

TRIUMPH GROUP INC  
Form 10-Q  
February 04, 2016  
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United States  
Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended December 31, 2015

or

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

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-12235

TRIUMPH GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

51-0347963

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

899 Cassatt Road, Suite 210, Berwyn, PA

(Address of principal executive offices)

19312

(Zip Code)

(610) 251-1000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

ý

Accelerated filer

¨

Non-accelerated filer

¨

Smaller reporting company

¨

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(Do not check if a smaller reporting company)

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

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

Common Stock, par value \$0.001 per share, 49,328,999 shares outstanding as of February 2, 2016.

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## Part I. Financial Information

## Item 1. Financial Statements.

## Triumph Group, Inc.

## Condensed Consolidated Balance Sheets

(dollars in thousands, except per share data)

|  | December 31,<br>2015<br>(unaudited) | March 31,<br>2015 |
|--|-------------------------------------|-------------------|
| <b>ASSETS</b>  |                                     |                   |
| Current assets:  |                                     |                   |
| Cash and cash equivalents  | \$41,690                            | \$32,617          |
| Trade and other receivables, less allowance for doubtful accounts of \$7,348 and \$6,475   | 484,796                             | 521,601           |
| Inventories, net of unliquidated progress payments of \$154,414 and \$189,923  | 1,661,273                           | 1,280,274         |
| Rotable assets   | 52,478                              | 48,820            |
| Prepaid and other current assets   | 32,800                              | 23,069            |
| Total current assets   | 2,273,037                           | 1,906,381         |
| Property and equipment, net  | 915,021                             | 950,734           |
| Goodwill   | 2,042,828                           | 2,024,846         |
| Intangible assets, net   | 709,470                             | 966,365           |
| Other, net   | 108,500                             | 107,999           |
| Total assets   | \$6,048,856                         | \$5,956,325       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                     |                   |
| Current liabilities:   |                                     |                   |
| Current portion of long-term debt  | \$42,759                            | \$42,255          |
| Accounts payable   | 359,999                             | 429,134           |
| Accrued expenses   | 411,444                             | 411,848           |
| Total current liabilities  | 814,202                             | 883,237           |
| Long-term debt, less current portion   | 1,638,195                           | 1,326,345         |
| Accrued pension and other postretirement benefits  | 460,870                             | 538,381           |
| Deferred income taxes  | 269,677                             | 261,100           |
| Other noncurrent liabilities   | 698,497                             | 811,478           |
| Stockholders' equity:  |                                     |                   |
| Common stock, \$.001 par value, 100,000,000 shares authorized, 52,460,920 and 52,460,920 shares issued; 49,318,076 and 49,273,053 shares outstanding | 51                                  | 51                |
| Capital in excess of par value   | 850,373                             | 851,940           |
| Treasury stock, at cost, 3,142,844 and 3,187,867 shares  | (199,853)                           | (203,514)         |
| Accumulated other comprehensive loss   | (199,152)                           | (198,910)         |
| Retained earnings  | 1,715,996                           | 1,686,217         |
| Total stockholders' equity   | 2,167,415                           | 2,135,784         |
| Total liabilities and stockholders' equity   | \$6,048,856                         | \$5,956,325       |

SEE ACCOMPANYING NOTES.

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

|   | Three Months Ended<br>December 31, |             | Nine Months Ended<br>December 31, |             |
|---|------------------------------------|-------------|-----------------------------------|-------------|
|   | 2015                               | 2014        | 2015                              | 2014        |
| Net sales   | \$913,866                          | \$917,417   | \$2,828,278                       | \$2,808,444 |
| Operating costs and expenses:   |                                    |             |                                   |             |
| Cost of sales (exclusive of depreciation and amortization shown separately below) | 691,812                            | 867,970     | 2,154,737                         | 2,324,231   |
| Selling, general and administrative   | 65,676                             | 70,905      | 210,278                           | 205,384     |
| Depreciation and amortization   | 41,028                             | 39,808      | 127,137                           | 116,373     |
| Impairment charge   | 229,200                            | —           | 229,200                           | —           |
| Relocation costs  | —                                  | —           | —                                 | 3,193       |
| Legal settlement charge (gain), net of expenses                                   | 12,400                             | —           | 12,400                            | (134,693 )  |
| Curtailment charge  | —                                  | —           | 2,863                             | —           |
|   | 1,040,116                          | 978,683     | 2,736,615                         | 2,514,488   |
| Operating (loss) income   | (126,250 )                         | (61,266 )   | 91,663                            | 293,956     |
| Interest expense and other  | 15,792                             | 13,573      | 49,539                            | 71,320      |
| (Loss) income before income taxes   | (142,042 )                         | (74,839 )   | 42,124                            | 222,636     |
| Income tax (benefit) expense  | (53,393 )                          | (35,007 )   | 6,429                             | 66,778      |
| Net (loss) income   | \$(88,649 )                        | \$(39,832 ) | \$35,695                          | \$155,858   |
| (Loss) earnings per share—basic:  | \$(1.80 )                          | \$(0.79 )   | \$0.73                            | \$3.05      |
| Weighted-average common shares outstanding—basic                                  | 49,228                             | 50,643      | 49,213                            | 51,114      |
| (Loss) earnings per share—diluted:  | \$(1.80 )                          | \$(0.79 )   | \$0.72                            | \$3.04      |
| Weighted-average common shares outstanding—diluted                                | 49,228                             | 50,643      | 49,312                            | 51,343      |
| Dividends declared and paid per common share                                      | \$0.04                             | \$0.04      | \$0.12                            | \$0.12      |

SEE ACCOMPANYING NOTES.

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

|  | Three Months Ended<br>December 31, |              | Nine Months Ended<br>December 31, |            |
|--|------------------------------------|--------------|-----------------------------------|------------|
|  | 2015                               | 2014         | 2015                              | 2014       |
| Net (loss) income  | \$ (88,649 )                       | \$ (39,832 ) | \$ 35,695                         | \$ 155,858 |
| Other comprehensive (loss) income:   |                                    |              |                                   |            |
| Foreign currency translation adjustment  | (9,146 )                           | (16,331 )    | (13,871 )                         | (25,954 )  |
| Defined benefit pension plans and other postretirement benefits:<br>Amounts arising during the period - gains (losses), net of tax<br>(expense) benefit:                           |                                    |              |                                   |            |
| Prior service credit, net of taxes of (\$4,657) for the three months<br>ended and (\$4,868) for the nine months ended, respectively  | 7,944                              | —            | 8,305                             | —          |
| Actuarial gain, net of taxes (\$3,110)   | —                                  | —            | 5,306                             | —          |
| Reclassifications from accumulated other comprehensive income<br>- (gains) losses, net of tax expense (benefits):  |                                    |              |                                   |            |
| Amortization of net loss, net of taxes of (\$244) and \$0 for the<br>three months ended and (\$1,118) and \$0 for the nine months<br>ended, respectively                           | 416                                | —            | 1,837                             | —          |
| Recognized prior service credits, net of taxes of \$1,084 and \$921<br>for the three months ended and \$1,875 and \$2,762 for the nine<br>months ended, respectively               | (1,850 )                           | (1,533 )     | (3,199 )                          | (4,599 )   |
| Total defined benefit pension plans and other postretirement<br>benefits, net of taxes   | 6,510                              | (1,533 )     | 12,249                            | (4,599 )   |
| Cash flow hedges:  |                                    |              |                                   |            |
| Unrealized gain (loss) arising during period, net of tax of<br>(\$1,278) and \$1,079 for the three months ended and (\$795) and<br>\$1,298 for the nine months ended, respectively | 2,177                              | (1,732 )     | 1,423                             | (2,182 )   |
| Reclassification of gain included in net earnings, net of tax of \$9<br>and \$7 for the three months ended and \$7 and \$22 for the nine<br>months ended, respectively             | (16 )                              | (20 )        | (43 )                             | (87 )      |
| Net unrealized gain (loss) cash flow hedges, net of tax  | 2,161                              | (1,752 )     | 1,380                             | (2,269 )   |
| Total other comprehensive loss   | (475 )                             | (19,616 )    | (242 )                            | (32,822 )  |
| Total comprehensive (loss) income  | \$ (89,124 )                       | \$ (59,448 ) | \$ 35,453                         | \$ 123,036 |

SEE ACCOMPANYING NOTES.

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Triumph Group, Inc.

Condensed Consolidated Statements of Cash Flows

(dollars in thousands)(unaudited)

|  | Nine Months Ended December 31, |            |
|--|--------------------------------|------------|
|  | 2015                           | 2014       |
| Operating Activities   |                                |            |
| Net income   | \$ 35,695                      | \$ 155,858 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities:              |                                |            |
| Depreciation and amortization  | 127,137                        | 116,373    |
| Impairment charge  | 229,200                        | —          |
| Amortization of acquired contract liabilities  | (99,928                        | ) (39,332  |
| Curtailed charge   | 2,863                          | —          |
| Accretion of debt discount   | —                              | 1,577      |
| Other amortization included in interest expense  | 2,924                          | 7,182      |
| Provision for doubtful accounts receivable   | 1,640                          | 153        |
| Provision for deferred income taxes  | 2,687                          | 69,093     |
| Employee stock-based compensation  | 1,908                          | 1,208      |
| Changes in assets and liabilities, excluding the effects of acquisitions and dispositions of businesses: |                                |            |
| Trade and other receivables  | 32,551                         | 130,431    |
| Rotable assets   | (1,338                         | ) (2,159   |
| Inventories  | (365,553                       | ) 41,516   |
| Prepaid expenses and other current assets  | 1,557                          | 3,504      |
| Accounts payable, accrued expenses   | (91,786                        | ) (69,216  |
| Accrued pension and other postretirement benefits  | (60,648                        | ) (108,060 |
| Other  | 6,372                          | 1,836      |
| Net cash (used in) provided by operating activities  | (174,719                       | ) 309,964  |
| Investing Activities   |                                |            |
| Capital expenditures   | (63,363                        | ) (85,170  |
| Reimbursements of capital expenditures   | —                              | 553        |
| Proceeds from sale of assets   | 1,836                          | 1,867      |
| Acquisitions, net of cash acquired   | (53,955                        | ) 38,082   |
| Net cash used in investing activities  | (115,482                       | ) (44,668  |
| Financing Activities   |                                |            |
| Net increase in revolving credit facility  | 245,448                        | 17,607     |
| Proceeds from issuance of long-term debt and capital leases  | 131,897                        | 394,512    |
| Repayment of debt and capital lease obligations  | (67,455                        | ) (541,884 |
| Purchase of common stock   | —                              | (114,634   |
| Payment of deferred financing costs  | (171                           | ) (5,859   |
| Dividends paid   | (5,916                         | ) (6,122   |
| Repayment of government grant  | (5,000                         | ) (3,198   |
| Repurchase of restricted shares for minimum tax obligation   | (96                            | ) (673     |
| Proceeds from exercise of stock options  | —                              | 388        |
| Net cash provided by (used in) financing activities  | 298,707                        | (259,863   |
| Effect of exchange rate changes on cash  | 567                            | (250       |
| Net change in cash   | 9,073                          | 5,183      |
| Cash and cash equivalents at beginning of period   | 32,617                         | 28,998     |

|  |          |          |
|--|----------|----------|
| Cash and cash equivalents at end of period | \$41,690 | \$34,181 |
|--|----------|----------|

SEE ACCOMPANYING NOTES.

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

## 1. BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements of Triumph Group, Inc. (the "Company") have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position and cash flows. The results of operations for the three and nine months ended December 31, 2015 are not necessarily indicative of results that may be expected for the year ending March 31, 2016. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the fiscal 2015 audited condensed consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended March 31, 2015 filed with the Securities and Exchange Commission (the "SEC") on May 21, 2015.

