TransDigm Group INC
Form 10-K
November 21, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2007

¨ **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)

51-0484716

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

1301 East 9th Street, Suite 3710, Cleveland, Ohio	**44114**

(Address of principal executive offices)	**(Zip Code)**

(216) 706-2939

(Registrants telephone number, including area code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock	**New York Stock Exchange**
(Title)	**(Name of exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 12 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of March 30, 2007, based upon the last sale price of such voting and non-voting common stock on that date was $502,114,359.

The number of shares outstanding of TransDigm Group Incorporated s common stock, par value $.01 per share, was 47,183,271 as of November 1, 2007.

Documents incorporated by reference: The registrant incorporates by reference in Part III hereof portions of its definitive Proxy Statement for its 2008 Annual Meeting of Stockholders.

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Special Note Regarding Forward-Looking Statements

This report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and 27A of the Securities Act of 1933, as amended. Discussions containing such forward-looking statements may be found in Items 1, 2, 3, and 7 hereof, and elsewhere within this Report generally. In addition, when used in this Report, the words believes, anticipates, expects, should and similar words or expressions are intended to identify forward-looking statements. Although the Company (as defined below) 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. The more important of such risks and uncertainties are set forth under the caption Risk Factors and elsewhere 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. We do not undertake and specifically decline 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.

In this report, the term TD Group refers to TransDigm Group Incorporated, which holds all of the outstanding capital stock of TransDigm Inc. The terms Company, TransDigm, we, us, our and similar terms refer to TD Group, together with TransDigm Inc. and its direct and indirect subsidiaries. References to fiscal year mean the year ending or ended September 30. For example, fiscal year 2007 or fiscal 2007 means the period from October 1, 2006 to September 30, 2007.

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PART I

ITEM 1. BUSINESS

The Company

TransDigm Inc. was formed in July 1993 in connection with the acquisition of certain companies from IMO Industries Inc. TransDigm Group Incorporated (formerly known as TD Holding Corporation), or TD Group, was formed in July 2003 at the direction of Warburg Pincus Private Equity VIII, L.P., or Warburg Pincus, to facilitate the acquisition of TransDigm Inc., or the Warburg Merger.

On March 20, 2006, certain stockholders of TD Group and certain members of our management sold an aggregate of approximately 12.6 million shares of TD Group common stock in an underwritten initial public offering, or the Initial Public Offering, at a price of $21.00 per share. TD Group did not offer any shares of common stock for sale in the Initial Public Offering and TD Group did not receive any of the proceeds from the sale of shares by the selling stockholders. As a result of the Initial Public Offering, TD Group s common stock is publicly traded on the New York Stock Exchange under the ticker symbol TDG.

On May 25, 2007, certain of TD Group s stockholders, including certain members of our management, sold an aggregate of 11.5 million shares of TD Group s common stock in an underwritten public offering at a public offering price of $35.25 per share. As a result of this offering, TD Group is no longer a controlled company for the purposes of the NYSE listing requirements. TD Group did not sell any shares in the offering and did not receive any proceeds from the offering.

We believe we are a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly all 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 ignition systems and components, mechanical/electro-mechanical actuators and controls, gear pumps, engineered connectors, specialized valving, power conditioning devices, engineered latches and cockpit security devices, specialized AC/DC electric motors, lavatory hardware and components, hold-open rods and locking devices, aircraft audio systems, NiCad batteries/chargers, and specialized fluorescent lighting and cockpit displays. Each of these product offerings consists of many individual products that are typically customized to meet the needs of a particular aircraft platform or customer.

We estimate that over 90% of our net sales for fiscal year 2007 were generated by proprietary products for which we own the design. In addition, for fiscal year 2007, we estimate that we generated approximately 75% of our net sales from products for which we are the sole source provider.

Most of our products generate significant aftermarket revenue. Once our parts are designed into and sold as original equipment on an aircraft, we generate net sales from recurring aftermarket consumption over the life of that aircraft, which is generally estimated to be approximately 30 years. We estimate that approximately 60% of our net sales in fiscal year 2007 were generated from aftermarket sales, the vast majority of which come from the commercial and military aftermarkets. These aftermarket revenues have historically produced a higher gross margin and been more stable than sales to original equipment manufacturers, or OEMs.

Products

We primarily design, produce and supply highly-engineered proprietary aerospace components (and limited system/subsystems) with significant aftermarket content. We seek to develop highly customized products to solve specific needs for aircraft operators and manufacturers. We attempt to differentiate ourselves based on engineering, service and manufacturing capabilities. We typically choose not to compete for non-proprietary build to print business because it frequently offers lower margins than proprietary products. We believe that our products have strong brand names within the industry and that we have a reputation for high quality, reliability and customer support.

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Our business is well diversified due to the broad range of products that 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: (1) ignition systems and components such as igniters, exciters and spark plugs used to start and spark turbine and reciprocating aircraft engines; (2) mechanical/electro-mechanical actuators and controls used in numerous actuation applications; (3) gear pumps used primarily in lubrication and fuel applications; (4) engineered connectors used in fuel, pneumatic and hydraulic applications; (5) specialized valving used in fuel, hydraulic and pneumatic applications; (6) power conditioning devices used to modify and control electrical power; (7) engineered latching and locking devices used in various bin, security and other applications; (8) specialized AC/DC electric motors and components used in various defense and commercial applications; (9) lavatory hardware and components; (10) rods and locking devices used primarily to hold open cowlings to allow access to engines for maintenance; (11) aircraft audio systems; (12) NiCad batteries/chargers used to provide starting and back-up power; (13) specialized fluorescent lighting; and (14) specialized cockpit displays.

Sales and Marketing

Consistent with our overall strategy, our sales and marketing organization is structured to continually develop technical solutions that meet customer needs. In particular, we attempt to focus on products and programs that will lead to high-margin, repeatable sales in the aftermarket.

We have structured our sales efforts along our major product offerings, assigning a product manager to certain products. Each product manager is expected to grow the sales and profitability of the products for which he is responsible and to achieve the targeted annual level of bookings, sales, new business and profitability for such products. The product managers are assisted by account managers and sales engineers who are responsible for covering major OEM and aftermarket accounts. Account managers and sales engineers are expected to be familiar with the personnel, organization and needs of specific customers, to achieve total bookings and new business goals at each account, and, together with the product managers, to determine when additional resources are required at customer locations. Most of our sales personnel are compensated, in part, on their bookings and their ability to identify and obtain new business opportunities.

Though typically performed by employees, the account manager function may be performed by independent representatives depending on the specific customer, product and geographic location. We also use a number of distributors to provide logistical support as well as primary customer contact with certain smaller accounts. Our major distributors are Aviall, Inc. (a subsidiary of The Boeing Company) and Satair A/S.

Manufacturing and Engineering

We maintain eleven principal manufacturing facilities. Each manufacturing facility comprises manufacturing, distribution and engineering as well as administrative functions, including management, sales and finance. We continually strive to improve productivity and reduce costs, including rationalization of operations, developing improved control systems that allow for accurate product profit and loss accounting, investing in equipment, tooling, and information systems and implementing broad-based employee training programs. Management believes that our manufacturing systems and equipment contribute to our ability to compete by permitting us to meet the rigorous tolerances and cost sensitive price structure of aircraft component customers.

We attempt to differentiate ourselves from our competitors by producing uniquely engineered products with high quality and timely delivery. Our engineering costs are recorded in Cost of Sales and in Selling and Administrative captions in our Statements of Income. Total engineering expense represents approximately 8% to 9% of our operating units costs, or approximately 4% to 5% of our net sales. Our proprietary products are designed by our engineering staff and are intended to serve the needs of the aircraft component industry, particularly through our new product initiatives. These proprietary designs must withstand the extraordinary conditions and stresses that will be endured by products during use and meet the rigorous demands of our customers' tolerance and quality requirements.

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We use sophisticated equipment and procedures to attempt to ensure the quality of our products and comply with military specifications and Federal Aviation Administration, or FAA, and OEM certification requirements. We perform a variety of testing procedures, including testing under different temperature, humidity and altitude levels, shock and vibration testing and X-ray fluorescent measurement. These procedures, together with other customer approved techniques for document, process and quality control, are used throughout our manufacturing facilities.

Customers

Our customers include: (1) distributors of aerospace components; (2) worldwide commercial airlines, including national and regional airlines; (3) large commercial transport and regional and business aircraft OEMs; (4) various armed forces of the United States and friendly foreign governments; (5) defense OEMs; (6) system suppliers; and (7) various other industrial customers. For the year ended September 30, 2007, Boeing (which includes Aviall, Inc., a distributor of commercial aftermarket parts to airlines throughout the world) accounted for approximately 16% of our net sales, and Honeywell International, Inc. accounted for approximately 11% of our net sales. Products supplied to many of our customers, including the two largest customers, are used on multiple platforms.

Active commercial production programs include the Boeing 737, 747, 767 and 777, the Airbus A300, A319/20/21 and A330/A340, the Bombardier CRJ s and Challenger, the Embraer RJ s, the Cessna Citation family, the Raytheon Premier and Hawker and most Gulfstream airframes. Military platforms include aircraft such as the Boeing C-17, F-15 and F-18, the Lockheed Martin C-130J and F-16, the Northrop Grumman E2C (Hawkeye), the Joint Strikefighter and the Blackhawk, Chinook and Apache helicopters. TransDigm has been awarded numerous contracts to develop engineered products for production on the Boeing 787 and Airbus A380 and A400M programs.

We believe that we have strong customer relationships with almost all large commercial transport, regional, general aviation and military OEMs. The demand for our aftermarket parts and services depends on, among other things, the breadth of our installed OEM base, revenue passenger miles, or RPMs, the size and age of the worldwide aircraft fleet and, to a lesser extent, airline profitability. We believe that we are also a leading supplier of components used on U.S. designed military aircraft, including components that are used on a variety of fighter aircraft, military freighters and military helicopters.

Competition

The niche markets within the aerospace industry that we serve are relatively fragmented and we face several competitors for many of the products and services we provide. Due to the global nature of the commercial aircraft industry, competition in these categories comes from both U.S. and foreign companies. Competitors in our product offerings range in size from divisions of large public corporations, which have significantly greater financial, technological and marketing resources than we do, to small privately-held entities, with only one or two components in their entire product portfolios.

We compete on the basis of engineering, manufacturing and marketing high quality products which we believe meet or exceed the performance and maintenance requirements of our customers, consistent and timely delivery, and superior customer service and support. The industry's stringent regulatory, certification and technical requirements, and the investments necessary in the development and certification of products, create barriers to entry for potential new competitors. So long as customers receive products that meet or exceed expectations and performance standards, we believe that they will have a reduced incentive to certify another supplier because of the cost and time of the technical design and testing certification process. In addition, we believe that concerns about safety and flight delays if products are unavailable or undependable make our customers continue long-term supplier relationships.

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Government Contracts

Companies engaged in supplying defense-related equipment and services to U.S. Government agencies are subject to business risks specific to the defense industry. These risks include the ability of the U.S. Government to unilaterally: (1) suspend us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations; (2) terminate existing contracts; (3) reduce the value of existing contracts; (4) audit our contract-related costs and fees, including allocated indirect costs; and (5) control and potentially prohibit the export of our products.

Most of our U.S. Government contracts can be terminated by the U.S. Government either for its convenience or if we default by failing to perform under the contract. Termination for convenience provisions provide only for our recovery of costs incurred or committed settlement expenses and profit on the work completed prior to termination. Termination for default provisions provide for the contractor to be liable for excess costs incurred by the U.S. Government in procuring undelivered items from another source.

As described elsewhere in this report, five of our divisions and subsidiaries have been subject to a DOD Office of Inspector General review of our records for the purpose of determining whether the DOD s various buying offices negotiated fair and reasonable prices for spare parts purchased from those five divisions and subsidiaries in fiscal years 2002 through 2004. For additional information regarding the details and status of the pricing review, please refer to Risk Factors Certain of our divisions and subsidiaries have been subject to a pricing review by the DOD Office of Inspector General and Management s Discussion and Analysis of Financial Condition and Results of Operations Government Pricing Review.

