May 2018 were issued at a price of 99.24% of the principal amount, resulting in gross proceeds of \$496.2 million.

The Notes do not require principal payments prior to their maturity. Interest under the Notes is payable semi-annually. The Notes represent our unsecured obligations ranking subordinate to our senior debt, as defined in the applicable indentures.

The Notes are subordinated to all of our existing and future senior debt, rank equally with all of our existing and future senior subordinated debt and rank senior to all of our future debt that is expressly subordinated to the Notes. The TransDigm Inc. Notes are guaranteed on a senior subordinated unsecured basis by TD Group and TransDigm Inc.'s domestic restricted subsidiaries. The TransDigm UK Notes are guaranteed on a senior subordinated basis by TransDigm Inc., TD Group and TransDigm Inc.'s domestic restricted subsidiaries. The guarantees of the Notes are subordinated to all of the guarantors' existing and future senior debt, rank equally with all of their existing and future senior subordinated debt and rank senior to all of their future debt that is expressly subordinated to the guarantees of the Notes. The Notes are structurally subordinated to all of the liabilities of TD Group's non-guarantor subsidiaries. The Notes contain many of the restrictive covenants included in the Credit Agreement. TransDigm is in compliance with all of the covenants contained in the Notes.

During the third quarter of fiscal 2018, TransDigm UK, a wholly-owned, indirect subsidiary of TD Group, issued \$500 million in aggregate principal amount of the TransDigm UK Notes at a discount of 0.76%. The TransDigm UK Notes bear interest at the rate of 6.875% per annum and mature on May 15, 2026.

On January 30, 2019, the Company entered into a purchase agreement in connection with a private offering of \$3.8 billion aggregate principal amount in 6.25% senior secured notes due 2026 (the "first secured notes offering"). In addition, on February 1, 2019, the Company entered into a purchase agreement in connection with a private offering of \$200 million aggregate principal amount of 6.25% senior secured notes due 2026 (the "second secured notes offering"). All \$4.0 billion aggregate principal amount of the secured notes will constitute a single class and will be issued under a single indenture. The notes in the first secured notes offering will be issued at a price of 100% of their principal amount and the notes in the second secured notes offering will be issued at a price of 101% of their principal amount. The Notes will be guaranteed, with certain exceptions, by TransDigm Group, TransDigm UK and all of TransDigm Inc.'s existing and future U.S. subsidiaries on a senior secured basis. The Company expects the secured notes offerings to close on or about February 13, 2019, subject to customary closing conditions.

On February 1, 2019, the Company entered into a purchase agreement in connection with a private offering of \$550 million in new 7.50% senior subordinated notes. The offering is expected to close on February 13, 2019, subject to customary closing conditions. The net proceeds, plus existing cash on hand, are intended to be used to redeem all of the Company's outstanding 2020 Notes.

Certain Restrictive Covenants in Our Debt Documents

The Credit Agreement and the Indentures governing the Notes contain restrictive covenants that, among other things, limit the incurrence of additional indebtedness, the payment of special dividends, transactions with affiliates, asset sales, acquisitions, mergers and consolidations, liens and encumbrances, and prepayments of certain other indebtedness.

The restrictive covenants included in the Credit Agreement are subject to amendments executed periodically. The most recent amendment that impacted the restrictive covenants contained in the Credit Agreement is Amendment No. 5. The restrictive covenants are described above in the Recent Amendments to the Credit Agreement section.

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Under the terms of the Credit Agreement, TransDigm is entitled, on one or more occasions, to request additional term loans or additional revolving commitments to the extent that the existing or new lenders agree to provide such incremental term loans or additional revolving commitments provided that, among other conditions, our consolidated net leverage ratio would be no greater than 7.25 to 1.00 and the consolidated secured net debt ratio would be no greater than 5.00 to 1.00, in each case, after giving effect to such incremental term loans or additional revolving commitments.

The Credit Agreement requires mandatory prepayments of principal based on certain percentages of Excess Cash Flow (as defined in the Credit Agreement), commencing 90 days after the end of each fiscal year, subject to certain exceptions. In addition, subject to certain exceptions (including, with respect to asset sales, the reinvestment in productive assets), TransDigm will be required to prepay the loans outstanding under the Credit Agreement at 100% of the principal amount thereof, plus accrued and unpaid interest, with the net cash proceeds of certain asset sales and issuance or incurrence of certain indebtedness. No matters mandating prepayments occurred during the quarter ended December 29, 2018.