The Company designs, engineers, manufactures, repairs and overhauls a broad portfolio of aerostructures, aircraft components, accessories, subassemblies and systems. The Company serves a broad, worldwide spectrum of the aviation industry, including original equipment manufacturers of commercial, regional, business and military aircraft and aircraft components, as well as commercial and regional airlines and air cargo carriers.

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, Income Taxes (Subtopic 740-10): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. ASU 2015-17 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is allowed for financial statements that have not been previously issued. Entities may elect to adopt the guidance either prospectively or retrospectively to all prior periods (i.e., the balance sheet for each period is adjusted). Effective December 1, 2015, the Company adopted this standard retrospectively to all prior periods. The adoption did not have a material impact on the Company's financial position, results of operations or cash flows.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. ASU 2015-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company plans to adopt this standard effective January 1, 2016. The adoption did not have a material impact on the Company's financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires companies to present debt issuance costs as a direct deduction from the carrying value of that debt liability. ASU 2015-03 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is allowed for financial statements that have not been previously issued. Entities would apply the new guidance retrospectively to all prior periods. Effective April 1, 2015, the Company adopted this standard. The adoption did not have a material impact on the Company's financial position, results of operations or cash flows (see Note 5 for further discussion). The Company's policy is to exclude debt issuance costs relating to revolving debt instruments as a direct deduction to debt (see Note 5 for further discussion).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

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Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

Revenue Recognition

Revenues are generally recognized in accordance with the contract terms when products are shipped, delivery has occurred or services have been rendered, pricing is fixed and determinable, and collection is reasonably assured. A significant portion of the Company's contracts are within the scope of the Revenue Recognition - Construction-Type and Production-Type Contracts topic of the ASC 605-35 and revenue and costs on contracts are recognized using the percentage-of-completion method of accounting. Accounting for the revenue and profit on a contract requires estimates of (1) the contract value or total contract revenue, (2) the total costs at completion, which is equal to the sum of the actual incurred costs to date on the contract and the estimated costs to complete the contract's scope of work, and (3) the measurement of progress towards completion. Depending on the contract, the Company measures progress toward completion using either the cost-to-cost method or the units-of-delivery method of accounting, with the great majority measured under the units-of-delivery method of accounting.

Under the cost-to-cost method of accounting, progress toward completion is measured as the ratio of total costs incurred to estimated total costs at completion. Costs are recognized as incurred. Profit is determined based on estimated profit margin on the contract multiplied by the progress toward completion. Revenue represents the sum of costs and profit on the contract for the period.

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

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

For the three months ended December 31, 2015, cumulative catch-up adjustments from changes in estimates, inclusive of changes in forward loss estimates, decreased operating income, net income and earnings per share by approximately \$(2,846), \$(1,776) and \$(0.04), net of tax, respectively. The cumulative catch-up adjustments to operating income for the three months ended December 31, 2015, included gross favorable adjustments of approximately \$9,624 and gross unfavorable adjustments of approximately \$(12,470). For the three months ended December 31, 2014, cumulative catch-up adjustments from changes in estimates decreased operating income, net income and earnings per share by approximately \$(154,268), \$(82,107) and \$(1.62), net of tax, respectively.

For the nine months ended December 31, 2015, cumulative catch-up adjustments from changes in estimates, inclusive of changes in forward loss estimates, decreased operating income, net income and earnings per share by approximately \$(13,796), \$(11,690) and \$(0.24), net of tax, respectively. The cumulative catch-up adjustments to operating income for the nine months ended December 31, 2015, included gross favorable adjustments of approximately \$28,512 and gross unfavorable adjustments of approximately \$(42,308). For the nine months ended December 31, 2014, cumulative catch-up adjustments from changes in estimates decreased operating income, net income and earnings per share by approximately \$(158,169), \$(110,727) and \$(2.16), net of tax, respectively.

Amounts representing contract change orders or claims are only included in revenue when such change orders or claims have been settled with the customer and to the extent that units have been delivered. Additionally, some contracts may contain

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Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

provisions for revenue sharing, price re-determination, requests for equitable adjustments, change orders or cost and/or performance incentives. Such amounts or incentives are included in contract value when the amounts can be reliably estimated and their realization is reasonably assured.

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

As disclosed during fiscal 2015, we recognized a provision for forward losses associated with our long-term contract on the 747-8 program. There is still risk similar to what the Company has experienced on the 747-8 program. In particular, the Company's ability to manage risks related to supplier performance, execution of cost reduction strategies, hiring and retaining skilled production and management personnel, quality and manufacturing execution, program schedule delays and many other risks, will determine the ultimate performance of these programs.

Included in net sales of the Aerostructures and Aerospace Systems is the non-cash amortization of acquired contract liabilities that were recognized as fair value adjustments through purchase accounting from various acquisitions. For the three months ended December 31, 2015 and 2014, the Company recognized \$34,425 and \$15,501, respectively, into net sales in the accompanying Condensed Consolidated Statements of Income. For the nine months ended December 31, 2015 and 2014, the Company recognized \$99,928 and \$39,332, respectively, into net sales in the accompanying Condensed Consolidated Statements of Income.

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

**Concentration of Credit Risk**

The Company's trade accounts receivable are exposed to credit risk. However, the risk is limited due to the diversity of the customer base and the customer base's wide geographical area. Trade accounts receivable from Boeing (representing commercial, military and space) represented approximately 25% and 13% of total trade accounts receivable as of December 31, 2015 and March 31, 2015, respectively. Trade accounts receivable from Gulfstream Aerospace Corporation ("Gulfstream") represented approximately 14% and 16% of total trade accounts receivable as of December 31, 2015 and March 31, 2015, respectively. The Company had no other concentrations of credit risk of more than 10%.

Sales to Boeing for the nine months ended December 31, 2015, were \$1,068,312, or 38% of net sales, of which \$895,765, \$147,075 and \$25,472 were from the Aerostructures segment, the Aerospace Systems segment and Aftermarket Services segment, respectively. Sales to Boeing for the nine months ended December 31, 2014, were \$1,219,324, or 43% of net sales, of which \$1,084,777, \$111,173 and \$23,374 were from the Aerostructures segment, the Aerospace Systems segment and Aftermarket Services segment, respectively.

Sales to Gulfstream for the nine months ended December 31, 2015, were \$366,710, or 13% of net sales, of which \$364,032, \$2,665 and \$13 were from the Aerostructures segment, the Aerospace Systems segment and Aftermarket Services segment, respectively. Sales to Gulfstream for the nine months ended December 31, 2014, were \$197,193, or 7% of net sales, of which \$194,572, \$2,621 and \$0 were from the Aerostructures segment, the Aerospace Systems

segment and Aftermarket Services segment, respectively.

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Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

No other single customer accounted for more than 10% of the Company's net sales. However, the loss of any significant customer, including Boeing and Gulfstream, could have a material adverse effect on the Company and its operating subsidiaries.

**Stock-Based Compensation**

The Company recognizes compensation expense for share-based awards based on the fair value of those awards at the date of grant. Stock-based compensation expense for the three months ended December 31, 2015 and 2014, was \$737 and \$403, respectively. Stock-based compensation expense for the nine months ended December 31, 2015 and 2014, was \$1,908 and \$1,208, respectively. The Company has classified share-based compensation within selling, general and administrative expenses to correspond with the same line item as the majority of the cash compensation paid to employees. Upon the exercise of stock options or vesting of restricted stock, the Company first transfers treasury stock, then issues new shares.

**Intangible Assets**

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

|   | December 31, 2015     |                       |                          |             |
|---|-----------------------|-----------------------|--------------------------|-------------|
|   | Weighted-Average Life | Gross Carrying Amount | Accumulated Amortization | Net         |
| Customer relationships                  | 16.4                  | \$687,623             | \$(208,287)              | ) \$479,336 |
| Product rights, technology and licenses | 11.7                  | 55,841                | (37,130)                 | ) 18,711    |
| Non-compete agreements and other        | 16.1                  | 2,881                 | (658)                    | ) 2,223     |
| Tradenames                              | Indefinite-lived      | 209,200               | —                        | 209,200     |
| Total intangibles, net                  |                       | \$955,545             | \$(246,075)              | ) \$709,470 |
|   | March 31, 2015        |                       |                          |             |
|   | Weighted-Average Life | Gross Carrying Amount | Accumulated Amortization | Net         |
| Customer relationships                  | 16.5                  | \$683,272             | \$(180,765)              | ) \$502,507 |
| Product rights, technology and licenses | 11.8                  | 56,302                | (33,208)                 | ) 23,094    |
| Non-compete agreements and other        | 15.9                  | 2,929                 | (565)                    | ) 2,364     |
| Tradenames                              | Indefinite-lived      | 438,400               | —                        | 438,400     |
| Total intangibles, net                  |                       | \$1,180,903           | \$(214,538)              | ) \$966,365 |

During the quarter ended December 31, 2015, the Company performed an interim assessment of the fair value of its goodwill and indefinite-lived intangible assets due to potential indicators of impairment related to the continued decline in the Company's stock price during the third quarter. The Company estimated the fair value of the tradenames using the relief-from-royalty method, which uses several significant assumptions, including revenue projections that consider historical and estimated future results, general economic and market conditions, as well as the impact of planned business and operational strategies. The following estimates and assumptions were also used in the relief-from-royalty method:

- Royalty rates between 2% and 4% based on market observed royalty rates and profit split analysis; and
- Discount rates between 12% and 13% based on the required rate of return for the trade name assets.

Based on the Company's evaluation of indefinite-lived assets, including the tradenames, the Company concluded that the Vought tradename had a fair value of \$195,800 (Level 3) compared to a carrying value of \$425,000. Accordingly, the Company recorded a non-cash impairment charge during the three and nine months ended December 31, 2015 of \$229,200, which is presented separately on the accompanying Condensed and Consolidated Statements of Income. The decline in fair

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value compared to carrying value of the Vought tradename is the result of declining revenues from production rate reductions and the slower than previously projected ramp on the Bombardier Global 7000.

In the event of significant loss of revenues and related earnings associated with the Vought tradename, further impairment charges may be required, which would adversely affect our operating results.

See Note 8 for further discussion on the Company's interim assessment of goodwill.

Amortization expense for the three months ended December 31, 2015 and 2014, was \$12,409 and \$12,158, respectively. Amortization expense for the nine months ended December 31, 2015 and 2014, was \$42,819 and \$35,638, respectively.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. When determining fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and also considers assumptions that market participants would use when pricing an asset or liability. The fair value hierarchy has three levels of inputs that may be used to measure fair value: Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities; Level 2—Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability; and Level 3—Unobservable inputs for the asset or liability. The Company has applied fair value measurements to its interest rate swap (see Note 5).

Warranty Reserves

A reserve has been established to provide for the estimated future cost of warranties on our delivered products. The Company periodically reviews the reserves and adjustments are made accordingly. A provision for warranty on products delivered is made on the basis of historical experience and identified warranty issues. Warranties cover such factors as non-conformance to specifications and defects in material and workmanship. The majority of the Company's agreements include a three-year warranty, although certain programs have warranties up to 20 years. The warranty reserves as of December 31, 2015 and March 31, 2015, were \$115,041 and \$112,140, respectively.

Supplemental Cash Flow Information

The Company paid \$2,636 for income taxes, net of refunds received, for the nine months ended December 31, 2015. The Company received \$23,666 for income refunds, net of payments, for the nine months ended December 31, 2014. The Company made interest payments of \$54,752 and \$76,188 for the nine months ended December 31, 2015 and 2014, respectively.