Governmental Regulation

The commercial aircraft component industry is highly regulated by both the FAA in the United States and by the Joint Aviation Authorities in Europe and other agencies throughout the world, while the military aircraft component industry is governed by military quality specifications. We, and the components we manufacture, are required to be certified by one or more of these entities or agencies, and, in some cases, by individual OEMs, in order to engineer and service parts and components used in specific aircraft models.

We must also satisfy the requirements of our customers, including OEMs and airlines that are subject to FAA regulations, and provide these customers with products and services that comply with the government regulations applicable to commercial flight operations. In addition, the FAA requires that various maintenance routines be performed on aircraft components, and we believe that we currently satisfy or exceed these maintenance standards in our repair and overhaul services. We also maintain several FAA approved repair stations.

In addition, sales of many of our products that will be used on aircraft owned by non-U.S. entities are subject to compliance with U.S. export control laws.

Our operations are also subject to a variety of worker and community safety laws. The Occupational Safety and Health Act, or OSHA, mandates general requirements for safe workplaces for all employees. In addition, OSHA provides special procedures and measures for the handling of certain hazardous and toxic substances.

Raw Materials and Patents

We require the use of various raw materials, including titanium, aluminum, nickel powder, nickel screen, stainless steel, iridium and cadmium, in our manufacturing processes. We also purchase a variety of manufactured component parts from various suppliers. At times, we concentrate our orders among a few suppliers in order to strengthen our supplier relationships. Raw materials and component parts are generally available from multiple suppliers at competitive prices.

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We have various trade secrets, proprietary information, trademarks, trade names, patents, copyrights and other intellectual property rights, which we believe, in the aggregate but not individually, are important to our business.

Backlog

As of September 30, 2007, we estimated our sales order backlog at $365.2 million compared to an estimated $251.3 million as of September 30, 2006. This increase in backlog is due to the acquisitions of the businesses of CDA InterCorp, or CDA, Aviation Technologies Inc., or ATI, and Bruce Industries, Inc., or Bruce Industries, totaling approximately $66.0 million and an increase in orders across existing product lines in both the OEM and aftermarket segments. The majority of the purchase orders outstanding as of September 30, 2007 are scheduled for delivery within the next twelve months. Purchase orders may be subject to cancellation 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 our receipt of purchase orders and the speed with which those orders are filled. Accordingly, our backlog as of September 30, 2007 may not necessarily represent the actual amount of shipments or sales for any future period.

Foreign Operations

We manufacture substantially all of our products in the United States; however, as a result of our ATI acquisition, some of our products are manufactured in Malaysia. We sell our products in the United States, as well as in foreign countries. Substantially all of our foreign sales are transacted in U.S. dollars and, therefore, we have no material exposure to fluctuations in the rate of exchange between foreign currencies and the U.S. dollar as a result of foreign sales. In addition the amount of components or other raw materials or supplies that we purchase from foreign suppliers, including our Malaysian manufacturing subsidiary, are not material, with substantially all such transactions being made in U.S. dollars. Accordingly, we have no material exposure to currency fluctuations in the rate of exchange between foreign currencies and the U.S. dollar arising from these transactions.

Our direct sales to foreign customers were approximately $143.0 million, $102.7 million, and $81.5 million for fiscal years 2007, 2006 and 2005, respectively. Sales to foreign customers are subject to numerous additional risks, including the impact of foreign government regulations, political uncertainties and differences in business practices. 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.

Environmental Matters

Our operations and facilities are subject to federal, state and local environmental laws and regulations governing, among other matters, the emission, discharge, generation, management, transportation and disposal of hazardous materials, wastes and pollutants, the investigation and remediation of contaminated sites, and permits required in connection with our operations. Although management believes that our operations and facilities are in material compliance with applicable environmental laws, management cannot provide assurance that future changes in such laws, or the regulations or requirements thereunder, or in the nature of our operations will not require us to make significant additional expenditures to ensure compliance in the future. Further, we could incur substantial costs, including cleanup costs, fines and sanctions, and third party property damage or personal injury claims as a result of violations of or liabilities under environmental laws, relevant common law, or the environmental permits required for our operations.

Under some environmental laws, a current or previous owner or operator of a contaminated site may be held liable for the entire cost of investigation, removal or remediation of hazardous materials at such property, whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous materials.

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Persons who arrange for disposal or treatment of hazardous materials also may be liable for the costs of investigation, removal or remediation of those substances at a disposal or treatment site, regardless of whether the affected site is owned or operated by them. Because we own and/or operate a number of facilities that have a history of industrial or commercial use and because we arrange for the disposal of hazardous materials at many disposal sites, we may and do incur costs for investigation, removal and remediation. Contaminants have been detected at some of our present and former sites, principally in connection with historical operations, and investigations and/or clean-ups have been undertaken by us or by former owners of the sites. We receive inquiries and notices of potential liability with respect to offsite disposal facilities from time to time. Although we have not incurred any material investigation or cleanup costs to date and investigation and cleanup costs are not expected to be material in the future, the discovery of additional contaminants or the imposition of additional cleanup obligations at these or other sites, or the failure of any other potentially liable party to meet its obligations, could result in significant liability for us.

Employees

As of September 30, 2007, we had approximately 2,100 employees. Approximately 5% of our employees were represented by the United Steelworkers Union, approximately 4% were represented by the United Automobile, Aerospace and Agricultural Implement Workers of America and approximately 4% were represented by the International Brotherhood of Electrical Workers. Collective bargaining agreements between us and these labor unions expire in April 2008, November 2008 and May 2009, respectively. We consider our relationship with our employees generally to be satisfactory.

Legal Proceedings

We are from time to time subject to, and are presently involved in, litigation or other legal proceedings arising out of the ordinary course of business. Based upon information currently known to us, we believe the outcome of such proceedings will not have, individually or in the aggregate, a material adverse effect on our business, our financial condition or results of operations.

Available Information

TD Group s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, including any amendments, will be made available free of charge on the Company s website, *www.transdigm.com*, as soon as reasonably practicable, following the filing of the reports with the Securities and Exchange Commission.

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ITEM 1A. RISK FACTORS

Set forth below are important risks and uncertainties that could negatively affect our business and financial condition and could cause our actual results to differ materially from those expressed in forward-looking statements contained in this report.

Future terrorist attacks may have a material adverse impact on our business.

Following the September 11, 2001 terrorist attacks, passenger traffic on commercial flights was significantly lower than prior to the attacks and many commercial airlines reduced their operating schedules. Overall, the terrorist attacks resulted in billions of dollars in losses to the airline industry. Any future acts of terrorism and any military response to such acts could result in further acts of terrorism and additional hostilities, including possible retaliatory attacks on sovereign nations, as well as financial, economic and political instability. While the precise effects of any such terrorist attack, military response or instability on our industry and our business is difficult to determine, it could result in further reductions in the use of commercial aircraft. If demand for new aircraft and spare parts decreases, demand for certain of our products would also decrease.

Our business is sensitive to the number of flight hours that our customers planes spend aloft, the size and age of the worldwide aircraft fleet and our customers profitability. These items are, in turn, affected by general economic conditions.

Our business is directly affected by, among other factors, changes in revenue passenger miles, or RPMs, the size and age of the worldwide aircraft fleet and, to a lesser extent, changes in the profitability of the commercial airline industry. RPMs and airline profitability have historically been correlated with the general economic environment, although national and international events also play a key role. For example, RPMs declined primarily as a result of increased security concerns among airline customers following the events of September 11, 2001. In addition to the events of September 11, 2001, in recent years, the airline industry has been severely affected by the downturn in the global economy, higher fuel prices, the Severe Acute Respiratory Syndrome, or SARS, epidemic and the conflicts in Afghanistan and Iraq. As a result of the substantial reduction in airline traffic resulting from these events, the airline industry incurred, and some in the industry continue to incur, large losses and financial difficulties. Some carriers have also parked or retired a portion of their fleets and have reduced workforces and flights. During periods of reduced airline profitability, some airlines may delay purchases of spare parts, preferring instead to deplete existing inventories. If demand for new aircraft and spare parts decreases, there would be a decrease in demand for certain of our products.

Our sales to manufacturers of large aircraft are cyclical, and a downturn in sales to these manufacturers may adversely affect us.

Our sales to manufacturers of large commercial aircraft, which accounted for approximately 10% of our net sales in fiscal year 2007, have historically experienced periodic downturns. In the past, these sales have been affected by airline profitability, which is impacted by, among other things, fuel and labor costs, price competition, downturns in the global economy and national and international events, such as the events of September 11, 2001. Prior downturns have adversely affected our net sales, gross margin and net income.

We rely heavily on certain customers for much of our sales.

Our two largest customers for fiscal year 2007 were Boeing (which includes Aviall, Inc., a distributor of commercial aftermarket parts to airlines throughout the world) and Honeywell International Inc. These customers accounted for approximately 16% and 11%, respectively, of our net sales in fiscal year 2007. Our top ten customers for fiscal year 2007 accounted for approximately 51% of our net sales. In addition, during the second half of fiscal 2006, The Boeing Company acquired Aviall, Inc. During fiscal 2006, The Boeing Company accounted for approximately 7% of our net sales and Aviall, Inc. accounted for approximately 9% of our net sales. Therefore, Boeing s acquisition of Aviall, Inc. increases our reliance on The Boeing Company as a customer. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview.

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We generally do not have guaranteed future sales of our products. Further, when we enter into fixed price contracts with some of our customers, we take the risk for cost overruns.

As is customary in our business, we do not generally have long-term contracts with most of our aftermarket customers and, therefore, do not have guaranteed future sales. Although we have long-term contracts with many of our OEM customers, some of those customers may terminate the contracts on short notice and, in many other cases, our customers have not committed to buy any minimum quantity of our products. In addition, in certain cases, we must anticipate the future volume of orders based upon the historic purchasing patterns of customers and upon our discussions with customers as to their anticipated future requirements, and this anticipated future volume of orders may not materialize.

We also have entered into multi-year, fixed-price contracts with some of our customers, pursuant to which we have agreed to perform the work for a fixed price and, accordingly, realize all the benefit or detriment resulting from any decreases or increases in the costs of making these products. Sometimes we accept a fixed-price contract for a product that we have not yet produced, and this increases the risk of cost overruns or delays in the completion of the design and manufacturing of the product. Most of our contracts do not permit us to recover for increases in raw material prices, taxes or labor costs, although some contracts provide for renegotiation to address certain material adverse changes.

U.S. military spending is dependent upon the U.S. defense budget.

The U.S. Department of Defense, or the DOD, budget has generally increased for each fiscal year from fiscal 1997 to the budget for fiscal 2007, and, based on the Bush Administration s current Future Year Defense Program, the DOD budget is expected to continue to increase modestly through fiscal 2010. However, future DOD budgets after fiscal 2007 could be negatively impacted by several factors, including, but not limited to, the U.S. Government s budget deficits, spending priorities, the cost of sustaining the U.S. military presence in Iraq and Afghanistan and possible political pressure to reduce U.S. Government military spending, each of which could cause the DOD budget to remain unchanged or to decline. A significant decline in U.S. military expenditures in the future could result in a reduction in the amount of our products sold to the various agencies and buying organizations of the U.S. Government.

We are subject to certain unique business risks as a result of supplying equipment and services to the U.S. Government. In addition, government contracts contain unfavorable termination provisions and are subject to modification and audit.

Companies engaged in supplying defense-related equipment and services to U.S. Government agencies are subject to business risks specific to the defense industry. These risks include the ability of the U.S. Government to unilaterally:

- suspend us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations;
- terminate existing contracts;
- reduce the value of existing contracts; and
- audit our contract-related costs and fees, including allocated indirect costs.

Most of our U.S. Government contracts can be terminated by the U.S. Government either for its convenience or if we default by failing to perform under the contract. Termination for convenience provisions provide only for our recovery of costs incurred or committed, settlement expenses and profit on the work completed prior to termination. Termination for default provisions provide for the contractor to be liable for excess costs incurred by the U.S. Government in procuring undelivered items from another source.