In addition, under the Credit Agreement, if the usage of the revolving credit facility exceeds 25% of the total revolving commitments, the Company will be required to maintain a maximum consolidated net leverage ratio of net debt, as defined, to trailing four-quarter EBITDA As Defined. A breach of any of the covenants or an inability to comply with the required leverage ratio could result in a default under the Credit Agreement or the Indentures. If any such default occurs, the lenders under the Credit Agreement and the holders of the Notes may elect to declare all outstanding borrowings, together with accrued interest and other amounts payable thereunder, to be immediately due and payable. The lenders under the Credit Agreement also have the right in these circumstances to terminate any commitments they have to provide further borrowings. In addition, following an event of default under the Credit Agreement, the lenders thereunder will have the right to proceed against the collateral granted to them to secure the debt, which includes our available cash, and they will also have the right to prevent us from making debt service payments on the Notes.

As of December 29, 2018, the Company was in compliance with all of its debt covenants.

**Trade Receivables Securitization**

During fiscal 2014, the Company established a trade receivable securitization facility (the “Securitization Facility”). The Securitization Facility effectively increases the Company’s borrowing capacity depending on the amount of the domestic operations’ trade accounts receivable. The Securitization Facility includes the right for the Company to exercise annual 1 year extensions as long as there have been no termination events as defined by the agreement. The Company uses the proceeds from the Securitization Facility as an alternative to other forms of debt, effectively reducing borrowing costs.

On July 31, 2018, the Company amended the Securitization Facility to increase the borrowing capacity to \$350 million and extend the maturity date to July 31, 2019. As of December 29, 2018, the Company has borrowed \$300 million under the Securitization Facility. The Securitization Facility is collateralized by substantially all of the Company’s domestic operations’ trade accounts receivable.

**Stock Repurchase Program**

On November 8, 2017, our Board of Directors, authorized a stock repurchase program permitting repurchases of our outstanding shares not to exceed \$650 million in the aggregate, subject to any restrictions specified in the Credit Agreement and/or Indentures governing the existing Notes. No repurchases were made under the program during the quarter and year-to-date period ended December 29, 2018. As of December 29, 2018, the entire \$650 million of repurchases allowable under the program remained, subject to any restrictions specified in the Credit Agreement and/or Indentures governing the existing Notes.

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Non-GAAP Financial Measures

We present below certain financial information based on our EBITDA and EBITDA As Defined. References to “EBITDA” mean earnings before interest, taxes, depreciation and amortization, and references to “EBITDA As Defined” mean EBITDA plus, as applicable for each relevant period, certain adjustments as set forth in the reconciliations of net income to EBITDA and EBITDA As Defined and the reconciliations of net cash provided by operating activities to EBITDA and EBITDA As Defined presented below.

Neither EBITDA nor EBITDA As Defined is a measurement of financial performance under accounting principles generally accepted in the United States of America (“GAAP”). We present EBITDA and EBITDA As Defined because we believe they are useful indicators for evaluating operating performance and liquidity.

Our management believes that EBITDA and EBITDA As Defined are useful as indicators of liquidity because securities analysts, investors, rating agencies and others use EBITDA to evaluate a company’s ability to incur and service debt. In addition, EBITDA As Defined is useful to investors because the revolving credit facility under our senior secured credit facility requires compliance under certain circumstances, on a pro forma basis, with a financial covenant that measures the ratio of the amount of our secured indebtedness to the amount of our Consolidated EBITDA defined in the same manner as we define EBITDA As Defined herein.

In addition to the above, our management uses EBITDA As Defined to review and assess the performance of the management team in connection with employee incentive programs and to prepare its annual budget and financial projections. Moreover, our management uses EBITDA As Defined to evaluate acquisitions.

Although we use EBITDA and EBITDA As Defined as measures to assess the performance of our business and for the other purposes set forth above, the use of these non-GAAP financial measures as analytical tools has limitations, and you should not consider any of them in isolation, or as a substitute for analysis of our results of operations as reported in accordance with GAAP. Some of these limitations are:

- neither EBITDA nor EBITDA As Defined reflects the significant interest expense, or the cash requirements, necessary to service interest payments on our indebtedness;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and neither EBITDA nor EBITDA As Defined reflects any cash requirements for such replacements;
- the omission of the substantial amortization expense associated with our intangible assets further limits the usefulness of EBITDA and EBITDA As Defined;
- neither EBITDA nor EBITDA As Defined includes the payment of taxes, which is a necessary element of our operations; and
- EBITDA As Defined excludes the cash expense we have incurred to integrate acquired businesses into our operations, which is a necessary element of certain of our acquisitions.