During the three and nine months ended December, 2015 and 2014, the Company financed \$13 and \$52, respectively, of property and equipment additions through capital leases.

During the nine months ended December 31, 2014, under the existing stock repurchase program, the Company repurchased 1,723,011 shares for \$114,634. As of December 31, 2015, the Company remains able to purchase an additional 2,277,789 shares under the existing stock repurchase program.

### 3. ACQUISITIONS

#### Acquisition of Fairchild Controls Corporation

Effective October 21, 2015, the Company acquired all of the outstanding shares of Fairchild Controls Corporation ("Fairchild"). Fairchild is a leading provider of proprietary thermal management systems, auxiliary power generation systems and related aftermarket spares and repairs. The acquired business operates as Triumph Thermal Systems-Maryland, Inc. and its results are included in Aerospace Systems Group from the date of acquisition.

The purchase price for Fairchild was \$57,034, including a working capital adjustment paid in January 2016. Goodwill in the amount of \$17,412 was provisionally recognized for this acquisition and is calculated as the excess of

consideration transferred over the net assets recognized and represents future economic benefits arising from other assets acquired that could

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not be individually identified and separately recognized such as assembled workforce. The goodwill is not deductible for tax purposes. The Company has also identified an intangible asset related to customer relationships valued at \$18,000 with a weighted-average life of 15.0 years.

The accounting for the business combination is provisional and dependent upon valuations and other information for certain assets and liabilities which have not yet been identified, completed or obtained to a point where definitive estimates can be made. The process for estimating the fair values of identified intangible assets, certain tangible assets and assumed liabilities requires the use of judgment to determine the appropriate assumptions.

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

The table below presents the provisional estimated fair value of assets acquired and liabilities assumed on the acquisition date based on the best information the Company has received to date, in accordance with Accounting Standards Codification Topic 805, Business Combinations ("ASC 805"). These estimates will be revised as the Company receives final appraisal of tangible and intangible assets, certain liabilities assumed and other information related to the Fairchild acquisition. Accordingly, the amounts below report the Company's best estimate of fair value based on the information available at this time:

|                              | October 21, 2015 |
|------------------------------|------------------|
| Cash                         | \$9,065          |
| Accounts receivable          | 8,958            |
| Inventory                    | 11,995           |
| Prepaid expenses             | 263              |
| Property and equipment       | 6,632            |
| Goodwill                     | 17,412           |
| Intangible assets            | 18,000           |
| Deferred taxes               | 3,217            |
| Total assets                 | \$75,542         |
| Accounts payable             | \$1,284          |
| Accrued expenses             | 9,357            |
| Other noncurrent liabilities | 7,867            |
| Total liabilities            | \$18,508         |

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

The Fairchild acquisition has been accounted for under the acquisition method and, accordingly, is included in the condensed consolidated financial statements from the effective date of acquisition. The Company incurred \$567 in acquisition-related costs in connection with the Fairchild acquisition.

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The following table presents information for the Fairchild acquisition which is included in the Company's Condensed Consolidated Statements of Income from its date of acquisition through three and nine months ended December 31, 2015:

|                  | For the Three and Nine Months<br>Ended December 31, 2015 |
|------------------|--|
| Net Sales        | \$9,206  |
| Operating Income | 2,572  |

**FISCAL 2015 ACQUISITIONS**

Acquisition of Spirit AeroSystems Holdings, Inc. - Gulfstream G650 and G280 Wing Programs

Effective December 30, 2014, a wholly-owned subsidiary of the Company, Triumph Aerostructures - Tulsa LLC, doing business as Triumph Aerostructures-Vought Aircraft Division-Tulsa, completed the acquisition of the Gulfstream G650 and G280 wing programs (the "Tulsa Programs") located in Tulsa, Oklahoma, from Spirit AeroSystems, Inc. The acquisition of the Tulsa Programs establishes the Company as a leader in fully integrated wing design, engineering and production and advances its standing as a strategic Tier One Capable aerostructures supplier. The acquired business operates as Triumph Aerostructures-Vought Aircraft Division-Tulsa and its results are included in the Aerostructures Group from the date of acquisition.

The Company received \$160,000 in cash plus assets required to run the business from Spirit-Tulsa to cover the anticipated future cash flow needs of the programs. Goodwill in the amount of \$80,122 was recognized for this acquisition and is calculated as the excess of consideration transferred over the net assets recognized and represents future economic benefits arising from other assets acquired that could not be individually identified and separately recognized such as assembled workforce. The goodwill is not deductible for tax purposes.

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

|                               | December 30, 2014 |
|-------------------------------|-------------------|
| Inventory                     | \$78,660          |
| Property and equipment        | 15,409            |
| Goodwill                      | 80,122            |
| Deferred taxes                | 52,777            |
| Other assets                  | 68,941            |
| Total assets                  | \$295,909         |
| Accounts payable              | \$1,782           |
| Accrued expenses              | 17,588            |
| Acquired contract liabilities | 368,448           |
| Other noncurrent liabilities  | 68,091            |
| Total liabilities             | \$455,909         |

Based on the information accumulated during the measurement period, the Company has recognized an accrued warranty liability of \$74,132 and a related indemnification asset of \$68,941 for amounts reimbursed by the seller. The Company finalized its estimates after it was able to determine that it had obtained all necessary information that existed as of the acquisition date related to these matters.

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The Tulsa Programs acquisition has been accounted for under the acquisition method and, accordingly, is included in the condensed consolidated financial statements from the effective date of acquisition. The Company incurred \$5,000 in acquisition-related costs in connection with the acquisition of the Tulsa Programs.

Acquisition of North American Aircraft Services, Inc.

Effective October 17, 2014, the Company acquired the ownership of all of the outstanding shares of North American Aircraft Services, Inc. and its affiliates ("NAAS"). NAAS is based in San Antonio, Texas, with fixed-based operator units throughout the United States as well as international locations and delivers line maintenance and repair, fuel leak detection and fuel bladder cell repair services. The acquired business operates as Triumph Aviation Services - NAAS Division and its results are included in Aftermarket Services Group from the date of acquisition.

The purchase price for the NAAS acquisition was \$44,520, net of working capital adjustments of \$167. Goodwill in the amount of \$25,217 was recognized for this acquisition and is calculated as the excess of consideration transferred over the net assets recognized and represents future economic benefits arising from other assets acquired that could not be individually identified and separately recognized such as assembled workforce. The goodwill is not deductible for tax purposes. The Company has also identified an intangible asset related to customer relationships valued at \$17,000 with a weighted-average life of 11.0 years.

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

|                              | October 17, 2014 |
|------------------------------|------------------|
| Cash                         | \$818            |
| Accounts receivable          | 4,939            |
| Inventory                    | 848              |
| Property and equipment       | 216              |
| Goodwill                     | 25,217           |
| Intangible assets            | 17,000           |
| Other assets                 | 225              |
| Total assets                 | \$49,263         |
| Accounts payable             | \$232            |
| Accrued expenses             | 911              |
| Other noncurrent liabilities | 3,600            |
| Total liabilities            | \$4,743          |

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

The NAAS acquisition has been accounted for under the acquisition method and, accordingly, is included in the condensed consolidated financial statements from the effective date of acquisition. The NAAS acquisition was funded by the Company's long-term borrowings in place at the date of acquisition. The Company incurred \$654 in acquisition-related costs in connection with the NAAS acquisition.

Acquisition of GE Aviation - Hydraulic Actuation

Effective June 27, 2014, the Company acquired the hydraulic actuation business of GE Aviation ("GE"). GE's hydraulic actuation business consisted of three facilities located in Yakima, Washington, Cheltenham, England and the Isle of Man (IOM)



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and is a technology leader in actuation systems. GE's key product offerings include complete landing gear actuation systems, door actuation, nose-wheel steerings, hydraulic fuses, manifolds flight control actuation and locking mechanisms for the commercial, military and business jet markets. The acquired business operates as Triumph Actuation Systems-Yakima and Triumph Actuation Systems-UK & IOM and its results are included in Aerospace Systems Group from the date of acquisition.

The purchase price for the GE acquisition was \$75,609, which includes cash paid at closing, working capital adjustments and deferred payments of \$6,000, which was paid in fiscal 2016. Goodwill in the amount of \$150,772 was recognized for this acquisition and is calculated as the excess of consideration transferred over the net assets recognized and represents future economic benefits arising from other assets acquired that could not be individually identified and separately recognized such as assembled workforce. The goodwill is deductible for tax purposes. The Company has also identified intangible assets including customer relationships and technology valued at \$26,472 with a weighted-average life of 12.0 years.

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

|                               | June 27, 2014 |
|-------------------------------|---------------|
| Cash                          | \$4,608       |
| Accounts receivable           | 35,376        |
| Inventory                     | 49,585        |
| Property and equipment        | 30,985        |
| Goodwill                      | 150,772       |
| Intangible assets             | 26,472        |
| Deferred taxes                | 63,341        |
| Other assets                  | 2,023         |
| Total assets                  | \$363,162     |
| Accounts payable              | \$17,734      |
| Accrued expenses              | 37,483        |
| Acquired contract liabilities | 232,336       |
| Total liabilities             | \$287,553     |

Based on the information accumulated during the measurement period and the Company's assessment of the probable outcome of warranty claims, the Company has recognized a liability of \$24,514. The Company finalized its estimates after it was able to determine that it had obtained all necessary information that existed as of the acquisition date related to these matters.

The GE acquisition has been accounted for under the acquisition method and, accordingly, is included in the condensed consolidated financial statements from the effective date of acquisition. The GE acquisition was funded by the Company's long-term borrowings in place at the date of acquisition. The Company incurred \$1,834 in acquisition-related costs in connection with the GE acquisition.

The acquisitions of the Tulsa Programs, NAAS and GE are referred to collectively in this report as the "fiscal 2015 acquisitions."





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## 4. INVENTORIES

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

|  | December 31, 2015 | March 31, 2015 |
|--|-------------------|----------------|
| Raw materials  | \$93,446          | \$73,168       |
| Work-in-process, including manufactured and purchased components | 1,597,632         | 1,305,390      |
| Finished goods   | 124,609           | 91,639         |
| Less: unliquidated progress payments                             | (154,414          | ) (189,923     |
| Total inventories  | \$1,661,273       | \$1,280,274    |

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

|            | December 31, 2015 | March 31, 2015 |
|------------|-------------------|----------------|
| Bombardier | \$343,366         | \$238,871      |
| Embraer    | 134,797           | 68,112         |
| Total      | \$478,163         | \$306,983      |

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

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## 5. LONG-TERM DEBT

Long-term debt consists of the following:

|                                    | December 31, 2015 | March 31, 2015 |
|------------------------------------|-------------------|----------------|
| Revolving line of credit           | \$ 393,704        | \$ 148,255     |
| Term loan                          | 342,188           | 356,250        |
| Receivable securitization facility | 191,000           | 100,000        |
| Capital leases                     | 80,514            | 91,913         |
| Senior notes due 2021              | 375,000           | 375,000        |
| Senior notes due 2022              | 300,000           | 300,000        |
| Other debt                         | 7,978             | 7,978          |
| Less: Debt issuance costs          | (9,430)           | (10,796)       |
|                                    | 1,680,954         | 1,368,600      |
| Less: Current portion              | 42,759            | 42,255         |
|                                    | \$ 1,638,195      | \$ 1,326,345   |

## Revolving Credit Facility

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

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

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

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

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

At December 31, 2015, there were \$393,704 in borrowings and \$25,636 in letters of credit outstanding under the Revolving Line of Credit provisions of the Credit Facility, primarily to support insurance policies. At March 31, 2015, there were \$148,255 in borrowings and \$35,384 in letters of credit outstanding under the Revolving Line of Credit provisions of the Credit Facility, primarily to support insurance policies. The level of unused borrowing capacity under the Revolving Line of



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Credit provisions of the Credit Facility varies from time to time depending in part upon its compliance with financial and other covenants set forth in the related agreement. The Credit Facility contains certain affirmative and negative covenants, including limitations on specified levels of indebtedness to earnings before interest, taxes, depreciation and amortization, and interest coverage requirements, and includes limitations on, among other things, liens, mergers, consolidations, sales of assets, and incurrence of debt. If an event of default were to occur under the Credit Facility, the lenders would be entitled to declare all amounts borrowed under it immediately due and payable. The occurrence of an event of default under the Credit Facility could also cause the acceleration of obligations under certain other agreements. The Company is currently in compliance with all such covenants. As of December 31, 2015, the Company had borrowing capacity under this facility of \$580,660 after reductions for borrowings and letters of credit outstanding under the facility.