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On contracts where the price is based on cost, the U.S. Government may review our costs and performance, as well as our accounting and general business practices. Based on the results of such audits, the U.S. Government may adjust our contract-related costs and fees, including allocated indirect costs. In addition, under U.S. Government purchasing regulations, some of our costs, including most financing costs, amortization of intangible assets, portions of research and development costs, and certain marketing expenses may not be subject to reimbursement.

In addition to these U.S. Government contract risks, we are at times required to obtain approval from U.S. Government agencies to export our products. Additionally, we are not permitted to export some of our products. A determination by the U.S. Government that we failed to receive required approvals or licenses could eliminate or restrict our ability to sell our products outside the United States, and the penalties that could be imposed by the U.S. Government for failure to comply with these laws could be significant.

Certain of our divisions and subsidiaries have been subject to a pricing review by the DOD Office of Inspector General.

Five of our divisions and subsidiaries have been the subject of a DOD Office of Inspector General review of our records for the purpose of determining whether the DOD s various buying offices negotiated fair and reasonable prices for spare parts purchased from those divisions and subsidiaries during fiscal years 2002 through 2004. On April 19, 2006, the Inspector General issued its final report dated February 23, 2006 and made public a redacted version of the report. The report recommends (i) that the Defense Logistics Agency request that those five subsidiaries and divisions voluntarily refund, in the aggregate, approximately $2.6 million for allegedly overpriced parts and (ii) that Defense Logistics Agency contracting officers reevaluate their procedures for determining the reasonableness of pricing for sole source spare parts purchased from those divisions and subsidiaries and seek to develop Strategic Supplier Alliances with those divisions and subsidiaries.

Our position has been, and continues to be, that our pricing has been fair and reasonable and that there is no legal basis for the amount suggested as a refund by the Inspector General in its report. In response to the report, we offered reasons why we disagree with the Inspector General s overall analysis and why computations related to the voluntary refund contained in the report fail to consider key data, such as actual historical sales. If the Defense Logistics Agency requests a voluntary refund from any of our divisions or subsidiaries, we would consider such a request under the circumstances existing at that time.

In February 2006, the Defense Logistics Agency made a request to initiate discussions regarding future pricing and developing an acquisition strategy that would mutually strengthen our business relationship with the Defense Logistics Agency. The parties have discussed future purchasing but negotiations regarding Strategic Supplier Alliances have not commenced, but will likely occur at a later date. As a result of those negotiations, it is possible that the divisions and subsidiaries subject to the pricing review will enter into Strategic Supplier Alliances with the Defense Logistics Agency. It is likely that in connection with any Strategic Supplier Alliance, the Defense Logistics Agency will seek prices for parts based on cost. It is also possible that the DOD may seek alternative sources of supply for such parts. The entry into Strategic Supplier Alliances or a decision by the DOD to pursue alternative sources of supply for parts we currently provide could reduce the amount of revenue we derive from, and the profitability of certain of our supply arrangements with, certain agencies and buying organizations for the U.S. Government.

Our business may be adversely affected if we would lose our government or industry approvals or if more stringent government regulations are enacted or if industry oversight is increased.

The aerospace industry is highly regulated in the United States and in other countries. In order to sell our components, we and the components we manufacture must be certified by the FAA, the DOD and similar agencies in foreign countries and by individual manufacturers. If new and more stringent government regulations are adopted or if industry oversight increases, we might incur significant expenses to comply with any new regulations or heightened industry oversight. In addition, if material authorizations or approvals were revoked or suspended, our business would be adversely affected.

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Our substantial indebtedness could adversely affect our financial health and could harm our ability to react to changes to our business and prevent us from fulfilling our obligations under our indebtedness, including the notes.

We have a significant amount of indebtedness. As of September 30, 2007, our total indebtedness was approximately $1,357.9 million (including premium received, net of amortization, in connection with the issuance of the original notes), which was approximately 73.6% of our total capitalization. In addition, we may be able to incur substantial additional indebtedness in the future. For example, as of September 30, 2007, we had $198.4 million of unused commitments under our revolving loan facility. Although the senior secured credit facility, or the Senior Secured Credit Facility, and the indenture, or Indenture, governing the 7 3/4% senior subordinated notes, or the 7 3/4% Senior Subordinated Notes, contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and the indebtedness incurred in compliance with these qualifications and exceptions could be substantial. If we incur additional debt, the risks associated with our substantial leverage would increase.

Our substantial indebtedness could have important consequences to investors. For example, it could:

- increase our vulnerability to general economic downturns and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to competitors that have less debt; and
- limit, along with the financial and other restrictive covenants contained in the documents governing our indebtedness, among other things, our ability to borrow additional funds, make investments and incur liens.

In addition, all of our debt under the Senior Secured Credit Facility, which includes a $780 million term loan facility and a revolving loan facility of $200 million, will bear interest at floating rates. Accordingly, in the event that interest rates increase, our debt service expense will also increase. In order to reduce the floating interest rate risk, the Company entered into an interest rate swap in June 2006 for fixed interest rates on $187 million of the Senior Secured Credit Facility. This interest rate swap decreased to $170 million on September 23, 2007 and will decrease to $150 million on September 23, 2008 through June 23, 2009.

Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness, including the 7 3/4% Senior Subordinated Notes. We cannot assure you that our business will generate sufficient cash flow from operations, that currently anticipated cost savings and operating improvements will be realized on schedule or at all, or that future borrowings will be available to us under the Senior Secured Credit Facility or otherwise in amounts sufficient to enable us to service our indebtedness. If we cannot service our debt, we will have to take actions such as reducing or delaying capital investments, selling assets, restructuring or refinancing our debt or seeking additional equity capital.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control and any failure to meet our debt service obligations could harm our business, financial condition and results of operations.

Our ability to make payments on our indebtedness, including the 7 3/4% Senior Subordinated Notes and amounts borrowed under the Senior Secured Credit Facility, and to fund our operations, will depend on our ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

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We cannot assure you, however, that our business will generate sufficient cash flow from operations, that currently anticipated cost savings and operating improvements will be realized on schedule or at all or that future borrowings will be available to us under the Senior Secured Credit Facility or otherwise in amounts sufficient to enable us to service our indebtedness, including the amounts borrowed under the Senior Secured Credit Facility and the 7 3/4% Senior Subordinated Notes, or to fund our other liquidity needs. If we cannot service our debt, we will have to take actions such as reducing or delaying capital investments, selling assets, restructuring or refinancing our debt or seeking additional equity capital. We cannot assure you that any of these remedies could, if necessary, be effected on commercially reasonable terms, or at all. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments, the Indenture and the Senior Secured Credit Facility may restrict us from adopting any of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on acceptable terms and would otherwise adversely affect the 7 3/4% Senior Subordinated Notes.

The terms of the Senior Secured Credit Facility and the Indenture may restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

The Senior Secured Credit Facility and the Indenture contain a number of restrictive covenants that impose significant operating and financial restrictions on TD Group, TransDigm Inc. and its subsidiaries (in the case of the Senior Secured Credit Facility) and TransDigm Inc. and its subsidiaries (in the case of the Indenture) and may limit their ability to engage in acts that may be in our long-term best interests. The Senior Secured Credit Facility and Indenture include covenants restricting, among other things, the ability of TD Group, TransDigm Inc. and its subsidiaries (in the case of the Senior Secured Credit Facility) and TransDigm Inc. and its subsidiaries (in the case of the Indenture) to:

- incur or guarantee additional indebtedness or issue preferred stock;
- pay distributions on, redeem or repurchase our capital stock or redeem or repurchase our subordinated debt;
- make investments;
- sell assets;
- enter into agreements that restrict distributions or other payments from our restricted subsidiaries to us;
- incur or suffer to exist liens;
- consolidate, merge or transfer all or substantially all of our assets;
- engage in transactions with affiliates;
- create unrestricted subsidiaries; and
- engage in certain business activities.

A breach of any of these covenants could result in a default under the Senior Secured Credit Facility or the Indenture. If any such default occurs, the lenders under the Senior Secured Credit Facility and the holders of the 7 $^{3}/4$% Senior Subordinated 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 Senior Secured Credit Facility 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 Senior Secured Credit Facility, the lenders under that facility 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 7 $^{3}/4$% Senior Subordinated Notes. If the debt under the Senior Secured Credit Facility or the 7 $^{3}/4$% Senior Subordinated Notes were to be accelerated, we cannot assure you that our assets would be sufficient to repay in full our debt.

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We are dependent on our highly trained employees and any work stoppage or difficulty hiring similar employees could adversely affect our business.

Because our products are complicated and highly engineered, we depend on an educated and trained workforce. There is substantial competition for skilled personnel in the aircraft component industry, and we could be adversely affected by a shortage of skilled employees. We may not be able to fill new positions or vacancies created by expansion or turnover or attract and retain qualified personnel.

As of September 30, 2007, we had approximately 2,100 employees. Approximately 5% of our employees were represented by the United Steelworkers Union, approximately 4% were represented by the United Automobile, Aerospace and Agricultural Implement Workers of America and approximately 4% were represented by the International Brotherhood of Electrical Workers. Collective bargaining agreements between us and these labor unions expire in April 2008, November 2008 and May 2009, respectively. Although we believe that our relations with our employees are satisfactory, we cannot assure you that we will be able to negotiate a satisfactory renewal of these collective bargaining agreements or that our employee relations will remain stable. Because we maintain a relatively small inventory of finished goods, any work stoppage could materially and adversely affect our ability to provide products to our customers.

Our business is dependent on the availability of certain components and raw materials from suppliers.

Our business is affected by the price and availability of the raw materials and component parts that we use to manufacture our components. Our business, therefore, could be adversely impacted by factors affecting our suppliers (such as the destruction of our suppliers facilities or their distribution infrastructure, a work stoppage or strike by our suppliers employees or the failure of our suppliers to provide materials of the requisite quality), or by increased costs of such raw materials or components if we were unable to pass along such price increases to our customers. Because we maintain a relatively small inventory of raw materials and component parts, our business could be adversely affected if we were unable to obtain these raw materials and components from our suppliers in the quantities we require or on favorable terms. Although we believe in most cases that we could identify alternative suppliers, or alternative raw materials or component parts, the lengthy and expensive FAA and OEM certification processes associated with aerospace products could prevent efficient replacement of a supplier, raw material or component part.

We could incur substantial costs as a result of violations of or liabilities under such environmental laws and regulations.

Our operations and facilities are subject to a number of federal, state and local environmental laws and regulations that govern, among other things, discharges of pollutants into the air and water, the handling, storage and disposal of hazardous materials and wastes, and the remediation of contamination. We could incur substantial costs, including clean-up costs, fines and sanctions and/or third party property damage or personal injury claims, as a result of violations of or liabilities under environmental laws, relevant common law or the environmental permits required for our operations.

Pursuant to certain environmental laws, a current or previous owner or operator of a contaminated site may be held liable for the entire cost of investigation, removal or remediation of hazardous materials at such property, whether or not the owner or operator knew of, or was responsible for, the presence of any hazardous materials. Persons who arrange for the disposal or treatment of hazardous materials may also be held liable for such costs related to a disposal or treatment site, regardless of whether the affected site is owned or operated by them. Contaminants have been detected at some of our present and former sites, principally in connection with historical operations, and investigations and/or clean-ups have been undertaken by us or by former owners of the sites. We also receive inquiries and notices of potential liability with respect to offsite disposal facilities from time to time. Although we are not aware of any sites for which material obligations exist, the discovery of additional contaminants, the imposition of additional clean-up obligations or the initiation of suits for personal injury or damages to property or natural resources could result in significant liability.

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We intend to pursue future acquisitions. Our business may be adversely affected if we cannot consummate acquisitions on satisfactory terms, or if we cannot effectively integrate acquired operations.

A significant portion of our growth has occurred through acquisitions. Any future growth through acquisitions will be partially dependent upon the continued availability of suitable acquisition candidates at favorable prices and upon advantageous terms and conditions. We intend to pursue acquisitions that we believe will present opportunities consistent with our overall business strategy. However, we may not be able to find suitable acquisition candidates to purchase or may be unable to acquire desired businesses or assets on economically acceptable terms. In addition, we may not be able to raise the capital necessary to fund future acquisitions. In addition, acquisitions involve risks that the businesses acquired will not perform in accordance with expectations and that business judgments concerning the value, strengths and weaknesses of businesses acquired will prove incorrect.