Because of these limitations, EBITDA and EBITDA As Defined should not be considered as measures of discretionary cash available to us to invest in the growth of our business. Management compensates for these limitations by not viewing EBITDA or EBITDA As Defined in isolation and specifically by using other GAAP measures, such as net income, net sales and operating profit, to measure our operating performance. Neither EBITDA nor EBITDA As Defined is a measurement of financial performance under GAAP, and neither should be considered as an alternative to net income or cash flow from operations determined in accordance with GAAP. Our calculation of EBITDA and EBITDA As Defined may not be comparable to the calculation of similarly titled measures reported by other companies.



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The following table sets forth a reconciliation of net income to EBITDA and EBITDA As Defined (in thousands):

	Thirteen Week Periods Ended	
	December 29, 2018	December 30, 2017
	(in thousands)	
Net income	\$ 196,042	\$ 314,775
Less: Income from discontinued operations, net of tax <sup>(1)</sup>	—	2,764
Income from continuing operations	196,042	312,011
Adjustments:		
Depreciation and amortization expense	35,418	30,639
Interest expense, net	172,000	160,933
Income tax provision	53,722	(121,047 )
EBITDA	457,182	382,536
Adjustments:		
Inventory purchase accounting adjustments <sup>(2)</sup>	4,120	—
Acquisition integration costs <sup>(3)</sup>	2,226	1,349
Acquisition transaction-related expenses <sup>(4)</sup>	5,393	725
Non-cash stock compensation expense <sup>(5)</sup>	17,730	11,113
Refinancing costs <sup>(6)</sup>	136	1,113
Other, net <sup>(7)</sup>	(99 )	4,697
EBITDA As Defined	\$ 486,688	\$ 401,533

- (1) Refer to Note 3, "Acquisitions and Divestitures," to the condensed consolidated financial statements included herein for further information.
- (2) Represents accounting adjustments to inventory associated with acquisitions of businesses and product lines that were charged to cost of sales when the inventory was sold.
- (3) Represents costs incurred to integrate acquired businesses and product lines into TD Group's operations, facility relocation costs and other acquisition-related costs.
- (4) Represents transaction-related costs comprising deal fees; legal, financial and tax due diligence expenses, and valuation costs that are required to be expensed as incurred.
- (5) Represents the compensation expense recognized by TD Group under our stock incentive plans.
- (6) Represents costs expensed related to debt financing activities, including new issuances, extinguishments, refinancings and amendments to existing agreements.
- (7) Primarily represents foreign currency transaction gain or loss, payroll withholding taxes related to dividend equivalent payments and stock option exercises and gain or loss on sale of fixed assets.

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The following table sets forth a reconciliation of net cash provided by operating activities to EBITDA and EBITDA As Defined (in thousands):

	Thirteen Week Periods Ended	
	December 29, 2018	December 30, 2017
	(in thousands)	
Net cash provided by operating activities	\$329,888	\$292,811
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions of businesses	(74,592 )	(101,926 )
Interest expense, net <sup>(1)</sup>	166,033	155,614
Income tax provision - current	53,719	49,090
Non-cash stock compensation expense <sup>(2)</sup>	(17,730 )	(11,113 )
Refinancing costs <sup>(6)</sup>	(136 )	(1,113 )
EBITDA from discontinued operations <sup>(8)</sup>	—	(827 )
EBITDA	457,182	382,536
Adjustments:		
Inventory purchase accounting adjustments <sup>(3)</sup>	4,120	—
Acquisition integration costs <sup>(4)</sup>	2,226	1,349
Acquisition transaction-related expenses <sup>(5)</sup>	5,393	725
Non-cash stock compensation expense <sup>(2)</sup>	17,730	11,113
Refinancing costs <sup>(6)</sup>	136	1,113
Other, net <sup>(7)</sup>	(99 )	4,697
EBITDA As Defined	\$486,688	\$401,533

(1) Represents interest expense excluding the amortization of debt issuance costs and premium and discount on debt.

(2) Represents the compensation expense recognized by TD Group under our stock incentive plans.

(3) Represents accounting adjustments to inventory associated with acquisitions of businesses and product lines that were charged to cost of sales when the inventory was sold.

(4) Represents costs incurred to integrate acquired businesses and product lines into TD Group's operations, facility relocation costs and other acquisition-related costs.

(5) Represents transaction-related costs comprising deal fees; legal, financial and tax due diligence expenses, and valuation costs that are required to be expensed as incurred.

(6) Represents costs expensed related to debt financing activities, including new issuances, extinguishments, refinancings and amendments to existing agreements.

(7) Primarily represents foreign currency transaction gain or loss, payroll withholding taxes related to dividend equivalent payments and stock option exercises and gain or loss on sale of fixed assets.