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

As of December 31, 2015 and March 31, 2015, the interest rate swap agreement had a notional amount of \$342,188 and \$356,250, respectively. As of December 31, 2015 and March 31, 2015, the interest rate swap agreement had a fair value of \$1,342 and \$2,743, respectively, which is recorded in other noncurrent liabilities with an offset to other comprehensive income, net of applicable taxes (Level 2). The interest rate swap settles on a monthly basis when interest payments are made. These settlements occur through the maturity date.

**Receivables Securitization Facility**

In November 2014, the Company amended its \$225,000 Securitization Facility, increasing the purchase limit from \$175,000 to \$225,000 and extending the term through November 2017. In connection with the Securitization Facility, the Company sells on a revolving basis certain trade accounts receivable to Triumph Receivables, LLC, a wholly-owned special-purpose entity, which in turn sells a percentage ownership interest in the receivables to commercial paper conduits sponsored by financial institutions. The Company is the servicer of the trade accounts receivable under the Securitization Facility. As of December 31, 2015, the maximum amount available under the Securitization Facility was \$225,000. Interest rates are based on LIBOR plus a program fee and a commitment fee.

The program fee is 0.40% on the amount outstanding under the Securitization Facility. Additionally, the commitment fee is 0.40% on 100.00% of the maximum amount available under the Securitization Facility. At December 31, 2015, there was \$191,000 outstanding under the Securitization Facility. In connection with amending the Securitization Facility, the Company incurred approximately \$252 of financing costs. These costs, along with the \$341 of unamortized financing costs prior to the amendment, are being amortized over the life of the Securitization Facility. The Company securitizes its trade accounts receivable, which are generally non-interest bearing, in transactions that are accounted for as borrowings pursuant to the Transfers and Servicing topic of the ASC 860.

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

**Capital Leases**

During the nine months ended December 31, 2015 and 2014, the Company financed \$13 and \$52, respectively, of property and equipment additions through capital leases. During the nine months ended December 31, 2015 and 2014,

the Company obtained financing for existing fixed assets in the amount of \$6,497 and \$28,860, respectively.

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Senior Notes Due 2021

On February 26, 2013, the Company issued \$375,000 principal amount of 4.875% Senior Notes due 2021 (the "2021 Notes"). The 2021 Notes were sold at 100% of principal amount and have an effective interest yield of 4.875%. Interest on the 2021 Notes accrues at the rate of 4.875% per annum and is payable semiannually in cash in arrears on April 1 and October 1 of each year, commencing on October 1, 2013. In connection with the issuance of the 2021 Notes, the Company incurred approximately \$6,327 of costs, which are a direct deduction to the face amount of the note and are being amortized on the effective interest method over the term of the 2021 Notes.

The 2021 Notes are the Company's senior unsecured obligations and rank equally in right of payment with all of its other existing and future senior unsecured indebtedness and senior in right of payment to all of its existing and future subordinated indebtedness. The 2021 Notes are guaranteed on a full, joint and several basis by each of the Guarantor Subsidiaries.

The Company may redeem some or all of the 2021 Notes prior to April 1, 2017, by paying a "make-whole" premium. The Company may redeem some or all of the 2021 Notes on or after April 1, 2017, at specified redemption prices. In addition, prior to April 1, 2016, the Company may redeem up to 35% of the 2021 Notes with the net proceeds of certain equity offerings at a redemption price equal to 104.875% of the aggregate principal amount plus accrued and unpaid interest, if any, subject to certain limitations set forth in the indenture governing the 2021 Notes (the "2021 Indenture").

The Company is obligated to offer to repurchase the 2021 Notes at a price of (i) 101% of their principal amount plus accrued and unpaid interest, if any, as a result of certain change-of-control events, and (ii) 100% of their principal amount plus accrued and unpaid interest, if any, in the event of certain asset sales. These restrictions and prohibitions are subject to certain qualifications and exceptions.

The 2021 Indenture contains covenants that, among other things, limit the Company's ability and the ability of any of the Guarantor Subsidiaries to (i) grant liens on its assets, (ii) make dividend payments, other distributions or other restricted payments, (iii) incur restrictions on the ability of the Guarantor Subsidiaries to pay dividends or make other payments, (iv) enter into sale and leaseback transactions, (v) merge, consolidate, transfer or dispose of substantially all of their assets, (vi) incur additional indebtedness, (vii) use the proceeds from sales of assets, including capital stock of restricted subsidiaries, and (viii) enter into transactions with affiliates.

Senior Notes Due 2022

On June 3, 2014, the Company issued \$300,000 principal amount of 5.250% Senior Notes due 2022 (the "2022 Notes"). The 2022 Notes were sold at 100% of principal amount and have an effective interest yield of 5.250%. Interest on the 2022 Notes accrues at the rate of 5.250% per annum and is payable semiannually in cash in arrears on June 1 and December 1 of each year, commencing on December 1, 2014. In connection with the issuance of the 2022 Notes, the Company incurred approximately \$4,990 of costs, which are a direct deduction to the face amount of the note and are being amortized on the effective interest method over the term of the 2022 Notes.

The 2022 Notes are the Company's senior unsecured obligations and rank equally in right of payment with all of its other existing and future senior unsecured indebtedness and senior in right of payment to all of its existing and future subordinated indebtedness. The 2022 Notes are guaranteed on a full, joint and several basis by each of the Guarantor Subsidiaries.

The Company may redeem some or all of the 2022 Notes prior to June 1, 2017, by paying a "make-whole" premium. The Company may redeem some or all of the 2022 Notes on or after June 1, 2017, at specified redemption prices. In addition, prior to June 1, 2017, the Company may redeem up to 35% of the 2022 Notes with the net proceeds of certain equity offerings at a redemption price equal to 105.250% of the aggregate principal amount plus accrued and unpaid interest, if any, subject to certain limitations set forth in the indenture governing the 2022 Notes (the "2022 Indenture").

The Company is obligated to offer to repurchase the 2022 Notes at a price of (i) 101% of their principal amount plus accrued and unpaid interest, if any, as a result of certain change-of-control events and (ii) 100% of their principal amount plus accrued and unpaid interest, if any, in the event of certain asset sales. These restrictions and prohibitions are subject to certain qualifications and exceptions.

The 2022 Indenture contains covenants that, among other things, limit the Company's ability and the ability of any of the Guarantor Subsidiaries to (i) grant liens on its assets, (ii) make dividend payments, other distributions or other restricted

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payments, (iii) incur restrictions on the ability of the Guarantor Subsidiaries to pay dividends or make other payments, (iv) enter into sale and leaseback transactions, (v) merge, consolidate, transfer or dispose of substantially all of their assets, (vi) incur additional indebtedness, (vii) use the proceeds from sales of assets, including capital stock of restricted subsidiaries, and (viii) enter into transactions with affiliates.

**Senior Notes Due 2018**

On June 23, 2014, the Company completed the redemption of its 8.63% Senior Notes due 2018 (the "2018 Notes"). The principal amount of \$350,000 was redeemed at a price of 104.79% plus accrued and unpaid interest. As a result of the redemption, the Company recognized a pre-tax loss on redemption of \$22,615, consisting of early termination premium, write-off of unamortized discount and deferred financing fees and was recorded on the Condensed Consolidated Statements of Income as a component of "Interest expense and other" for the nine months ended December 31, 2014.

**Convertible Senior Subordinated Notes**

On May 22, 2014, the Company announced the redemption of its convertible senior subordinated notes (the "Convertible Notes"). The redemption price for the Convertible Notes was equal to the sum of 100% of the principal amount of the Convertible Notes outstanding, plus accrued and unpaid interest on the Convertible Notes up to, but not including, the redemption date of June 23, 2014. The Convertible Notes were able to be converted at the option of the holder.

The Convertible Notes were eligible for conversion upon meeting certain conditions as provided in the indenture governing the Convertible Notes. For the periods from January 1, 2011 through June 23, 2014, the Convertible Notes were eligible for conversion. During the nine months ended December 31, 2014, the Company settled the conversion of \$12,834 in principal value of the Convertible Notes, with the principal and the conversion benefit settled in cash. To be included in the calculation of diluted earnings per share, the average price of the Company's common stock for the quarter must exceed the conversion price per share of \$27.12. The average price of the Company's common stock for the nine months ended December 31, 2014, was \$66.71. Therefore, for the nine months ended December 31, 2014, there were 56,692 additional shares included in the calculation of diluted earnings per share.

**Financial Instruments Not Recorded at Fair Value**

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

|                | December 31, 2015 |             | March 31, 2015 |             |
|----------------|-------------------|-------------|----------------|-------------|
|                | Carrying Value    | Fair Value  | Carrying Value | Fair Value  |
| Long-term debt | \$1,680,954       | \$1,553,326 | \$1,368,600    | \$1,358,306 |

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



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**6. EARNINGS PER SHARE**

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

|  | Three Months Ended<br>December 31,<br>(in thousands) |        | Nine Months Ended<br>December 31,<br>(in thousands) |        |
|--|--|--------|---|--------|
|  | 2015   | 2014   | 2015  | 2014   |
| Weighted-average common shares outstanding – basic       | 49,228   | 50,643 | 49,213  | 51,114 |
| Net effect of dilutive stock options and nonvested stock | —  | —      | 99  | 172    |
| Potential common shares – convertible debt               | —  | —      | —   | 57     |
| Weighted-average common shares outstanding – diluted     | 49,228   | 50,643 | 49,312  | 51,343 |

**7. INCOME TAXES**

The Company follows the Income Taxes topic of the ASC 740, which prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, as well as guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company has classified uncertain tax positions as noncurrent income tax liabilities unless expected to be paid in one year. Penalties and tax-related interest expense are reported as a component of income tax expense. As of December 31, 2015 and March 31, 2015, the total amount of accrued income tax-related interest and penalties was \$231 and \$207, respectively.

As of December 31, 2015 and March 31, 2015, the total amount of unrecognized tax benefits was \$9,032 and \$8,348, respectively, of which \$9,032 and \$8,348, respectively, would impact the effective rate, if recognized. The Company does not anticipate that total unrecognized tax benefits will be reduced in the next 12 months.

The effective income tax rate for the three months ended December 31, 2015 was 37.6% as compared to (46.8)% for the three months ended December 31, 2014. For the three months ended December 31, 2015, the income tax provision included the benefit from the retroactive reinstatement of the R&D tax credit of \$3,034. For the three months ended December 31, 2014, the income tax provision included the benefit from the retroactive reinstatement of the R&D tax credit of \$5,970.