We regularly engage in discussions with respect to potential acquisition and investment opportunities. If we consummate an acquisition, our capitalization and results of operations may change significantly. Future acquisitions could likely result in the incurrence of additional debt and contingent liabilities and an increase in interest and amortization expenses or periodic impairment charges related to goodwill and other intangible assets as well as significant charges relating to integration costs.

In addition, we may not be able to successfully integrate any business we acquire into our existing business. The successful integration of new businesses depends on our ability to manage these new businesses and cut excess costs. The successful integration of future acquisitions may also require substantial attention from our senior management and the management of the acquired business, which could decrease the time that they have to service and attract customers and develop new products and services. In addition, because we may actively pursue a number of opportunities simultaneously, we may encounter unforeseen expenses, complications and delays, including difficulties in employing sufficient staff and maintaining operational and management oversight.

We have recorded a significant amount of intangible assets, which may never generate the returns we expect.

Our acquisitions have resulted in significant increases in identifiable intangible assets and goodwill. Identifiable intangible assets, which primarily include trademarks, trade names, trade secrets, license agreements and technology, were approximately $334.9 million at September 30, 2007, representing approximately 16.2% of our total assets. Goodwill recognized in accounting for the Warburg Merger and other recent acquisitions was approximately $1,247.9 million at September 30, 2007, representing approximately 60.5% of our total assets. We may never realize the full value of our identifiable intangible assets and goodwill, and to the extent we were to determine that our identifiable intangible assets and our goodwill were impaired within the meaning of applicable accounting regulations, we would be required to write-off the amount of any impairment.

We face significant competition.

We operate in a highly competitive global industry and compete against a number of companies, including divisions of larger companies, some of which have significantly greater resources than we do, and therefore may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the promotion and sale of their products than we can. Competitors in our product lines are both U.S. and foreign companies and range in size from divisions of large public corporations to small privately held entities. We believe that our ability to compete depends on high product performance, consistent high quality, short lead-time and timely delivery, competitive pricing, superior customer service and support and continued certification under customer quality requirements and assurance programs. We may have to adjust the prices of some of our products to stay competitive.

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We could be adversely affected if one of our components causes an aircraft to crash.

Our operations expose us to potential liabilities for personal injury or death as a result of the failure of an aircraft component that we have designed, manufactured or serviced. While we maintain liability insurance to protect us from future products liability claims, in the event of product liability claims our insurers may attempt to deny coverage or any coverage we have may not be adequate. We also may not be able to maintain insurance coverage in the future at an acceptable cost. Any liability not covered by insurance or for which third party indemnification is not available could result in significant liability to us.

In addition, a crash caused by one of our components could damage our reputation for quality products. We believe our customers consider safety and reliability as key criteria in selecting a provider of aircraft components. If a crash were to be caused by one of our components, or if we were to otherwise fail to maintain a satisfactory record of safety and reliability, our ability to retain and attract customers may be materially adversely affected.

Our stock prices may be volatile, and your investment in our common stock could suffer a decline in value.

There has been significant volatility in the market price and trading volume of equity securities, which is unrelated to the financial performance of the companies issuing the securities. These broad market fluctuations may negatively affect the market price of our common stock. You may not be able to resell your shares at or above the purchase price due to fluctuations in the market price of our common stock caused by changes in our operating performance or prospects, including possible changes due to the cyclical nature of the aerospace industry and other factors such as fluctuations in OEM and aftermarket ordering, which could cause short-term swings in profit margins.

Future sales of our common stock in the public market could lower our share price.

A substantial amount of our outstanding stock is held by affiliates and not currently traded in the public market. While the sale of these shares into the open market may be limited by applicable regulations, the stockholders of these shares are not bound by any contractual obligations not to sell. Thus, our existing stockholders may sell additional shares of common stock into the public markets. In addition, we may sell additional shares of common stock into the public markets or issue convertible debt securities to raise capital in the future. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the public markets or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities to raise capital at a time and price that we deem appropriate.

Our principal stockholder and its affiliates will be able to influence matters requiring stockholder approval and could discourage the purchase of our outstanding shares at a premium.

Warburg Pincus, through its control of TD Group, LLC, is deemed to beneficially own approximately 45% of our outstanding common stock as of November 1, 2007. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale or merger of our company and may negatively affect the market price of our common stock. These transactions might include proxy contests, tender offers, mergers or other purchase of common stock that could give you the opportunity to realize a premium over the then-prevailing market price for shares of our common stock.

As a result of Warburg Pincus significant ownership of TD Group, LLC and representation on our Board of Directors, Warburg Pincus will be able to influence the affairs and actions of our company, including matters requiring stockholder approval, such as the election of directors and approval of significant corporate transactions. The interest of Warburg Pincus may differ from the interest of our other stockholders. For example, Warburg Pincus could oppose a third party offer to acquire us that you might consider attractive, and the third party may not be able or willing to proceed unless Warburg Pincus supports the offer. In addition, if our Board of

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Directors supports a transaction requiring a vote of stockholders, Warburg Pincus is in a position to affect any required stockholder approval. In each of these cases and in similar situations, you may disagree with Warburg Pincus as to whether the action opposed or supported by Warburg Pincus is in the best interest of our stockholders.

Our corporate documents and Delaware law contain certain provisions that could discourage, delay or prevent a change in control of our company.

Provisions in our amended and restated certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our amended and restated certificate of incorporation authorizes our Board of Directors to issue up to 149,600,000 shares of blank check preferred stock. Without stockholder approval, the Board of Directors has the authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, holders of preferred stock could make it more difficult for a third party to acquire us. In addition, our amended and restated certificate of incorporation provides for a staggered Board of Directors, whereby directors serve for three-year terms, with approximately one-third of the directors coming up for re-election each year. Having a staggered board will make it more difficult for a third party to obtain control of our Board of Directors through a proxy contest, which may be a necessary step in an acquisition of us that is not favored by our Board of Directors. Our amended and restated certificate of incorporation also provides that the affirmative vote of the holders of at least 75% of the voting power of our issued and outstanding capital stock, voting together as a single class, is required for the alteration, amendment or repeal of certain provisions of our amended and restated certificate of incorporation, including the provisions authorizing a staggered board, and certain provisions of our amended and restated bylaws, including the provisions relating to our stockholders ability to call special meetings, notice provisions for stockholder business to be conducted at an annual meeting, requests for stockholder lists and corporate records, nomination and removal of directors, and filling of vacancies on our Board of Directors.

We are also subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law. Under these provisions, if anyone becomes an interested stockholder, we may not enter into a business combination with that person for three years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change of control. For purposes of Section 203, interested stockholder means, generally, someone owning 15% or more of our outstanding voting stock or an affiliate of ours that owned 15% or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in Section 203. TD Group, LLC, Warburg Pincus and their affiliates do not constitute interested stockholders for the purposes of Section 203 of the Delaware General Corporation Law.

We do not intend to pay regular cash dividends on our stock.

We do not anticipate declaring or paying regular cash dividends on our common stock or any other equity security in the foreseeable future. The amounts that may be available to us to pay cash dividends are restricted under out debt and other agreements. Any payment of cash dividends on our common stock in the future will be at the discretion of our Board of Directors and will depend on our results of operations, earnings, capital requirements, financial condition, future prospects, contractual restrictions and other factors deemed relevant by our Board of Directors. Therefore, you should not rely on dividend income from shares of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

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ITEM 2. PROPERTIES

TransDigm s owned properties as of September 30, 2007 are as follows:

Location	Square Footage
Los Angeles, CA	131,000
Cleveland, OH	50,000
Painesville, OH	63,900
Waco, TX	218,800
Liberty, SC	219,000
Avenel, NJ	48,500
Deerfield, FL	20,000
Seattle, WA	78,000
Malaysia	24,800

The properties located in Los Angeles, Cleveland, Painesville, Waco, Liberty, Avenel and Seattle are subject to mortgages under our Senior Secured Credit Facility.

TransDigm s leased properties as of September 30, 2007 are as follows:

Location	Square Footage
Fullerton, CA	100,000
Camarillo, CA	70,000
Gardena, CA	25,000
Cleveland, OH	7,100
Collegeville, PA	90,000
Bellevue, WA	18,000
Dayton, NV	144,000

TransDigm also leases certain of its other non-material facilities. Management believes that our machinery, plants and offices are in satisfactory operating condition and that it will have sufficient capacity to meet foreseeable future needs without incurring significant additional capital expenditures.

ITEM 3. LEGAL PROCEEDINGS

During the ordinary course of business, TransDigm is from time to time threatened with, or may become a party to, legal actions and other proceedings related to its businesses, products or operations. While TransDigm is currently involved in some legal proceedings, management believes the results of these proceedings will not have a material effect on its financial condition, results of operations, or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders of TD Group.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

We completed the Initial Public Offering on March 20, 2006 and a follow-on secondary offering on May 25, 2007. Our common stock is traded on the New York Stock Exchange, or NYSE, under the ticker symbol TDG. The following chart sets forth, for the periods indicated, the high and low sales prices of the common stock on the NYSE.

Quarterly Stock Prices

	High	Low
Fiscal 2006		
For Quarter ended April 1, 2006	$ 26.20	$ 23.90
For Quarter ended July 1, 2006	26.73	21.42
For Quarter ended September 30, 2006	27.46	22.12
Fiscal 2007		
For Quarter ended December 30, 2006	27.89	23.24
For Quarter ended March 31, 2007	37.22	25.15
For Quarter ended June 30, 2007	43.60	34.26
For Quarter ended September 30, 2007	47.45	34.41

Holders

We estimate that there were approximately 6,739 holders of record of our common stock as of November 1, 2007.

Dividends

There have been no cash dividends declared on any class of common equity of TD Group for the two most recent fiscal years.

We do not anticipate declaring or paying regular cash dividends on our common stock in the near future. Any payment of cash dividends on our common stock in the future will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, financial condition, future prospects, contractual restrictions, and other factors deemed relevant by our board of directors. TD Group is a holding company and conducts all of its operations through direct and indirect subsidiaries. Unless TD Group receives dividends, distributions, advances, transfers of funds or other payments from our subsidiaries, TD Group will be unable to pay any dividends on our common stock in the future. The ability of any subsidiaries to take any of the foregoing actions is limited by the terms of our debt documents and may be limited by future debt or other agreements that we may enter into.

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Performance Graph

Set forth below is a line graph comparing the cumulative total return of a hypothetical investment in the shares of common stock of TD Group with the cumulative total return of a hypothetical investment in each of the S&P 500 Index and the S&P SmallCap 600 Aerospace & Defense Index based on the respective market prices of each such investment on the dates shown below, assuming an initial investment of $100 on March 15, 2006.

	3/06	9/06	9/07
TransDigm Group, Inc	**100.00**	**101.33**	**189.67**
S&P Smallcap 600	**100.00**	**99.24**	**114.06**
S&P SmallCap 600 Aerospace & Defense	**100.00**	**89.68**	**139.70**

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected historical consolidated financial and other data of TD Group or its predecessor for the fiscal years ended September 30, 2007, September 30, 2006, September 30, 2005 and September 30, 2004, the period from July 23, 2003 (date of formation) through September 30, 2003, and the period from October 1, 2002 through July 22, 2003, which have been derived from TD Group s or its predecessor s audited consolidated financial statements. The Company s consolidated financial statements for the periods subsequent to the Warburg Merger (see Business The Company) reflect a new basis of accounting incorporating the fair value adjustments made in recording the Warburg Merger while the periods prior to the Warburg Merger reflect the historical cost basis of the Company. Accordingly, the accompanying selected historical consolidated financial and other data as of dates and for periods prior to the Warburg Merger are labeled as Predecessor.

Separate historical financial information of TransDigm Inc. is not presented since the 7 $^{3}/4$% Senior Subordinated Notes are guaranteed by TD Group and all direct and indirect domestic restricted subsidiaries of TransDigm Inc. and since TD Group has no operations or material assets separate from its investment in TransDigm Inc.