(8) Refer to Note 3, "Acquisitions and Divestitures," to the condensed consolidated financial statements included herein for further information.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

The information called for by this item is provided under the caption 'Description of Senior Secured Credit Facilities and Indentures' under Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations." Market risks are described more fully within "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A of our most recent Form 10-K. These market risks have not materially changed since the date our most recent Form 10-K was filed with the SEC.

**ITEM 4. CONTROLS AND PROCEDURES**

As of December 29, 2018, TD Group carried out an evaluation, under the supervision and with the participation of TD Group's management, including its President, Chief Executive Officer and Director (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of TD Group's disclosure controls and procedures. Based upon that evaluation, the President, Chief Executive Officer and Director and Chief Financial Officer concluded that TD Group's disclosure controls and procedures are effective to ensure that information required to be disclosed by TD Group in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to TD Group's management, including President, Chief Executive Officer and Director and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, TD Group's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures. There have been no significant changes in TD Group's internal controls or other factors that could significantly affect the internal controls subsequent to the date of TD Group's evaluations.

**Changes in Internal Control over Financial Reporting**

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended December 29, 2018, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We and certain of our current or former officers and directors are defendants in a consolidated securities class action captioned *In re TransDigm Group, Inc. Securities Litigation*, Case No. 1:17-cv-01677-DCN (N.D. Ohio). The cases were originally filed on August 10, 2017, and September 18, 2017 and were consolidated on December 5, 2017. A consolidated amended complaint was filed on February 16, 2018. The plaintiffs allege that the defendants made false or misleading statements with respect to, or failed to disclose, the impact of certain alleged business practices in connection with sales to the U.S. government on the Company's growth and profitability. The plaintiffs assert claims under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act, and seek unspecified monetary damages and other relief. In addition, we, as nominal defendant, and certain of our current or former officers and directors are defendants in a shareholder derivative action captioned *Sciabacucchi v. Howley et al.*, No. 1:17-cv-1971-DCN (N.D. Ohio). The case was filed on September 19, 2017. The plaintiffs allege breach of fiduciary duty and other claims arising out of substantially the same actions or inactions alleged in the securities class actions described above. This action has been stayed pending the outcome of a motion to dismiss on the securities class action. Although we are only a nominal defendant in the derivative action, we could have indemnification obligations and/or be required to advance the costs and expenses of the officer and director defendants in the action.

We intend to vigorously defend these matters and believe they are without merit. We also believe we have sufficient insurance coverage available for these matters. Therefore, we do not expect these matters to have a material adverse impact on our financial condition or results of operations. However, given the preliminary status of the litigation, it is difficult to predict the likelihood of an adverse outcome or estimate a range of any potential loss.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2018, filed on November 9, 2018. There have been no material changes to the risk factors set forth therein.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS: PURCHASES OF EQUITY SECURITIES BY THE ISSUER

On November 8, 2017, our Board of Directors, authorized a stock repurchase program permitting repurchases of our outstanding shares not to exceed \$650 million in the aggregate, subject to any restrictions specified in the Credit Agreement and/or Indentures governing the existing Notes. No repurchases were made under the program during the thirteen week period ended December 29, 2018. As of December 29, 2018, the entire \$650 million of repurchases allowable under the program remained, subject to any restrictions specified in the Credit Agreement and/or Indentures governing the existing Notes.

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ITEM 6. EXHIBITS

Exhibit No.	Description
<u>2.1</u>	<u>Agreement and Plan of Merger dated as of October 9, 2018, by and among Esterline Technologies Corporation, TransDigm Group Incorporated and Thunderbird Merger Sub Inc. (Incorporated by reference to Exhibit 2.1 to TransDigm Group Incorporated's Current Report on Form 8-K filed on October 11, 2018)</u>
<u>2.2</u>	<u>First Amendment to Agreement and Plan of Merger dated as of October 10, 2018, by and among Esterline Technologies Corporation, TransDigm Group Incorporated and Thunderbird Merger Sub Inc. (Incorporated by reference to Exhibit 2.2 to TransDigm Group Incorporated's Current Report on Form 8-K filed on October 11, 2018)</u>
<u>31.1</u>	<u>Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d- 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d- 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.1</u>	<u>Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>32.2</u>	<u>Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101	Financial Statements and Notes to the Condensed Consolidated Financial Statements formatted in XBRL

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRANSDIGM GROUP INCORPORATED

SIGNATURE	TITLE	DATE
/s/ Kevin Stein Kevin Stein	President, Chief Executive Officer and Director (Principal Executive Officer)	February 6, 2019
/s/ Michael Lisman Michael Lisman	Chief Financial Officer (Principal Financial Officer)	February 6, 2019