The effective income tax rate for the nine months ended December 31, 2015, was 15.3% as compared to 30.0% for the nine months ended December 31, 2014. For the nine months ended December 31, 2015, the income tax provision included the benefit of \$4,213 from a decrease to the state deferred tax rate, the benefit of \$421 related to the effects of transfer pricing adjustments carried back to prior periods and the benefit from the retroactive reinstatement of the R&D tax credit of \$3,034. For the nine months ended December 31, 2014, the income tax provision included an unrecognized tax benefits of \$1,051, an additional tax benefit related to a net operating loss carryback claim of \$367, the benefit of \$1,999 from the decrease to the state deferred tax rates and the benefit of \$5,970 from the reinstatement of the R&D tax credit.

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

As of December 31, 2015, the Company is subject to examination in one state jurisdiction. The Company has filed appeals in a prior state examination related to fiscal years ended March 31, 1999 through March 31, 2005. Because of net operating losses acquired as part of the acquisition of Vought, the Company is subject to U.S. federal income tax examinations and

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various state jurisdictions for the years ended December 31, 2001 and after related to previously filed Vought tax returns. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

**8. GOODWILL**

The following is a summary of the changes in the carrying value of goodwill by reportable segment, from March 31, 2015 through December 31, 2015:

|   | Aerostructures | Aerospace<br>Systems | Aftermarket<br>Services | Total       |
|---|----------------|----------------------|-------------------------|-------------|
| Balance, March 31, 2015                             | \$ 1,420,208   | \$523,253            | \$81,385                | \$2,024,846 |
| Goodwill recognized in connection with acquisitions | —              | 17,412               | —                       | 17,412      |
| Effect of exchange rate changes                     | (13 )          | 583                  | —                       | 570         |
| Balance, December 31, 2015                          | \$ 1,420,195   | \$541,248            | \$81,385                | \$2,042,828 |

The Company's most recent annual goodwill impairment test was performed for all reporting units as of February 1, 2015. The Company also performs Step 1 of the goodwill impairment test on an interim basis upon the occurrence of events or substantive changes in circumstances that indicate a reporting unit's carrying value may be less than its fair value. During the quarter ended December 31, 2015, the Company performed an interim assessment of the fair value of its goodwill and indefinite-lived intangible assets due to potential indicators of impairment related to the continued decline in the Company's stock price during the third quarter. Consistent with the Company's policy described in the Form 10-K for the fiscal year ended March 31, 2015, the Company performed Step 1 of the goodwill impairment test which includes using a combination of both the market and income approaches to estimate the fair value of each reporting unit.

The Company's assessment focused on the Aerostructures reporting unit since it had significant changes in its economic indicators and adjusted for select changes in the risk adjusted discount rate to consider both the current return requirements of the market and the risks inherent in the reporting unit, expected long-term growth rate and cash flow projections to determine if any decline in the estimated fair value of a reporting unit could result in a goodwill impairment. The Company concluded that the goodwill was not impaired as of the interim impairment assessment date. However, the excess of the fair value over the carrying value was within 5% for the Aerostructures reporting unit. The amount of goodwill for the Aerostructures reporting unit amounted to \$1,420,195 at December 31, 2015. Going forward, the Company will continue to monitor the performance of this reporting unit in relation to the key assumptions in the Company's analysis.

In the event that market multiples for stock price to EBITDA in the aerospace and defense markets decrease, or the expected EBITDA and cash flows for the Company's reporting units decreases, a goodwill impairment charge may be required, which would adversely affect the Company's operating results and financial condition. If management determines that impairment exists, the impairment will be recognized in the period in which it is identified. See Note 2 for further discussion on the Company's interim assessment of indefinite-lived intangible assets.

**9. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS**

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

making payments into a separate trust.

In addition to the defined benefit pension plans, the Company provides certain healthcare and life insurance benefits for eligible retired employees. Such benefits are unfunded. Employees achieve eligibility to participate in these contributory plans upon retirement from active service if they meet specified age and years of service requirements. Election to participate for

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some employees must be made at the date of retirement. Qualifying dependents at the date of retirement are also eligible for medical coverage. Current plan documents reserve the right to amend or terminate the plans at any time, subject to applicable collective bargaining requirements for represented employees. From time to time, changes have been made to the benefits provided to various groups of plan participants. Premiums charged to most retirees for medical coverage prior to age 65 are based on years of service and are adjusted annually for changes in the cost of the plans as determined by an independent actuary. In addition to this medical inflation cost-sharing feature, the plans also have provisions for deductibles, co-payments, coinsurance percentages, out-of-pocket limits, schedules of reasonable fees, preferred provider networks, coordination of benefits with other plans and a Medicare carve-out.

In accordance with the Compensation – Retirement Benefits topic of ASC 715, the Company has recognized the funded status of the benefit obligation as of the date of the last remeasurement, in the accompanying Condensed Consolidated Balance Sheets. The funded status is measured as the difference between the fair value of the plan's assets and the pension benefit obligation or accumulated postretirement benefit obligation, of the plan. In order to recognize the funded status, the Company determined the fair value of the plan assets. The majority of the plan assets are publicly traded investments which were valued based on the market price as of the date of remeasurement. Investments that are not publicly traded were valued based on the estimated fair value of those investments based on our evaluation of data from fund managers and comparable market data.

## Net Periodic Benefit Plan Costs

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

|   | Pension benefits                   |             |                                   |             |
|---|------------------------------------|-------------|-----------------------------------|-------------|
|   | Three Months Ended<br>December 31, |             | Nine Months Ended<br>December 31, |             |
|   | 2015                               | 2014        | 2015                              | 2014        |
| Components of net periodic benefit costs: |                                    |             |                                   |             |
| Service cost                              | \$2,723                            | \$3,251     | \$8,216                           | \$9,764     |
| Interest cost                             | 22,739                             | 21,961      | 68,171                            | 65,863      |
| Expected return on plan assets            | (40,820 )                          | (36,913 )   | (122,529 )                        | (110,740 )  |
| Amortization of prior service credits     | (1,059 )                           | (1,322 )    | (3,264 )                          | (3,966 )    |
| Amortization of net loss                  | 2,467                              | —           | 7,457                             | —           |
| Curtailment charge                        | —                                  | —           | 2,863                             | —           |
| Net periodic benefit income               | \$(13,950 )                        | \$(13,023 ) | \$(39,086 )                       | \$(39,079 ) |
|   |                                    |             |                                   |             |
|   | Other postretirement benefits      |             |                                   |             |
|   | Three Months Ended<br>December 31, |             | Nine Months Ended<br>December 31, |             |
|   | 2015                               | 2014        | 2015                              | 2014        |
| Components of net periodic benefit costs: |                                    |             |                                   |             |
| Service cost                              | \$297                              | \$717       | \$929                             | \$2,151     |
| Interest cost                             | 2,011                              | 3,083       | 6,137                             | 9,249       |
| Amortization of prior service credits     | (1,873 )                           | (1,132 )    | (4,668 )                          | (3,397 )    |
| Amortization of net income                | (1,770 )                           | —           | (5,071 )                          | —           |
| Net periodic benefit (income) expense     | \$(1,335 )                         | \$2,668     | \$(2,673 )                        | \$8,003     |



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The Company periodically experiences events or makes changes to its benefit plans that result in special charges. Some require remeasurements. The following summarizes the key events whose effects on net periodic benefit costs are included in the tables above:

In April 2015, the Company's largest union-represented group of employees ratified a new collective bargaining agreement. The agreement includes an amendment to the retirement plan, for which actively employed participants will no longer continue to accrue a benefit after 30 years of service. This change resulted in a curtailment charge of approximately \$2,863 and is presented on the accompanying Condensed Consolidated Statements of Income as "Curtailment charge."

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## 10. STOCKHOLDERS' EQUITY

## Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive income (loss) ("AOCI") by component for the three and nine months ended December, 2015 and 2014, respectively, were as follows:

|                                | Currency<br>Translation<br>Adjustment | Unrealized Gains and<br>Losses on Derivative<br>Instruments | Defined Benefit Pension<br>Plans and Other<br>Postretirement Benefits | Total (1)    |
|--------------------------------|---------------------------------------|---|---|--------------|
| Balance September 30, 2015     | \$(51,476 )                           | \$(3,538 )  | \$(143,663 )  | \$(198,677 ) |
| AOCI before reclassifications  | (9,146 )                              | 2,177   | 7,944   | 975          |
| Amounts reclassified from AOCI | —                                     | (16)  | (1,434)   | (2)(1,450 )  |
| Net current period AOCI        | (9,146 )                              | 2,161   | 6,510   | (475 )       |
| Balance December 31, 2015      | \$(60,622 )                           | \$(1,377 )  | \$(137,153 )  | \$(199,152 ) |
| Balance September 30, 2014     | \$(9,425 )                            | \$979   | \$(23,668 )   | \$(32,114 )  |
| AOCI before reclassifications  | (16,331 )                             | (1,732)   | —   | (18,063 )    |
| Amounts reclassified from AOCI | —                                     | (20)  | (1,533)   | (2)(1,553 )  |
| Net current period AOCI        | (16,331 )                             | (1,752)   | (1,533)   | (19,616 )    |
| Balance December 31, 2014      | \$(25,756 )                           | \$(773 )  | \$(25,201 )   | \$(51,730 )  |
| Balance March 31, 2015         | \$(46,751 )                           | \$(2,757 )  | \$(149,402 )  | \$(198,910 ) |
| AOCI before reclassifications  | (13,871 )                             | 1,423   | 13,611  | 1,163        |
| Amounts reclassified from AOCI | —                                     | (43)  | (1,362)   | (2)(1,405 )  |
| Net current period AOCI        | (13,871 )                             | 1,380   | 12,249  | (242 )       |
| Balance December 31, 2015      | \$(60,622 )                           | \$(1,377 )  | \$(137,153 )  | \$(199,152 ) |
| Balance March 31, 2014         | \$198                                 | \$1,496   | \$(20,602 )   | \$(18,908 )  |
| AOCI before reclassifications  | (25,954 )                             | (2,182)   | —   | (28,136 )    |
| Amounts reclassified from AOCI | —                                     | (87)  | (4,599)   | (2)(4,686 )  |
| Net current period AOCI        | (25,954 )                             | (2,269)   | (4,599)   | (32,822 )    |
| Balance December 31, 2014      | \$(25,756 )                           | \$(773 )  | \$(25,201 )   | \$(51,730 )  |

(1) Net of tax.

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



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11. SEGMENTS

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

The Aerostructures segment consists of the Company's operations that manufacture products primarily for the aerospace original equipment manufacturer ("OEM") market. The Aerostructures segment's revenues are derived from the design, manufacture, assembly and integration of metallic and composite aerostructures and structural components, including aircraft wings, fuselage sections, tail assemblies, engine nacelles, flight control surfaces as well as helicopter cabins. Further, the segment's operations also design and manufacture composite assemblies for floor panels and environmental control system ducts. These products are sold to various aerospace OEMs on a global basis. The Aerospace Systems segment consists of the Company's operations that also manufacture products primarily for the aerospace OEM market, as well as the related aftermarket. The segment's operations design and engineer mechanical and electromechanical controls, such as hydraulic systems, main engine gearbox assemblies, accumulators, mechanical control cables and non-structural cockpit components. These products are sold primarily to various aerospace OEMs on a global basis.

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

Segment Adjusted EBITDA is total segment revenue reduced by operating expenses (less depreciation and amortization) identifiable with that segment. Corporate includes general corporate administrative costs and any other costs not identifiable with one of the Company's segments, including a curtailment charge, of \$2,863 for the nine months ended December 31, 2015.