On February 24, 2003, TransDigm (through MarathonNorco Aerospace, Inc., a subsidiary of TransDigm Inc.) acquired certain assets and assumed certain liabilities of Norco from TransTechnology Corporation. On July 9, 2004, TransDigm acquired the stock of Avionic Instruments, Inc. (Avionic). On December 31, 2004, TransDigm (through Skurka Aerospace Inc. (Skurka), a subsidiary of TransDigm Inc.) acquired certain assets and assumed certain liabilities of Skurka Engineering Company. On January 28, 2005, TransDigm acquired all of the outstanding capital stock of Fluid Regulators Corporation (Fluid Regulators), a wholly-owned subsidiary of Esterline Technologies Corporation. On June 30, 2005, TransDigm, through Skurka, acquired an aerospace motor product line from Eaton Corporation. On May 1, 2006, TransDigm, through Skurka, acquired certain assets and assumed certain liabilities of Electra-Motion, Inc. On June 12, 2006, TransDigm acquired all of the outstanding capital stock of Sweeney Engineering Corp. On October 3, 2006, TransDigm acquired all of the issued and outstanding capital stock of CDA InterCorp. On February 7, 2007, TransDigm completed the merger with Aviation Technologies, Inc., resulting in ATI becoming a wholly-owned subsidiary of TransDigm Inc. On August 10, 2007, TransDigm (through Bruce Aerospace, Inc. (Bruce), a subsidiary of TransDigm Inc.) acquired certain assets and assumed certain liabilities of Bruce Industries. All of the acquisitions were accounted for as purchases. The results of operations of the acquired businesses and a product line are included in TD Group s consolidated financial statements from the date of each of the acquisitions.

We present below certain financial information based on our EBITDA and EBITDA As Defined. Neither EBITDA nor EBITDA As Defined is a measurement of financial performance under accounting principles generally accepted in the United States of America, or GAAP, and neither of these financial measures should be considered as an alternative to net income or operating cash flows determined in accordance with GAAP, and our calculation of EBITDA and EBITDA As Defined may not be comparable to the calculation of similarly titled measures reported by other companies. While we believe that the presentation of EBITDA and EBITDA As Defined will enhance an investor s understanding of our operating performance, the use of EBITDA and EBITDA As Defined as analytical tools has limitations and you should not consider either of them in isolation, or as a substitute for an analysis of our results of operations as reported in accordance with GAAP. For a reconciliation of EBITDA and EBITDA As Defined to net income and for a description of the manner in which management uses these non-GAAP financial measures to evaluate our business, the economic substance behind management s decision to use these non-GAAP financial measures and the manner in which management compensates for these limitations and the reasons why management believes these non-GAAP financial measures provide useful information to investors, please refer to footnotes 8 and 9 below.

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The information presented below should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and accompanying notes included elsewhere herein.

	Fiscal Years Ended September 30,				July 8, 2003 (Date of Formation) through September 30, 2003	Predecessor October 1, 2002 through July 22, 2003
	2007	2006	2005	2004		
	(in thousands, except per share amounts)					
Statement of Operations Data:						
Net Sales	$ 592,798	$ 435,164	$ 374,253	$ 300,703	$ 52,083	$ 241,185
Gross profit(1)	309,032	221,290	184,270	136,505	11,684	114,669
Operating expenses:						
Selling and administrative	62,890	48,309	38,943	31,201	5,205	20,167
Amortization of intangibles	12,304	6,197	7,747	10,325	1,975	945
Refinancing costs		48,617				
Merger expenses(2)						176,003
Operating income (loss)(1)	233,838	118,167	137,580	94,979	4,504	(82,446)
Interest expense, net	91,767	76,732	80,266	74,675	14,233	28,224
Income (loss) before income taxes	142,071	41,435	57,314	20,304	(9,729)	(110,670)
Provision (benefit) for income taxes	53,426	16,318	22,627	6,682	(3,970)	(40,701)
Net income (loss)	$ 88,645	$ 25,117	$ 34,687	$ 13,622	$ (5,759)	$ (69,969)
Net income (loss) available to common stockholders	$ 88,645	$ 25,117	$ 34,687	$ 13,622	$ (5,759)	$ (72,638)
Basic earnings (loss) per share computation:						
Weighted-average common shares outstanding(3)	45,630	44,415	44,202	44,193	43,608	119.8
Net income (loss) per share(4)	$ 1.94	$ 0.57	$ 0.78	$ 0.31	$ (0.13)	$ (606.38)
Diluted earnings (loss) per share computation:						
Weighted-average common shares outstanding(3)	48,542	47,181	46,544	46,300	43,608	119.8
Net income (loss) per share(5)	$ 1.83	$ 0.53	$ 0.75	$ 0.29	$ (0.13)	$ (606.38)

	As of September 30,				Predecessor
	2007	2006	2005	2004	2003
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents(6)	$ 105,946	$ 61,217	$ 104,221	$ 48,498	$ 18,902
Marketable securities				50,601	
Working capital	298,380	190,742	118,559	179,385	133,622
Total assets	2,061,053	1,416,712	1,427,748	1,345,912	1,315,395
Long-term debt, including current portion	1,357,854	925,000	889,846	892,788	894,997
Stockholders equity	487,551	363,041	333,107	297,412	283,551

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	Years Ended September 30,				July 8, 2003 (Date of Formation) through September 30, 2003	Predecessor October 1, 2002 through July 22, 2003
	2007	2006	2005	2004		
	(in thousands)					
Other Financial Data:						
Cash flows provided by (used in):						
Operating activities	$ 112,436	$ 3,058	$ 80,695	$ 111,139	$ 16,852	$ (34,184)
Investing activities	(521,665)	(35,323)	(20,530)	(77,619)	(469,319)	(57,267)
Financing activities	453,958	(10,739)	(4,442)	(3,924)	471,369	82,450
Depreciation and amortization	23,952	16,111	16,956	18,303	3,333	6,355
Capital expenditures	10,258	8,350	7,960	5,416	968	4,241
Ratio of earnings to fixed charges(7)	2.5x	1.5x	1.7x	1.3x		
Other Data:						
EBITDA(8)	$ 257,790	$ 134,278	$ 154,536	$ 113,282	$ 7,837	$ (76,091)
EBITDA, margin(9)	43.5%	30.9%	41.3%	37.7%	15.0%	(31.5)%
EBITDA As Defined(8)	$ 274,708	$ 194,437	$ 164,240	$ 139,084	$ 22,062	$ 102,306
EBITDA As Defined, margin(9)	46.3%	44.7%	43.9%	46.3%	42.4%	42.4%

(1) Gross profit and operating income (loss) include the effect of charges relating to purchase accounting adjustments to inventory associated with the Warburg Merger and acquisition of various businesses and product line for the fiscal years ended September 30, 2007, 2006, 2005 and 2004, the period July 8, 2003 (date of formation) through September 30, 2003 and October 1, 2002 through July 22, 2003 (date of closing of the Warburg Merger) of $6,392,000, $200,000, $1,493,000, $18,471,000, $12,038,000, and $855,000, respectively.

(2) One-time merger-related charges were incurred in connection with the Warburg Merger in July 2003.

(3) The weighted-average common shares outstanding for the successor periods presented have been adjusted to give effect to the 149.6 for 1.00 stock split that occurred on March 14, 2006 in connection with the Initial Public Offering.

(4) Net income (loss) per share is calculated by dividing net income (loss) available to common stockholders by the basic weighted average common shares outstanding.

(5) Net income (loss) per share is calculated by dividing net income (loss) available to common stockholders by the diluted weighted-average common shares outstanding. However, stock options totaling 0.1 million outstanding at September 30, 2006, were excluded from the diluted earnings per share computation for fiscal 2006 due to the anti-dilutive effect of such options. Stock options totaling 7.3 million outstanding at September 30, 2003, were excluded from the diluted earnings per share computation for the period from July 8, 2003 (date of formation) through September 30, 2003 due to the anti-dilutive effect of such options.

(6) On November 10, 2005, TransDigm Inc. paid a cash dividend of approximately $98.0 million to its then parent company, TransDigm Holding Company, and made bonus payments of approximately $6.2 million to certain members of our management. TransDigm Holding Company used all of the proceeds received from TransDigm Inc. to pay a cash dividend to TD Group. On November 10, 2005, TD Group entered into the TD Group Loan Facility and used the net proceeds received from the borrowings thereunder of approximately $193.8 million, together with substantially all of the proceeds received from the dividend payment from TransDigm Holding Company, to (i) prepay the entire outstanding principal amount and all accrued and unpaid interest on its 12% senior unsecured promissory notes issued in connection with the Warburg Merger in July 2003, which payments in the aggregate were equal to approximately $262.7 million, and (ii) make certain distributions to members of our management who participated in our deferred compensation plans, which distributions in the aggregate were equal to approximately $26.0 million.

(7) For purposes of computing the ratio of earnings to fixed charges, earnings consist of earnings before income taxes plus fixed charges. Fixed charges consist of interest expense, amortization of debt issuance costs and

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the portion (approximately 33%) of rental expense that management believes is representative of the interest component of rental expense. Earnings were insufficient by $9,729,000 and $110,670,000 to cover fixed charges for the period from July 8, 2003 (date of formation) through September 30, 2003 and the period from October 1, 2002 through July 22, 2003 (date of closing of the Warburg Merger), respectively.

(8) EBITDA represents earnings before interest, taxes, depreciation and amortization. We present EBITDA because we believe it is a useful indicator of our operating performance. Our management believes that EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties to measure a company s operating performance without regard to items such as interest and debt expense, income tax expense, and depreciation and amortization, which can vary substantially from company to company depending upon, among other things, accounting methods, book value of assets, capital structure and the method by which assets are acquired. We also believe EBITDA is useful to our management and investors as a measure of comparative operating performance between time periods and among companies as it is reflective of changes in pricing decisions, cost controls and other factors that affect operating performance.

EBITDA As Defined represents EBITDA plus, as applicable for the relevant period, inventory purchase accounting adjustments, acquisition integration costs, non-cash compensation and deferred compensation costs, certain non-recurring expenses incurred in connection with the Warburg Merger, one-time special bonus payments made to members of our management and certain acquisition earnout costs, and as more fully described below, for fiscal year ended September 30, 2007 and September 30, 2006, any and all expenses or charges incurred by us in connection with equity offerings, permitted investments, acquisitions, dispositions, recapitalizations or permitted debt transactions, including all of the expenses or charges relating to our the refinancing in June 2006. Our management uses EBITDA As Defined to review and assess our operating performance and management team in connection with our employee incentive programs and the preparation of our annual budget and our financial projections. In addition, the revolving credit facility under the Senior Secured Credit Facility requires compliance, on a pro forma basis, with a first lien leverage ratio, which is measured based on our Consolidated EBITDA (as defined therein). The Senior Secured Credit Facility defines Consolidated EBITDA in the same manner as how we defined EBITDA As Defined for the fiscal year ended September 30, 2007. This financial covenant is a material term of the Senior Secured Credit Facility as failure to comply with such financial covenant could result in an event of default in respect of the revolving credit facility (and, in turn, such an event of default could result in an event of default under the Indenture). In addition, our former senior secured credit facility required compliance, on a pro forma basis, with a leverage ratio, a fixed charge coverage ratio and an interest coverage ratio, all of which were measured based on our Consolidated EBITDA (as defined therein). The former senior secured credit facility defined Consolidated EBITDA in a manner equal to how we defined EBITDA As Defined for the periods presented prior to fiscal 2006, and such historical definition was substantially similar to the definition of Consolidated EBITDA under the Senior Secured Credit Facility, except that for purposes of computing Consolidated EBITDA under the Senior Secured Credit Facility, we are permitted to add back to net income any and all expenses or charges incurred by us in connection with equity offerings, permitted investments, acquisitions, dispositions, recapitalizations or permitted debt transactions, including all of the expenses or charges related to the refinancing in June 2006.