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

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|   | Three Months Ended<br>December 31, |              | Nine Months Ended<br>December 31, |             |
|---|------------------------------------|--------------|-----------------------------------|-------------|
|   | 2015                               | 2014         | 2015                              | 2014        |
| Net sales:  |                                    |              |                                   |             |
| Aerostructures                                      | \$553,627                          | \$560,346    | \$1,770,338                       | \$1,805,016 |
| Aerospace systems                                   | 288,288                            | 279,198      | 846,091                           | 787,951     |
| Aftermarket services                                | 78,127                             | 80,690       | 226,649                           | 222,641     |
| Elimination of inter-segment sales                  | (6,176 )                           | (2,817 )     | (14,800 )                         | (7,164 )    |
|   | \$913,866                          | \$917,417    | \$2,828,278                       | \$2,808,444 |
| Income before income taxes:                         |                                    |              |                                   |             |
| Operating income (expense):                         |                                    |              |                                   |             |
| Aerostructures                                      | \$(187,265 )                       | \$(104,231 ) | \$(54,159 )                       | \$34,596    |
| Aerospace systems                                   | 52,754                             | 41,863       | 150,147                           | 125,430     |
| Aftermarket services                                | 12,402                             | 12,490       | 31,514                            | 34,614      |
| Corporate   | (4,141 )                           | (11,388 )    | (35,839 )                         | 99,316      |
|   | (126,250 )                         | (61,266 )    | 91,663                            | 293,956     |
| Interest expense and other                          | 15,792                             | 13,573       | 49,539                            | 71,320      |
|   | \$(142,042 )                       | \$(74,839 )  | \$42,124                          | \$222,636   |
| Depreciation and amortization:                      |                                    |              |                                   |             |
| Aerostructures                                      | \$26,221                           | \$25,505     | \$80,447                          | \$76,340    |
| Aerospace systems                                   | 11,911                             | 11,363       | 38,115                            | 32,027      |
| Aftermarket services                                | 2,462                              | 2,334        | 7,352                             | 6,137       |
| Corporate   | 434                                | 606          | 1,223                             | 1,869       |
|   | \$41,028                           | \$39,808     | \$127,137                         | \$116,373   |
| Impairment charge:                                  |                                    |              |                                   |             |
| Aerostructures                                      | \$229,200                          | \$—          | \$229,200                         | \$—         |
| Amortization of acquired contract liabilities, net: |                                    |              |                                   |             |
| Aerostructures                                      | \$24,621                           | \$4,411      | \$69,611                          | \$14,311    |
| Aerospace systems                                   | 9,804                              | 11,090       | 30,317                            | 25,021      |
|   | \$34,425                           | \$15,501     | \$99,928                          | \$39,332    |
| Adjusted EBITDA:                                    |                                    |              |                                   |             |
| Aerostructures                                      | \$54,035                           | \$(83,137 )  | \$196,377                         | \$96,625    |
| Aerospace systems                                   | 54,861                             | 42,136       | 157,945                           | 132,436     |
| Aftermarket services                                | 16,764                             | 14,824       | 40,766                            | 40,751      |
| Corporate   | (3,707 )                           | (10,782 )    | (31,753 )                         | (33,508 )   |
|   | \$121,953                          | \$(36,959 )  | \$363,335                         | \$236,304   |
| Capital expenditures:                               |                                    |              |                                   |             |
| Aerostructures                                      | \$13,399                           | \$15,701     | \$37,922                          | \$54,339    |
| Aerospace systems                                   | 10,926                             | 8,301        | 22,860                            | 24,552      |

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|                      |          |          |          |          |
|----------------------|----------|----------|----------|----------|
| Aftermarket services | 714      | 1,392    | 2,047    | 5,425    |
| Corporate            | 196      | 702      | 534      | 854      |
|                      | \$25,235 | \$26,096 | \$63,363 | \$85,170 |

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|                      | December 31, 2015 | March 31, 2015 |
|----------------------|-------------------|----------------|
| Total Assets:        |                   |                |
| Aerostructures       | \$4,167,967       | \$4,097,397    |
| Aerospace systems    | 1,477,291         | 1,460,142      |
| Aftermarket services | 375,328           | 375,752        |
| Corporate            | 28,270            | 23,034         |
|                      | \$6,048,856       | \$5,956,325    |

During the three months ended December 31, 2015 and 2014, the Company had international sales of \$194,425 and \$183,009, respectively. During the nine months ended December 31, 2015 and 2014, the Company had international sales of \$574,050 and \$534,641, respectively.

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

The 2021 Notes and the 2022 Notes are fully and unconditionally guaranteed on a joint and several basis by the Guarantor Subsidiaries. The total assets, stockholders' equity, revenue, earnings and cash flows from operating activities of the Guarantor Subsidiaries exceeded a majority of the consolidated total of such items as of and for the periods reported. The only consolidated subsidiaries of the Company that are not guarantors of the 2021 Notes and the 2022 Notes (the "Non-Guarantor Subsidiaries") are: (a) the receivables securitization special-purpose entity; and (b) the international operating subsidiaries. The following tables present condensed consolidating financial statements including the Company (the "Parent"), the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries. Such financial statements include summary Condensed Consolidating Balance Sheets as of December 31, 2015 and March 31, 2015, Condensed Consolidating Statements of Comprehensive Income for the three and nine months ended December 31, 2015 and 2014, and Condensed Consolidating Statements of Cash Flows for the nine months ended December 31, 2015 and 2014.

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

## SUMMARY CONDENSED CONSOLIDATING BALANCE SHEETS:

|   | December 31, 2015 |                           |                               |                |                       |
|---|-------------------|---------------------------|-------------------------------|----------------|-----------------------|
|   | Parent            | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations   | Consolidated<br>Total |
| Current assets:   |                   |                           |                               |                |                       |
| Cash and cash equivalents   | \$614             | \$1,144                   | \$39,932                      | \$—            | \$41,690              |
| Trade and other receivables,<br>net                                 | 2,881             | 172,787                   | 309,128                       | —              | 484,796               |
| Inventories   | —                 | 1,556,769                 | 104,504                       | —              | 1,661,273             |
| Rotable assets  | —                 | 35,946                    | 16,532                        | —              | 52,478                |
| Prepaid expenses and other  | 7,890             | 16,679                    | 8,231                         | —              | 32,800                |
| Total current assets  | 11,385            | 1,783,325                 | 478,327                       | —              | 2,273,037             |
| Property and equipment, net   | 7,292             | 774,831                   | 132,898                       | —              | 915,021               |
| Goodwill and other intangible<br>assets, net                        | —                 | 2,556,202                 | 196,096                       | —              | 2,752,298             |
| Other, net  | 12,405            | 71,616                    | 24,479                        | —              | 108,500               |
| Intercompany investments<br>and advances                            | 4,039,718         | 82,369                    | 75,169                        | (4,197,256 )   | —                     |
| Total assets  | \$4,070,800       | \$5,268,343               | \$906,969                     | \$(4,197,256 ) | \$6,048,856           |
| Current liabilities:  |                   |                           |                               |                |                       |
| Current portion of long-term<br>debt                                | \$26,067          | \$16,692                  | \$—                           | \$—            | \$42,759              |
| Accounts payable  | 1,792             | 312,560                   | 45,647                        | —              | 359,999               |
| Accrued expenses  | 29,519            | 343,478                   | 38,447                        | —              | 411,444               |
| Total current liabilities   | 57,378            | 672,730                   | 84,094                        | —              | 814,202               |
| Long-term debt, less current<br>portion                             | 1,380,805         | 66,390                    | 191,000                       | —              | 1,638,195             |
| Intercompany advances   | 449,831           | 2,170,282                 | 346,454                       | (2,966,567 )   | —                     |
| Accrued pension and other<br>postretirement benefits,<br>noncurrent | 7,228             | 452,250                   | 1,392                         | —              | 460,870               |
| Deferred income taxes and<br>other                                  | 8,143             | 903,960                   | 56,071                        | —              | 968,174               |
| Total stockholders' equity  | 2,167,415         | 1,002,731                 | 227,958                       | (1,230,689 )   | 2,167,415             |
| Total liabilities and<br>stockholders' equity                       | \$4,070,800       | \$5,268,343               | \$906,969                     | \$(4,197,256 ) | \$6,048,856           |



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Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## SUMMARY CONDENSED CONSOLIDATING BALANCE SHEETS:

|   | March 31, 2015 |                           |                               |                |                       |
|---|----------------|---------------------------|-------------------------------|----------------|-----------------------|
|   | Parent         | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations   | Consolidated<br>Total |
| Current assets:   |                |                           |                               |                |                       |
| Cash and cash equivalents   | \$620          | \$419                     | \$31,578                      | \$—            | \$32,617              |
| Trade and other receivables,<br>net                                 | 3,578          | 180,874                   | 337,149                       | —              | 521,601               |
| Inventories   | —              | 1,200,941                 | 79,333                        | —              | 1,280,274             |
| Rotable assets  | —              | 35,248                    | 13,572                        | —              | 48,820                |
| Prepaid expenses and other  | 6,509          | 10,549                    | 6,011                         | —              | 23,069                |
| Total current assets  | 10,707         | 1,428,031                 | 467,643                       | —              | 1,906,381             |
| Property and equipment, net   | 8,209          | 807,070                   | 135,455                       | —              | 950,734               |
| Goodwill and other intangible<br>assets, net                        | —              | 2,786,400                 | 204,811                       | —              | 2,991,211             |
| Other, net  | 13,805         | 80,806                    | 13,388                        | —              | 107,999               |
| Intercompany investments<br>and advances                            | 4,062,058      | 81,540                    | 63,897                        | (4,207,495 )   | —                     |
| Total assets  | \$4,094,779    | \$5,183,847               | \$885,194                     | \$(4,207,495 ) | \$5,956,325           |
| Current liabilities:  |                |                           |                               |                |                       |
| Current portion of long-term<br>debt                                | \$19,024       | \$23,231                  | \$—                           | \$—            | \$42,255              |
| Accounts payable  | 8,919          | 382,143                   | 38,072                        | —              | 429,134               |
| Accrued expenses  | 38,275         | 326,694                   | 46,879                        | —              | 411,848               |
| Total current liabilities   | 66,218         | 732,068                   | 84,951                        | —              | 883,237               |
| Long-term debt, less current<br>portion                             | 1,155,299      | 71,046                    | 100,000                       | —              | 1,326,345             |
| Intercompany advances   | 719,525        | 1,769,564                 | 407,722                       | (2,896,811 )   | —                     |
| Accrued pension and other<br>postretirement benefits,<br>noncurrent | 7,517          | 527,741                   | 3,123                         | —              | 538,381               |
| Deferred income taxes and<br>other                                  | 10,435         | 998,841                   | 63,302                        | —              | 1,072,578             |
| Total stockholders' equity  | 2,135,785      | 1,084,587                 | 226,096                       | (1,310,684 )   | 2,135,784             |
| Total liabilities and<br>stockholders' equity                       | \$4,094,779    | \$5,183,847               | \$885,194                     | \$(4,207,495 ) | \$5,956,325           |