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 EBITDA and EBITDA As Defined as an analytical tool has limitations, and you should not consider either of them in isolation, or as substitutes 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;

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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.

(9) The EBITDA margin represents the amount of EBITDA as a percentage of net sales. The EBITDA As Defined Margin represents the amount of EBITDA As Defined as a percentage of net sales.

The following is a reconciliation of EBITDA and EBITDA As Defined to net income:

	Fiscal Years Ended September 30,					Predecessor
	2007	2006	2005	2004	July 8, 2003 (Date of Formation) through September 30, 2003	October 1, 2002 through July 22, 2003
			(in thousands)			
Net income (loss)	$ 88,645	$ 25,117	$ 34,687	$ 13,622	$ (5,759)	$ (69,969)
Add:						
Depreciation and amortization	23,952	16,111	16,956	18,303	3,333	6,355
Interest expense, net	91,767	76,732	80,266	74,675	14,233	28,224
Provision (benefit) for income taxes	53,426	16,318	22,627	6,682	(3,970)	(40,701)
EBITDA	257,790	134,278	154,536	113,282	7,837	(76,091)
Add:						
Inventory purchase accounting adjustments[1]	6,392	200	1,493	18,471	12,038	855
Acquisition integration costs[2]	2,037	1,032	1,363	1,162	1,154	1,539
Non-cash compensation and deferred compensation costs[3]	5,482	988	6,698	6,169	1,033	
Merger expenses[4]						176,003
One-time special bonus payments[5]		6,222				
Acquisition earnout costs[6]	850	450	150			
Refinancing costs[7]		48,617				
Public offering costs[8]	1,691	2,650				
Other[9]	466					
EBITDA As Defined	$ 274,708	$ 194,437	$ 164,240	$ 139,084	$ 22,062	$ 102,306

(1) Represents the portion of the purchase accounting adjustments to inventory associated with the Warburg Merger and to the acquisitions of various entities, businesses and a product line that were charged to cost of sales when the inventory was sold.

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(2) Represents costs incurred to integrate various entities, businesses and a product line into the Company s operations.

(3) Represents the expenses recognized by us under our stock option plans and our deferred compensation plans. The amount reflected above for the fiscal year ended September 30, 2006 includes (i) a reversal of previously recorded amounts charged to expense of $3.8 million resulting from the termination of two of our deferred compensation plans during such period and (ii) expense recognized by us under a new deferred compensation plan adopted by us during such period.

(4) Represents one-time charges incurred in connection with the Warburg Merger in July 2003.

(5) Represents the aggregate amount of one-time special bonuses paid on November 10, 2005 to members of management. On November 10, 2005, we entered into an amendment to our former senior secured credit facility pursuant to which the lenders thereunder agreed to exclude these one-time special bonus payments from the calculation of EBITDA As Defined.

(6) Represents the amount recognized for the earnout payment to Howard Skurka pursuant to the terms of the retention agreement entered into with him in connection with Skurka s acquisition of substantially all of the assets of Skurka Engineering Company in December 2004. Pursuant to the November 10, 2005 amendment to our former senior secured credit facility described above, the lenders thereunder agreed to exclude earnout payments and deferred purchase price payments made in connection with certain permitted acquisitions from the calculation of EBITDA As Defined.

(7) Represents costs incurred in connection with the refinancing in June 2006, including the premium paid to redeem our 8 $^{3}/8$% senior subordinated notes of $25.6 million, the write off of debt issue costs of $22.9 million, and other expenses of $0.1 million.

(8) Represents costs and expenses incurred by TD Group related to the initial public offering in March 2006 or the secondary offering in May 2007.

(9) Represents the write-down of certain property to its fair value that has been reclassified as held for sale in fiscal 2007.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with Selected Consolidated Financial Data and TD Group s consolidated financial statements and the related notes included elsewhere in this report. References 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. The following discussion may contain predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed under the heading entitled Risk Factors included elsewhere in this report. These risks could cause our actual results to differ materially from any future performance suggested below.

Overview

We believe we are a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly all 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 ignition systems and components, mechanical/electro-mechanical actuators and controls, gear pumps, engineered connectors, specialized valving, power conditioning devices, engineered latches and cockpit security devices, specialized AC/DC electric motors, lavatory hardware and components, hold-open rods and locking devices, aircraft audio systems, NiCad batteries/chargers, and specialized fluorescent lighting and cockpit displays. Each of these product offerings consists of many individual products that are typically customized to meet the needs of a particular aircraft platform or customer.

For fiscal year 2007, we generated net sales of $592.8 million and net income of $88.6 million. In addition, for fiscal year 2007, our EBITDA was $257.8 million, or 43.5% of net sales, our EBITDA As Defined was $274.7 million, or 46.3% of net sales, and our capital expenditures were $10.3 million, or 1.7% of net sales. See EBITDA and EBITDA As Defined below for certain information regarding EBITDA and EBITDA As Defined, including a reconciliation of EBITDA and EBITDA As Defined to net income.

We estimate that over 90% of our net sales for fiscal year 2007 were generated by proprietary products for which we own the design. These products are generally approved and certified by airframe manufacturers (who often certify only one manufacturer s component design for a specific application on an aircraft), government agencies and/or the FAA and similar entities or agencies. In addition, for fiscal year 2007, we estimate that we generated approximately 75% of our net sales from products for which we are the sole source provider.

Most of our products generate significant aftermarket revenue. Once our parts are designed into and sold as original equipment on an aircraft, we generate net sales from recurring aftermarket consumption over the life of that aircraft. This installed base and our sole source provider position generate a long-term stream of aftermarket revenues over the estimated 30-year life of an individual aircraft. We estimate that approximately 60% of our net sales in fiscal year 2007 were generated from aftermarket sales, the vast majority of which come from the commercial and military aftermarkets. These aftermarket revenues have historically produced a higher gross margin and been more stable than sales to OEMs.

In fiscal year 2007, our top two customers accounted for approximately 27% of our net sales, and during this same period our top ten customers accounted for approximately 51% of our net sales. However, our components are ultimately used on a large, diverse installed base of aircraft and, therefore, we are not overly dependent on any single airframe produced by any of our customers or other ultimate end-users of our products. In the commercial aerospace sector, which generated approximately 73% of our net sales for fiscal year 2007, we sell to distributors of aftermarket components, as well as directly to commercial airlines, aircraft maintenance facilities, systems suppliers, and aircraft and engine OEMs. In addition, for fiscal year 2007, approximately 24% of our net sales were attributable to the defense aerospace sector. Net sales to the defense sector are generated

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primarily through sales to the United States and foreign militaries, brokers, distributors and defense OEMs. The remaining portion of our net sales in fiscal year 2007, or approximately 3% of our net sales during this period, were derived from industries with similar niche engineered product characteristics such as the mining and power generation industries.

Public Offerings

On May 25, 2007, certain of TD Group s stockholders, including certain members of our management, sold an aggregate of 11.5 million shares of TD Group s common stock in an underwritten public offering at a public offering price of $35.25 per share. As a result of this offering, TD Group is no longer a controlled company for the purposes of the NYSE listing requirements. TD Group did not sell any shares in the offering and did not receive any proceeds from the offering.

On March 20, 2006, certain stockholders of TD Group and certain members of our management sold an aggregate of approximately 12. 6 million shares of TD Group s common stock in the Initial Public Offering at a price of $21.00 per share. TD Group did not offer any shares of its common stock for sale in the Initial Public Offering and TD Group did not receive any of the proceeds from the sale of such shares by the selling stockholders. As a result of the Initial Public Offering, TD Group s common stock is publicly traded on the New York Stock Exchange under the ticker symbol TDG.

Certain Acquisitions

Bruce Acquisition

On August 10, 2007, pursuant to an asset purchase agreement among TransDigm Inc., Bruce Industries and the shareholders of Bruce Industries, Bruce Aerospace, Inc., a newly formed wholly-owned subsidiary of TransDigm Inc., acquired certain assets and assumed certain liabilities of Bruce Industries for approximately $35.6 million in cash. Bruce designs and manufactures specialized fluorescent lighting used in the aircraft industry. The proprietary nature, established positions, and aftermarket content fit well with our overall business direction.

ATI Acquisition

On February 7, 2007, TransDigm Inc. acquired all of the outstanding capital stock of Aviation Technologies, Inc. (ATI) for $430.1 million in cash. ATI consists of two primary operating units that service the commercial and military aerospace markets Avtech Corporation (Avtech) and Transicoil LLC (which, together with Transicoil (Malaysia) Sendirian Berhad is referred to as ADS/Transicoil). Avtech is a leading supplier of flight deck and passenger audio systems, cabin lighting, and power control products and related components. ADS/Transicoil is a leading supplier of displays, clocks, brushless motors and related components and instruments. Through Avtech and ADS/Transicoil, ATI manufactures proprietary products for the aerospace industry with broad platform positions and high aftermarket content, all of which fit well with TransDigm s overall direction.

The purchase price consideration and costs associated with the acquisition of $430.1 million were funded through additional borrowings under our Senior Secured Credit Facility of $125.4 million (net of fees of $4.6 million), the proceeds from the issuance by TransDigm Inc. of additional 7 $^{3}/4$% Senior Subordinated Notes of $296.5 (net of fees of $6.5 million) and the use of $8.2 million of our available cash balances.

Mr. W. Nicholas Howley, Chairman and Chief Executive Officer of TD Group, and Mr. Douglas Peacock, a director of TD Group, each indirectly owned less than one-half of 1% of ATI s outstanding equity on a fully diluted basis. In addition, prior to the acquisition, Mr. Howley and Mr. Peacock were directors of ATI commencing in 2003, and Mr. Peacock served as ATI s Chairman from 2003 through February 2007.

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CDA Acquisition

On October 3, 2006, TransDigm Inc. acquired all of the issued and outstanding capital stock of CDA for an aggregate purchase price of $45.7 million in cash. CDA designs and manufactures specialized controllable drive actuators, motors, transducers and gearing. CDA s products are used on a range of defense, space and commercial aircraft applications. The proprietary nature, established positions and aftermarket content of CDA s products fit well with our overall business direction.

Sweeney Acquisition

On June 12, 2006, TransDigm Inc. acquired all of the outstanding capital stock of Sweeney Engineering Corp. (Sweeney) for approximately $25.4 million in cash. Sweeney designs and manufactures specialized aerospace valving used primarily in fuel, environmental control and de-icing applications. Sweeney's products are used on a range of defense and commercial aircraft applications. Sweeney s product characteristics and market position fit well with our existing valving business. The acquired business was consolidated into our AeroControlex business in Painesville, Ohio during the first quarter of fiscal 2007.

Electra-Motion Acquisition

On May 1, 2006, Skurka, our wholly-owned subsidiary, acquired certain assets and assumed certain liabilities of Electra-Motion. The acquired business designs and manufactures specialized AC/DC motors for a broad range of aerospace applications. The acquired business was consolidated into Skurka s existing aerospace motor business in Camarillo, California during fiscal 2006.

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EBITDA and EBITDA As Defined

The following table sets forth the calculation of EBITDA and EBITDA As Defined.

	Fiscal Years Ended September 30, 2007	2006
	(in millions)	
Net Income	$ 88.6	$ 25.1
Adjustments:		
Depreciation and amortization expense	24.0	16.1
Interest expense, net	91.8	76.8
Income tax provision	53.4	16.3
EBITDA(1)	257.8	134.3
Adjustments:		
Acquisition related costs(2)	9.3	1.6
Non-cash compensation and deferred compensation costs(3)	5.5	1.0
One-time special bonus(4)		6.2
Refinancing costs(5)		48.6
Public offering costs(6)	1.7	2.7
Other(7)	0.4	
EBITDA As Defined(8)(9)	$ 274.7	$ 194.4

(1) EBITDA represents earnings before interest, taxes, depreciation and amortization.

(2) Represents costs incurred to integrate acquired businesses into TD Group s operations, purchase accounting adjustments to inventory that were charged to cost of sales when the inventory was sold and acquisition earnout costs. The amount recognized for the earnout payments to Howard Skurka are pursuant to the terms of the retention agreement entered into with him in connection with our acquisition of substantially all of the assets of Skurka in December 2004.