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Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME:

|  | For the Three Months Ended December 31, 2015 |                           |                               |              |                       |
|--|--|---------------------------|-------------------------------|--------------|-----------------------|
|  | Parent                                       | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated<br>Total |
| Net sales                              | \$—  | \$837,156                 | \$92,462                      | \$(15,752)   | ) \$913,866           |
| Operating costs and expenses:          |  |                           |                               |              |                       |
| Cost of sales                          | —  | 629,460                   | 78,104                        | (15,752)     | ) 691,812             |
| Selling, general and<br>administrative | 3,698  | 52,368                    | 9,610                         | —            | 65,676                |
| Depreciation and amortization          | 435  | 36,050                    | 4,543                         | —            | 41,028                |
| Impairment charge                      | —  | 229,200                   | —                             | —            | 229,200               |
| Legal settlement charge, net           | —  | 12,400                    | —                             | —            | 12,400                |
|  | 4,133  | 959,478                   | 92,257                        | (15,752)     | ) 1,040,116           |
| Operating (loss) income                | (4,133)                                      | ) (122,322)               | ) 205                         | —            | (126,250)             |
| Intercompany interest and<br>charges   | (50,274)                                     | ) 47,997                  | 2,277                         | —            | —                     |
| Interest expense and other             | 15,685                                       | 2,529                     | (2,422)                       | ) —          | 15,792                |
| Income (loss) before income<br>taxes   | 30,456                                       | (172,848)                 | ) 350                         | —            | (142,042)             |
| Income tax expense (benefit)           | 6,164  | (60,820)                  | ) 1,263                       | —            | (53,393)              |
| Net income (loss)                      | 24,292                                       | (112,028)                 | ) (913)                       | ) —          | (88,649)              |
| Other comprehensive income<br>(loss)   | 2,161  | 6,510                     | (9,146)                       | ) —          | (475)                 |
| Total comprehensive income<br>(loss)   | \$26,453                                     | \$(105,518)               | ) \$(10,059)                  | ) \$—        | \$(89,124)            |



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Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME:

For the Three Months Ended December 31, 2014

|  | Parent   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated<br>Total |
|--|----------|---------------------------|-------------------------------|--------------|-----------------------|
| Net sales                              | \$—      | \$838,709                 | \$86,585                      | \$(7,877)    | ) \$917,417           |
| Operating costs and expenses:          |          |                           |                               |              |                       |
| Cost of sales                          | —        | 798,245                   | 77,602                        | (7,877)      | ) 867,970             |
| Selling, general and<br>administrative | 10,740   | 51,240                    | 8,925                         | —            | 70,905                |
| Depreciation and amortization          | 606      | 34,971                    | 4,231                         | —            | 39,808                |
|  | 11,346   | 884,456                   | 90,758                        | (7,877)      | ) 978,683             |
| Operating loss                         | (11,346) | ) (45,747)                | ) (4,173)                     | ) —          | (61,266)              |
| Intercompany interest and<br>charges   | (51,017) | ) 48,546                  | 2,471                         | —            | —                     |
| Interest expense and other             | 15,200   | 2,356                     | (3,983)                       | ) —          | 13,573                |
| Income (loss) before income<br>taxes   | 24,471   | (96,649)                  | ) (2,661)                     | ) —          | (74,839)              |
| Income tax expense (benefit)           | 1,966    | (35,311)                  | ) (1,662)                     | ) —          | (35,007)              |
| Net income (loss)                      | 22,505   | (61,338)                  | ) (999)                       | ) —          | (39,832)              |
| Other comprehensive loss               | (1,311)  | ) (1,974)                 | ) (16,331)                    | ) —          | (19,616)              |
| Total comprehensive income<br>(loss)   | \$21,194 | \$(63,312)                | ) \$(17,330)                  | ) \$—        | \$(59,448)            |



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Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME:

For the Nine Months Ended December 31, 2015

|  | Parent   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated<br>Total |   |
|--|----------|---------------------------|-------------------------------|--------------|-----------------------|---|
| Net sales                              | \$—      | \$2,598,880               | \$273,954                     | \$(44,556    | ) \$2,828,278         |   |
| Operating costs and expenses:          |          |                           |                               |              |                       |   |
| Cost of sales                          | —        | 1,969,359                 | 229,934                       | (44,556      | ) 2,154,737           |   |
| Selling, general and<br>administrative | 28,755   | 154,611                   | 26,912                        | —            | 210,278               |   |
| Depreciation and amortization          | 1,224    | 108,858                   | 17,055                        | —            | 127,137               |   |
| Impairment charge                      | —        | 229,200                   | —                             | —            | 229,200               |   |
| Legal settlement charge, net           | —        | 12,400                    | —                             | —            | 12,400                |   |
| Curtailement charge                    | 2,863    | —                         | —                             | —            | 2,863                 |   |
|  | 32,842   | 2,474,428                 | 273,901                       | (44,556      | ) 2,736,615           |   |
| Operating (loss) income                | (32,842  | ) 124,452                 | 53                            | —            | 91,663                |   |
| Intercompany interest and<br>charges   | (154,574 | ) 147,910                 | 6,664                         | —            | —                     |   |
| Interest expense and other             | 45,333   | 7,613                     | (3,407                        | ) —          | 49,539                |   |
| Income (loss) before income<br>taxes   | 76,399   | (31,071                   | ) (3,204                      | ) —          | 42,124                |   |
| Income tax expense (benefit)           | 11,639   | (8,229                    | ) 3,019                       | —            | 6,429                 |   |
| Net income (loss)                      | 64,760   | (22,842                   | ) (6,223                      | ) —          | 35,695                |   |
| Other comprehensive income<br>(loss)   | 1,380    | 12,249                    | (13,871                       | ) —          | (242                  | ) |
| Total comprehensive income<br>(loss)   | \$66,140 | \$(10,593                 | ) \$(20,094                   | ) \$—        | \$35,453              |   |



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Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME:

For the Nine Months Ended December 31, 2014

|  | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated<br>Total |   |
|--|-----------|---------------------------|-------------------------------|--------------|-----------------------|---|
| Net sales                              | \$—       | \$2,590,724               | \$233,839                     | \$(16,119)   | ) \$2,808,444         |   |
| Operating costs and expenses:          |           |                           |                               |              |                       |   |
| Cost of sales                          | —         | 2,141,533                 | 198,817                       | (16,119)     | ) 2,324,231           |   |
| Selling, general and<br>administrative | 33,405    | 146,886                   | 25,093                        | —            | 205,384               |   |
| Depreciation and<br>amortization       | 1,870     | 103,545                   | 10,958                        | —            | 116,373               |   |
| Relocation costs                       | —         | 3,193                     | —                             | —            | 3,193                 |   |
| Legal settlement gain, net             | (134,693  | ) —                       | —                             | —            | (134,693              | ) |
|  | (99,418   | ) 2,395,157               | 234,868                       | (16,119      | ) 2,514,488           |   |
| Operating income (loss)                | 99,418    | 195,567                   | (1,029                        | ) —          | 293,956               |   |
| Intercompany interest and<br>charges   | (156,650  | ) 150,218                 | 6,432                         | —            | —                     |   |
| Interest expense and other             | 71,499    | 6,900                     | (7,079                        | ) —          | 71,320                |   |
| Income (loss) before income<br>taxes   | 184,569   | 38,449                    | (382                          | ) —          | 222,636               |   |
| Income tax expense (benefit)           | 53,702    | 16,059                    | (2,983                        | ) —          | 66,778                |   |
| Net income                             | 130,867   | 22,390                    | 2,601                         | —            | 155,858               |   |
| Other comprehensive loss               | (1,395    | ) (5,473                  | ) (25,954                     | ) —          | (32,822               | ) |
| Total comprehensive income<br>(loss)   | \$129,472 | \$16,917                  | \$(23,353                     | ) \$—        | \$123,036             |   |





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Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

|  | For the Nine Months Ended December 31, 2015 |                           |                               |              |  |                       |
|--|---|---------------------------|-------------------------------|--------------|--|-----------------------|
|  | Parent                                      | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations |  | Consolidated<br>Total |
| Net income (loss)  | \$64,760                                    | \$(22,842)                | \$(6,223)                     | \$—          |  | \$35,695              |
| Adjustments to reconcile net<br>(loss) income to net cash<br>provided by (used in)<br>operating activities | (7,870)                                     | (216,641)                 | 8,375                         | 5,722        |  | (210,414)             |
| Net cash provided by (used<br>in) operating activities   | 56,890                                      | (239,483)                 | 2,152                         | 5,722        |  | (174,719)             |
| Capital expenditures   | (534)                                       | (47,377)                  | (15,452)                      | —            |  | (63,363)              |
| Proceeds from sale of assets   | —   | 1,658                     | 178                           | —            |  | 1,836                 |
| Acquisitions, net of cash<br>acquired  | —   | (47,955)                  | (6,000)                       | —            |  | (53,955)              |
| Net cash used in investing<br>activities   | (534)                                       | (93,674)                  | (21,274)                      | —            |  | (115,482)             |
| Net increase in revolving<br>credit facility   | 245,448                                     | —                         | —                             | —            |  | 245,448               |
| Proceeds on issuance of debt   | —   | 6,497                     | 125,400                       | —            |  | 131,897               |
| Retirements and repayments<br>of debt  | (14,267)                                    | (18,788)                  | (34,400)                      | —            |  | (67,455)              |
| Payments of deferred<br>financing costs  | (171)                                       | —                         | —                             | —            |  | (171)                 |
| Dividends paid   | (5,916)                                     | —                         | —                             | —            |  | (5,916)               |
| Repayment of governmental<br>grant   | —   | (5,000)                   | —                             | —            |  | (5,000)               |
| Repurchase of restricted<br>shares for minimum tax<br>obligation   | (96)  | —                         | —                             | —            |  | (96)                  |
| Intercompany financing and<br>advances   | (281,360)                                   | 351,173                   | (64,091)                      | (5,722)      |  | —                     |
| Net cash (used in) provided<br>by financing activities   | (56,362)                                    | 333,882                   | 26,909                        | (5,722)      |  | 298,707               |
| Effect of exchange rate<br>changes on cash   | —   | —                         | 567                           | —            |  | 567                   |
| Net change in cash and cash<br>equivalents   | (6)   | 725                       | 8,354                         | —            |  | 9,073                 |
| Cash and cash equivalents at<br>beginning of period  | 620   | 419                       | 31,578                        | —            |  | 32,617                |

|  |       |         |          |     |          |
|--|-------|---------|----------|-----|----------|
| Cash and cash equivalents at end of period | \$614 | \$1,144 | \$39,932 | \$— | \$41,690 |
|--|-------|---------|----------|-----|----------|

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Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

|   | For the Nine Months Ended December 31, 2014 |                           |                               |              |     |                       |
|---|---|---------------------------|-------------------------------|--------------|-----|-----------------------|
|   | Parent                                      | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations |     | Consolidated<br>Total |
| Net income  | \$ 130,867                                  | \$ 22,390                 | \$ 2,601                      | \$—          |     | \$ 155,858            |
| Adjustments to reconcile net<br>income to net cash (used in)<br>provided by operating<br>activities | (229,295                                    | ) 338,153                 | 32,114                        | 13,134       |     | 154,106               |
| Net cash (used in) provided<br>by operating activities  | (98,428                                     | ) 360,543                 | 34,715                        | 13,134       |     | 309,964               |
| Capital expenditures  | (854  | ) (70,014                 | ) (14,302                     | ) —          |     | (85,170               |
| Reimbursed capital<br>expenditures  | —   | 553                       | —                             | —            |     | 553                   |
| Proceeds from sale of assets  | —   | 1,789                     | 78                            | —            |     | 1,867                 |
| Acquisitions, net of cash<br>acquired   | —   | 116,044                   | (77,962                       | ) —          |     | 38,082                |
| Net cash (used in) provided<br>by investing activities  | (854  | ) 48,372                  | (92,186                       | ) —          |     | (44,668               |
| Net increase in revolving<br>credit facility  | 17,607                                      | —                         | —                             | —            |     | 17,607                |
| Proceeds on issuance of debt  | 300,000                                     | 28,912                    | 65,600                        | —            |     | 394,512               |
| Retirements and repayments<br>of debt   | (396,477                                    | ) (15,507                 | ) (129,900                    | ) —          |     | (541,884              |
| Purchase of common stock  | (114,634                                    | ) —                       | —                             | —            |     | (114,634              |
| Payments of deferred<br>financing costs   | (5,859                                      | ) —                       | —                             | —            |     | (5,859                |
| Dividends paid  | (6,122                                      | ) —                       | —                             | —            |     | (6,122                |
| Withholding of restricted<br>shares for minimum tax<br>obligation                                   | (673  | ) —                       | —                             | —            |     | (673                  |
| Repayment of government<br>grant  | —   | (3,198                    | ) —                           | —            |     | (3,198                |
| Proceeds from exercise of<br>stock options  | 388   | —                         | —                             | —            |     | 388                   |
| Intercompany financing and<br>advances  | 302,853                                     | (418,857                  | ) 129,138                     | (13,134      | ) — |                       |

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|   |        |          |          |         |            |   |
|---|--------|----------|----------|---------|------------|---|
| Net cash provided by (used in) financing activities | 97,083 | (408,650 | ) 64,838 | (13,134 | ) (259,863 | ) |
| Effect of exchange rate changes on cash             | —      | —        | (250     | ) —     | (250       | ) |
| Net change in cash and cash equivalents             | (2,199 | ) 265    | 7,117    | —       | 5,183      |   |
| Cash and cash equivalents at beginning of period    | 2,820  | 1,149    | 25,029   | —       | 28,998     |   |
| Cash and cash equivalents at end of period          | \$621  | \$1,414  | \$32,146 | \$—     | \$34,181   |   |

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Triumph Group, Inc.