(3) Represents the expenses recognized by the Company under our stock option and deferred compensation plans. The amount reflected above for fiscal 2006 includes (i) a reversal of previously recorded amounts charged to expense of $3.8 million resulting from the termination of two of our deferred compensation plans during fiscal 2006, and (ii) expense recognized by us under a new deferred compensation plan adopted by us in December 2005.

(4) Represents the aggregate amount of one-time special bonuses paid on November 10, 2005 to certain members of management.

(5) Represents costs associated with refinancing the debt structure of TD Group in fiscal 2006, including the premium of $25.6 million paid to redeem our 8 3/8% senior subordinated notes, the write off of debt issue costs of $22.9 million, and other expenses of $0.1 million.

(6) Represents costs and expenses incurred by TD Group related to the initial public offering in March 2006 or the secondary offering in May 2007.

(7) Represents the write-down of certain property to its fair value that has been reclassified as held for sale in fiscal 2007.

(8) EBITDA As Defined represents EBITDA plus, as applicable for the relevant period, inventory purchase accounting adjustments, acquisition integration costs, non-cash compensation and deferred compensation costs, one-time special bonus payments made to members of our management and certain acquisition earnout costs, and expenses or charges incurred by us in connection with equity offerings, permitted investments, acquisitions, dispositions, recapitalizations or permitted debt transactions, including all of the expenses or charges relating to the refinancing in June 2006. Our management uses EBITDA As Defined to review and assess our operating performance and management team in connection with our employee incentive programs and the preparation of our annual budget and our financial projections. In addition, the revolving credit facility under the Senior Secured Credit Facility requires compliance, on a pro forma basis, with a first lien leverage ratio, which is measured based on our Consolidated EBITDA (as defined therein).

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The Senior Secured Credit Facility defines Consolidated EBITDA in a manner equal to how we defined EBITDA As Defined for the fiscal year ended September 30, 2007. This financial covenant is a material term of the Senior Secured Credit Facility as failure to comply with such financial covenant could result in an event of default in respect of the revolving credit facility under the Senior Secured Credit Facility (and, in turn, such an event of default could result in an event of default under the Indenture). In addition, our former senior secured credit facility required compliance, on a pro forma basis, with a leverage ratio, a fixed charge coverage ratio and an interest coverage ratio, all of which were measured based on our Consolidated EBITDA (as defined therein). The former senior secured credit facility defined Consolidated EBITDA in a manner equal to how we defined EBITDA As Defined for the periods presented prior to fiscal 2006, and such historical definition was substantially similar to the definition of Consolidated EBITDA under the Senior Secured Credit Facility, except that for purposes of computing Consolidated EBITDA under the Senior Secured Credit Facility, we are permitted to add back to net income, any and all expenses or charges incurred by us in connection with equity offerings, permitted investments, acquisitions, dispositions, recapitalizations or permitted debt transactions, including all of the expenses or charges related to the refinancing in June 2006.

(9) 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 EBITDA and EBITDA As Defined as an analytical tool has limitations, and you should not consider either 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, and our calculation of EBITDA and EBITDA As Defined may not be comparable to the calculation of similarly titled measures reported by other companies.

Trend Information

The commercial aerospace industry is impacted by the health of the global economy and geo-political events around the world. The commercial aerospace industry suffered after the events of September 11, 2001 and the subsequent downturn in the global economy, the SARS epidemic and, more recently, from rising fuel prices and the conflicts in the Middle East. Recently, the industry has shown strength with increases in RPMs, as well as OEM production and backlog. Rising fuel prices, conflicts in the Middle East, and the risk of additional terrorist activity have tempered the recovery somewhat.

Our presence in both the commercial transport and military sectors of the aerospace industry may mitigate the impact on our business of any specific industry risk. We service a diversified customer base in the commercial and military aerospace industry, and we provide components to a diverse installed base of aircraft, which mitigates our exposure to any individual airframe platform. At times, declines in sales in any one sector have been offset by increased sales in another. For example, the commercial transport sector that we serve was adversely affected by the events of September 11, 2001, but the downturn in that market was partially offset by an increase in military aircraft spending that resulted from the military engagements in Afghanistan and Iraq and the war on terrorism.

There is industry consensus that conditions in the commercial transport market sector has improved recently. We are experiencing increased activity in the large commercial OEM sector (aircraft with 100 or more seats) driven by order announcements by The Boeing Company and Airbus S.A.S. The business jet OEM sector has also shown increased activity driven by the overall recovery of the economy. We expect this level of activity to continue in the near future.

RPMs have surpassed the pre-September 11, 2001 level, and absent any disruptive events, we are hopeful our aftermarket business will continue to follow this trend.

In recent years, defense spending has reached historic highs, due in part to the military engagements in Afghanistan and Iraq and the war on terrorism. The military business showed some modest gains from the prior year. Our military business fluctuates from year to year, and is dependent, to a degree, on government budget constraints, the timing of orders and the extent of global conflicts. We anticipate that military related sales of our types of products will experience modest growth over the current high levels.

The aerospace industry is cyclical and fragmented. There are many short-term factors (including inventory corrections, unannounced changes in order patterns and mergers and acquisitions) that can cause short-term disruptions in our quarterly shipment patterns as compared to previous quarters and the same periods in prior years. To normalize for short-term fluctuations, we tend to look at our performance over several quarters or years of activity rather than discreet short-term periods. As such, it can be difficult to determine longer-term trends in our business based on quarterly comparisons.

There are also fluctuations in OEM and aftermarket ordering and delivery requests from quarter-to-quarter. Due to the differences between the profitability of our products sold to OEM and aftermarket customers, variation in product mix can cause short-term swings in gross margins. Again, in many instances these are timing events between quarters and must be balanced with macro aerospace industry indicators.

We believe that The Boeing Company and Airbus S.A.S. are in a period of increased production and we think we are well positioned on the new aircraft platforms recently announced. Having significant content on these new aircraft platforms could negatively impact our margin over the near term, given that OEM revenues tend to produce lower gross margins than aftermarket revenues, but should positively impact our business in future years as replacement aftermarket parts will be required to service these new aircrafts.

Although the aerospace industry is in a cycle of increased production, our business would be adversely affected by significant changes in the U.S. or global economy. Historically, aircraft travel, as measured by RPMs, generally correlates to economic conditions and a reduction in aircraft travel would result in a decrease in the need for aftermarket parts, which in turn would adversely affect our business.

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Government Pricing Review

Certain parts sold by five of our divisions and subsidiaries to the Department of Defense (DOD) through various buying agencies of the Defense Logistics Agency have been the subject of a pricing review by the DOD Office of Inspector General. The pricing review examined whether the various buying offices within the Defense Logistics Agency had negotiated fair and reasonable prices for certain sole source spare parts purchased from those divisions and subsidiaries during fiscal years 2002 through 2004. On February 28, 2006, we received a copy of the Inspector General s final report dated February 23, 2006, and on April 19, 2006, a redacted version of such report was made publicly available. The report recommends, among other things, that the Defense Logistics Agency contracting officers reevaluate their procedures for determining the reasonableness of pricing for sole source spare parts purchased from those divisions and subsidiaries and seek to develop Strategic Supplier Alliances with those divisions and subsidiaries.

We believe that the pricing review is part of a continuing effort by the Inspector General to monitor and evaluate prices paid to defense contractors for sole source spare parts. The report is consistent with reports issued with respect to sole source spare parts supplied by other companies, and, like those other reports, it advocates the negotiation of Strategic Supplier Alliances incorporating prices for parts based on cost, rather than based on prices of comparable commercial parts or other methods. We believe that our pricing of spare parts comports with the regulations applicable to contracts with agencies of the Federal government. Nonetheless, the report recommends that the Defense Logistics Agency request that the applicable divisions and subsidiaries of TransDigm Inc. voluntarily refund, in the aggregate, approximately $2.6 million for allegedly overpriced parts and negotiate Strategic Supplier Alliances incorporating cost-based prices for future Defense Logistics Agency purchases of sole source spare parts.

The Company s position has been, and continues to be, that our pricing has been fair and reasonable and that there is no legal basis for the amount suggested as a refund by the Inspector General in its report. In response to the report, we offered reasons why we disagree with the Inspector General s overall analysis. The Defense Logistics Agency requested additional information from the Company and the Company s position on the voluntary refund. The Company responded to such request.

In February 2006, the Defense Logistics Agency made a request to initiate discussions regarding future pricing and develop an acquisition strategy that will mutually strengthen TransDigm s and the Defense Logistics Agency s business relationship. The parties have discussed and are considering future purchasing approaches but negotiations with the Defense Logistics Agency regarding Strategic Supplier Alliances or any specific approach have not yet commenced, but will likely occur at a later date. As a result of those negotiations, it is possible that the divisions and subsidiaries subject to the pricing review will enter into Strategic Supplier Alliances with the Defense Logistics Agency. It is likely in connection with any Strategic Supplier Alliance, the Defense Logistics Agency will seek prices for parts based on cost or may seek volume discounts or other favorable pricing and/or the applicable division or subsidiary may agree to cost or pricing justification or appropriate discounts. It is also possible that the DOD may seek alternative sources of supply for such parts.

The entry into Strategic Supplier Alliances or a decision by the DOD to pursue alternative sources of supply for our sole source parts could reduce the amount of revenue we derive from, and the profitability of certain of our supply arrangements with, certain agencies and buying organizations of the U.S. Government. While management believes that the entry into Strategic Supplier Alliances with the Defense Logistics Agency will not have a material adverse effect on our financial condition, liquidity or capital resources, there is no means to determine the outcome of any future negotiations or discussions at this time.

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Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with GAAP, which often requires the judgment of management in the selection and application of certain accounting principles and methods. Management believes that the quality and reasonableness of our most critical policies enable the fair presentation of our financial position and results of operations. However, investors are cautioned that the sensitivity of financial statements to these methods, assumptions and estimates could create materially different results under different conditions or using different assumptions.

We have identified the following as the most critical accounting policies upon which our financial status depends. These critical policies were determined by considering accounting policies that involve the most complex or subjective decisions or assessments. Our most critical accounting policies are as follows:

Revenue Recognition and Related Allowances: Substantially all of our revenues are recognized based upon shipment of products to the customer, at which time title and risk of loss passes to the customer. Substantially all sales are made pursuant to firm, fixed-price purchase orders received from customers. Provisions for returns, uncollectible accounts and the cost of repairs under contract warranty provisions are provided for in the same period as the related revenues are recorded and are principally based on historical results modified, as appropriate, by the most current information available. We have a history of making reasonably dependable estimates of such allowances; however, due to uncertainties inherent in the estimation process, it is possible that actual results may vary from the estimates and the differences could be material.

Management estimates the allowance for doubtful accounts based on the aging of the accounts receivable and customer creditworthiness. The allowance also incorporates a provision for the estimated impact of disputes with customers. Management s estimate of the allowance amounts that are necessary includes amounts for specifically identified losses and a general amount for estimated losses based on historical information. The determination of the amount of the allowance for doubtful accounts is subject to significant levels of judgment and estimation by management. If circumstances change or economic conditions deteriorate, management may need to increase the allowance for doubtful accounts.

The Company provides limited warranties in connection with the sale of its products. The warranty period for products sold varies throughout the Company s operations, ranging from 90 days to five years. In addition, certain contracts with distributors contain right of return provisions. The Company accrues for estimated returns and warranty claims based on knowledge of product performance issues and excess inventories provided by its customers and industry sources. The Company also provides a general amount based on historical results. Historically, actual product returns and warranty claims have not differed materially from the estimates originally established.

Inventories: Inventories are stated at the lower of cost or market. Cost of inventories is determined by the average cost and the first-in, first-out (FIFO) methods. Because the Company sells products that are installed on airframes that can be in-service for 30 or more years, it must keep a supply of such products on hand while the airframes are in use. Provision for potentially obsolete or slow-moving inventory is made based on our analysis of inventory levels, past usage and future sales forecasts. Although management believes that the Company s estimates of obsolete and slow-moving inventory are reasonable, actual results may differ materially from the estimates and additional provisions may be required in the future. In addition, in accordance with industry practice, all inventories are classified as current assets as all inventories are available and necessary to support current sales, even though a portion of the inventories may not be sold within one year.

Intangible Assets: Mergers and acquisitions have resulted in significant amounts of identifiable intangible assets and goodwill. Intangible assets other than goodwill are recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed or exchanged, regardless of the Company s intent to do so. Goodwill and identifiable intangible assets are recorded at fair value on the date of acquisition and, under Financial Accounting Standards Board Statement No. 142,

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Goodwill and Other Intangible Assets (SFAS 142), are reviewed at least annually for impairment based on cash flow projections and fair value estimates. The determination of undiscounted cash flows is based on the Company s strategic plans and long-range planning forecasts. The revenue growth rates included in the plans are based on industry and Company specific data. The profit margin assumptions included in the plans are projected based on the current cost structure and anticipated cost changes. If different assumptions were used in these plans, the related undiscounted cash flows used in measuring impairment could be different and the recognition of an impairment loss might be required. Intangible assets, such as goodwill, trademarks and trade names that have an indefinite useful life are not amortized. All other intangible assets are amortized over their estimated useful lives.

Stock Options and Deferred Compensation Plans: The Company accounts for the cost of its stock options under the provisions of SFAS No. 123R, Share-Based Payment , which requires the measurement of compensation expense under the stock option plan to be based on the fair value of the awards under the plan on the grant dates and amortizes the expense over the options vesting periods. In addition, the Company accounts for the cost of the deferred compensation plans of TD Group in accordance with Opinion No. 12 of the Accounting Principles Board, which requires the cost of deferred compensation arrangements to be accrued over the service period of the related employees in a systematic and rational manner.

Purchase accounting: The Warburg Merger and our other acquisitions are accounted for using the purchase method. Accordingly, fair value adjustments to the Company s assets and liabilities are recognized and the results of operations of the acquired business are included in its consolidated financial statements from the effective date of the merger or acquisition. We generally use third-party appraisals to assist us in determining the fair value adjustments.

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):

	Fiscal Years Ended					
	2007	2007 % of Sales	2006	2006 % of Sales	2005	2005 % of Sales
Net sales	$ 592,798	100%	$ 435,164	100%	$ 374,253	100%
Cost of sales	283,766	48	213,874	49	189,983	51
Selling and administrative	62,890	11	48,309	11	38,943	10
Amortization of intangibles	12,304	2	6,197	2	7,747	2
Refinancing costs			48,617	11		
Income from operations	233,838	39	118,167	27	137,580	37
Interest expense, net	91,767	15	76,732	17	80,266	22
Income tax provision	53,426	9	16,318	4	22,627	6
Net income	$ 88,645	15%	$ 25,117	6%	$ 34,687	9%

Fiscal year ended September 30, 2007 compared with fiscal year ended September 30, 2006

Net Sales. Net sales increased by $157.6 million, or 36.2%, to $592.8 million for fiscal year 2007 from $435.2 million for fiscal year 2006. Sales growth excluding acquisitions was $61.5 million and represented a 14.1% increase over the prior year. The organic sales growth was primarily due to: (i) an increase of $34.9 million of commercial aftermarket sales resulting from the strong underlying demand in the worldwide commercial aerospace market and the strength of our proprietary products and market position; (ii) an increase of $14.3 million of commercial OEM sales primarily resulting from the increase in the business jet market; and (iii) an increase of $11.8 million of military sales. The remaining $96.1 million increase resulted from the acquisitions of the businesses of CDA, ATI, and Bruce Industries in fiscal 2007 and businesses of Electra-Motion and Sweeney in fiscal 2006.

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Cost of Sales. Cost of sales increased by $69.9 million, or 32.7%, to $283.8 million for fiscal year 2007 from $213.9 from fiscal year 2006. Cost of sales as a percentage of sales decreased approximately 1.2 percentage points to 47.9% for fiscal year 2007 from 49.1% for fiscal year 2006. The absolute dollar increase in cost of sales was primarily due to increased volume associated with the higher net sales of $157.6 million discussed above, a $6.4 million charge, or 1.1% of net sales, that resulted from inventory purchase price accounting charges pertaining to the acquisitions of the businesses of CDA, ATI and Bruce Industries and an increase in acquisition integration costs of approximately $1.0 million relating to recent acquisitions. The decrease in cost of sales as a percentage of sales was primarily due to favorable product mix on the increase in commercial aftermarket sales, productivity improvements and to a lesser extent, favorable fixed cost leverage on greater volume.

Selling and Administrative Expenses. Selling and administrative expenses increased by $14.6 million or 30.2%, to $62.9 million for fiscal year 2007 from $48.3 million for fiscal year 2006. The prior year period included non-recurring costs of $6.2 million for a one-time special bonus and $2.7 million of costs associated with the initial public offering. These prior year costs were partially offset by a $3.8 million reversal of charges resulting from the termination of two deferred compensation plans in fiscal 2006. The net reduction of prior year non operating activity of approximately $5.1 million, or 1.2% of prior year net sales, was partially offset by an increase in selling and administrative costs associated with higher sales volume discussed above, higher research and development costs of $5.8 million, or 1.0% of net sales, relating to the Boeing 787 and other new programs and $1.7 million, or 0.3% of net sales, of costs associated with the secondary offering.

Selling and administrative expenses as a percentage of net sales decreased to 10.6% for fiscal year 2007 from 11.1% for the comparable period last year, primarily due to the factors described above.

Amortization of Intangibles. Amortization of intangibles increased by $6.1 million to $12.3 million for fiscal year 2007 from $6.2 million for fiscal year 2006. The increase was primarily due to the additional identifiable intangible assets recognized in connection with the acquisitions of the businesses of CDA, ATI and Bruce Industries, of which $3.6 million related to order backlog amortization that is typically amortized over 12 months.

Refinancing Costs. Refinancing costs represented a one-time charge that was recorded in June 2006 as a result of the refinancing of TransDigm s entire debt structure. The charge of $48.6 million consisted of the premium of $25.6 million paid to redeem our 8 $^{3}/8$% senior subordinated notes and the write-off of $22.9 million of debt issue costs associated with our former senior credit facility, our 8 $^{3}/8$% senior subordinated notes and the TD Group Loan Facility and other expenses of $0.1 million.

Income from Operations. Operating income increased by $115.6 million, or 97.9%, to $233.8 million for fiscal year 2007 from $118.2 million for fiscal year 2006, primarily due to higher sales, the refinancing costs of $48.6 million recorded in fiscal 2006, and other factors described above.

Interest Expense. Interest expense increased $15.1 million, or 19.6%, to $91.8 million for fiscal year 2007 from $76.7 million for fiscal year 2006. The net increase was primarily the result of an increase of our outstanding borrowings of approximately $430 million related to the acquisition of ATI in February 2007, partially offset by lower interest rates from the refinancing of our debt structure during June 2006. The Company s weighted average level of outstanding borrowings increased to approximately $1.2 billion during fiscal 2007 from approximately $904 million during fiscal 2006, while the average interest rate decreased to 7.6% during fiscal 2007 from 8.2% during fiscal 2006 (see Liquidity and Capital Resources below).

Income Taxes. Income tax expense as a percentage of income before income taxes was approximately 37.6% for fiscal year 2007 compared to 39.4% for fiscal year 2006. The lower effective tax rate was primarily due to lower state and local taxes as a percentage of income before income taxes and a decrease in nondeductible public offering expenses. These reductions were partially offset by an income tax benefit of $1.5 million, or 3.8% of the income before income taxes, recorded in fiscal 2006 resulting from the adoption of a change in Texas tax law enacted in May 2006.

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Net Income. Net income increased $63.5 million, or 253%, to $88.6 million for fiscal year 2007 compared to $25.1 million for fiscal year 2006, primarily as a result of the refinancing in fiscal 2006 and other factors referred to above.

Fiscal year ended September 30, 2006 compared with fiscal year ended September 30, 2005

Net Sales. Net sales increased by $60.9 million, or 16.3%, to $435.2 million for fiscal year 2006 from $374.3 million for fiscal year 2005. Sales growth excluding acquisitions was $40.0 million and represented a 10.7% increase over the prior year. The organic sales growth was primarily due to: (i) an increase of $20.9 million of commercial aftermarket sales resulting from the continuing recovery in the commercial aerospace market and the strength of our proprietary products and market position, as well as new business initiatives; and (ii) an increase of $17.2 million of commercial OEM sales primarily resulting from the increase in production rates for The Boeing Company and Airbus S.A.S. and related OEM system suppliers as well as the business jet market. Partially offsetting the increase in organic sales was a slight decrease in military sales. The remaining $20.9 million increase resulted from the acquisitions of the businesses of Skurka, Fluid Regulators, and a motor product line in fiscal 2005 and the businesses of Electra-Motion and Sweeney in fiscal 2006.

Cost of Sales. Cost of sales increased by $23.9 million, or 12.6%, to $213.9 million for fiscal year 2006 from $190.0 from fiscal year 2005. Cost of sales as a percentage of sales decreased approximately 1.7 percentage points to 49.1% for fiscal year 2006 from 50.8% for fiscal year 2005. The increase in cost of sales was primarily due to increase volume associated with the higher net sales of $60.9 million discussed above, partially offset by a reduction in acquisition related costs of $1.6 million, or 0.6% of net sales. The decrease in cost of sales as a percentage of sales was primarily due to productivity improvements and the reduction in acquisition related costs partially offset by negative product mix from higher OEM sales.

Selling and Administrative Expenses. Selling and administrative expenses increased by $9.4 million or 24.1%, to $48.3 million for fiscal year 2006 from $38.9 million for fiscal year 2005. The increase was due to (i) a one-time special bonus of $6.2 million, or 1.4% of net sales, paid to certain members of management, (ii) the costs associated with higher net sales discussed above, and (iii) Initial Public Offing costs of $2.7 million, or 0.6% of net sales. These increases were partially offset by (i) reversal of previously recorded charges of $3.8 million, or 0.9% of net sales, resulting from the termination in fiscal 2006 of the Rollover Deferred Compensation Plan and Management Deferred Compensation Plan, and (ii) the decrease of $3.2 million due to lower compensation expense recorded under the new management deferred compensation plan adopted in December 2005.

Selling and administrative expenses as a percentage of net sales increased to 11.1% for fiscal year 2006 from 10.4% for the comparable period last year, primarily due to the factors described above.

Amortization of Intangibles. Amortization of intangibles decreased by $1.6 million to $6.2 million for fiscal year 2006 from $7.8 million for fiscal year 2005. The decrease was primarily due to order backlog that was recorded in accounting for acquisitions made in fiscal 2005 that was subsequently fully amortized in fiscal 2006.

Refinancing Costs. Refinancing costs represent a one-time charge that was recorded in June 2006 as a result of the refinancing of TransDigm s entire debt structure. The charge of $48.6 million consisted of the premium of $25.6 million paid to redeem our 8 $^{3}/8\%$ senior subordinated notes and the write-off of $22.9 million of debt issue costs associated with our former senior credit facility, our 8 $^{3}/8\%$ senior subordinated notes and the TD Group Loan Facility and other expenses of $0.1 million.

Income from Operations. Operating income decreased by $19.4 million, or 14.1%, to $118.2 million for fiscal year 2006 from $137.6 million for fiscal year 2005, primarily due to the refinancing costs of $48.6 million, partially offset by other factors described above.

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Interest Expense. Interest expense decreased $3.5 million, or 4.4%, to $76.7 million for fiscal year 2006 from $80.3 million for fiscal year 2005. The net decrease was primarily the result of our refinancing of our debt structure during fiscal 2006. As a result of the refinancing, despite an increase in our average level of outstanding borrowings to approximately $904 million during fiscal 2006 from $891 million during fiscal 2005, the average interest rate decreased to 8.2% during fiscal 2006 from 8.6% during fiscal 2005 (see Liquidity and Capital Resources below).

Income Taxes. Income tax expense as a percentage of income before income taxes was 39.4% for fiscal year 2006 and was comparable to 39.5% for fiscal year 2005.

Net Incom