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except per share data)

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**13. COMMITMENTS AND CONTINGENCIES**

As previously disclosed, on June 13, 2013, American Brownfield MCIC, LLC (“American Brownfield”) filed suit (the “Lawsuit”) in the 298th Judicial District Court of Dallas County, Texas against Triumph Aerostructures, LLC (“Triumph Aerostructures”), a wholly-owned subsidiary of the Company, for amounts allegedly owed pursuant to a lease dated October 24, 2007 covering the use and occupancy of approximately 314 acres of land and improvements in Dallas, Texas, previously known as the Naval Weapons Industrial Reserve Plant (the “Jefferson Street Facility”). Triumph Aerostructures, the Company, and American Brownfield agreed to a mediated settlement of the Lawsuit, effective November 18, 2015. Under the terms of the settlement, American Brownfield was paid \$5,000 on November 23, 2015, and is entitled to a second payment of \$5,500 on or before May 20, 2016. The Lawsuit has been administratively closed, and will be dismissed with prejudice upon receipt by American Brownfield of the second payment. Also as part of the settlement, the Company has leased 272,683 square feet of space at the Jefferson Street Facility for a 15 year term beginning December 1, 2015, for annual base rent of \$1,250.

In January 2016, Boeing announced a rate reduction to the 747-8 program, which lowers production to one plane every two months. At this time, the Company is assessing the impact of the rate reduction. Further the Company is working with Boeing regarding the timing of the implementation of the rate reduction, as well as the timing related to the previously announced transition of the 747-8 program. This could result in a significant impact to our operating results.

In the ordinary course of business, the Company is involved in disputes, claims, lawsuits, and governmental and regulatory inquiries that it deems to be immaterial. Some may involve claims or potential claims of substantial damages, fines or penalties. While the Company cannot predict the outcome of any pending or future litigation or proceeding and no assurances can be given, the Company does not believe that any pending matter will have a material effect, individually or in the aggregate, on its financial position or results of operations.

**14. RELOCATION COSTS**

During the fiscal year ended March 31, 2013, the Company committed to relocate the operations of its largest facility in Dallas, Texas and to expand its Red Oak, Texas facility to accommodate this relocation. The Company incurred approximately \$3,193 of expenses related to the relocation during the nine months ended December 31, 2014, shown separately on the accompanying Condensed Consolidated Statements of Income. The relocation was substantially completed during the fiscal year ended March 31, 2014.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements contained elsewhere herein.)

OVERVIEW

We are a major supplier to the aerospace industry and have three operating segments: (i) Triumph Aerostructures Group, whose companies' revenues are derived from the design, manufacture, assembly and integration of both build-to-print and proprietary metallic and composite aerostructures and structural components for the global aerospace original equipment manufacturers, or OEM, market; (ii) Triumph Aerospace Systems Group, whose companies design, engineer and manufacture a wide range of proprietary and build-to-print components, assemblies and systems also for the OEM market and the related aftermarket; and (iii) Triumph Aftermarket Services Group, whose companies serve aircraft fleets, notably commercial airlines, the U.S. military and cargo carriers, through the maintenance, repair and overhaul of aircraft components and accessories manufactured by third parties.

Effective October 21, 2015, the Company acquired the ownership of all of the outstanding shares of Fairchild Controls Corporation ("Fairchild"). Fairchild is a leading provider of proprietary thermal management systems, auxiliary power generation systems and related aftermarket spares and repairs. The acquired business operates as Triumph Thermal Systems-Maryland, Inc. and its results are included in Aerospace Systems Group from the date of acquisition.

Highlights for the third quarter of the fiscal year ending March 31, 2016 included:

• Net sales for the third quarter of the fiscal year ending March 31, 2016 decreased 0.4% from the prior year period to \$913.9 million.

• Operating loss in the third quarter of fiscal 2016 was \$(126.3) million, compared to an operating loss of \$61.3 million for the third quarter of fiscal 2015.

• Included in operating loss for the third quarter of fiscal 2016 was a non-cash impairment charge of \$229.2 million to the Vought tradename.

• Net loss for the third quarter of fiscal 2016 was \$(88.6) million, compared to net loss of \$(39.8) million for the third quarter of fiscal 2015.

• Backlog as of December 31, 2015 was \$4.53 billion. Of our existing backlog of \$4.53 billion, we estimate that approximately \$1.75 billion will not be shipped by December 31, 2016.

• Net loss for the third quarter of fiscal 2016 was \$(1.80) per diluted common share, as compared to \$(0.79) per diluted share in the prior year period.

We used \$174.7 million of cash flow from operating activities for the nine months ended December 31, 2015, as compared to cash provided by operations of \$310.0 million in the prior year period, which included the cash received from a legal settlement of \$134.7 million, partially offset by \$55.4 million of pension contributions.

As of December 31, 2015, we incurred approximately \$478.2 million in inventory costs associated with the Bombardier Global 7000/8000 and the Embraer second generation E-Jet programs, for which we have not yet begun deliveries. We expect to incur additional costs related to these programs as they continue to develop. In July 2015, Bombardier announced that the Global 7000/8000 program is expected to enter into service in the second half of 2018. We currently have a few new programs that are either in the pre-production phase or the early stages of recurring production, including Bombardier and Embraer. We expect that inventory balances will continue to grow between \$30.0 million - \$50.0 million for the remainder of fiscal 2016. Inventory costs are evaluated for recoverability through their inclusion in the total costs used in the calculation of each contract's estimated profit margin. When the estimated total contract costs exceed total estimated contract revenues, an inventory reserve is established. We may incur additional costs related to these programs if there are further delays due to our customer or our capability to execute timely.

Our most recent annual goodwill impairment test was performed for all reporting units as of February 1, 2015. We also perform Step 1 of the goodwill impairment test on an interim basis upon the occurrence of events or substantive

changes in

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circumstances that indicate a reporting unit's carrying value may be less than its fair value. During the quarter ended December 31, 2015, we performed an interim assessment of the fair value of its goodwill and indefinite-lived intangible assets due to potential indicators of impairment related to the continued decline in our stock price during the third quarter. Consistent with our policy described in the Form 10-K for the fiscal year ended March 31, 2015, we performed Step 1 of the goodwill impairment test which includes using a combination of both the market and income approaches to estimate the fair value of each reporting unit.

Our assessment focused on the Aerostructures reporting unit since it had significant changes in its economic indicators and adjusted for select changes in the risk adjusted discount rate to consider both the current return requirements of the market and the risks inherent in the reporting unit, expected long-term growth rate and cash flow projections to determine if any decline in the estimated fair value of a reporting unit could result in a goodwill impairment. We concluded that the goodwill was not impaired as of the interim impairment assessment date. However, the excess of the fair value over the carrying value was within 5% for the Company's Aerostructures reporting unit. The amount of goodwill for our Aerostructures reporting unit amounted to \$1.42 billion at December 31, 2015. Going forward, we will continue to monitor the performance of this reporting unit in relation to the key assumptions in our analysis. In the event that market multiples for stock price to EBITDA in the aerospace and defense markets decrease, or the expected EBITDA and cash flows for our reporting units decreases, a goodwill impairment charge may be required, which would adversely affect our operating results and financial condition. If management determines that impairment exists, the impairment will be recognized in the period in which it is identified.

We also performed an interim assessment of fair value on our indefinite-lived intangible assets due to the same potential indicators noted above. We estimated the fair value of the trade names using the relief-from-royalty method, which uses several significant assumptions, including revenue projections that consider historical and estimated future results, general economic and market conditions, as well as the impact of planned business and operational strategies. The following estimates and assumptions were also used in the relief-from-royalty method:

- Royalty rates between 2% and 4% based on market observed royalty rates and profit split analysis; and
- Discount rates between 12% and 13% based on the required rate of return for the trade name assets.

Based on our evaluation of indefinite-lived assets, including the tradenames, we concluded that the Vought tradename had a fair value of \$195.8 million (Level 3) compared to a carrying value of \$425.0 million. Accordingly, we recorded a non-cash impairment charge during the three and nine months ended December 31, 2015 of \$229.2 million, which is presented separately on the accompanying Condensed and Consolidated Statements of Income. The decline in fair value compared to carrying value of the Vought tradename is the result of declining revenues from production rate reductions and the slower than previously projected ramp in Bombardier 7000 and the timing of associated earnings. In the event of significant loss of revenues and related earnings associated with the Vought tradename, further impairment charges may be required, which would adversely affect our operating results.

In January 2016, Boeing announced a rate reduction to the 747-8 program, which lowers production to one plane every two months. At this time, we are assessing the impact of the rate reduction. Further we are working with Boeing regarding the timing of the implementation of the rate reduction, as well as the timing related to the previously announced transition of the 747-8 program. This could result in a significant impact to our operating results. This announcement follows the September 2015 decision by Boeing to insource production of the 747-8 program beginning in the second half of fiscal 2019, effectively terminating this program with us after our current contract. If we are unable to replace this work with new or similar manufacturing content, there is risk of additional costs associated with exiting the facilities where this program is manufactured, such as asset impairment, supplier and lease termination charges, as well as severance and retention payments to employees and contractors which, if not mitigated, could result in additional future charges of up to \$75.0 million. This estimate includes cash outflows of approximately \$38.0 million, but excludes any potential changes in pension benefit obligations or potential impairment of goodwill.



As disclosed during fiscal 2015, we recognized a provision for forward losses associated with our long-term contract on the 747-8 program. There is still risk similar to what we have experienced on the 747-8 program. Particularly, our ability to manage risks related to supplier performance, execution of cost reduction strategies, hiring and retaining skilled production and management personnel, quality and manufacturing execution, program schedule delays and many other risks, will determine the ultimate performance of these long-term programs.

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Recognition of additional forward losses in the future periods continues to be a risk and will depend upon several factors, including the impact of the above discussed production rate change, our ability to successfully perform under current design and manufacturing plans, achievement of forecasted cost reductions as we continue production and our ability to successfully resolve claims and assertions with our customers and suppliers.

Our union employees with United Auto Workers (UAW) Local 848 at our Red Oak, Texas facility and UAW Local 952 at our Tulsa, Oklahoma facility are currently working without a contract. The contracts with our International Association of Machinists-represented employees at our Nashville, Tennessee facility and our UAW Local 405-represented employees at our West Hartford, Connecticut facility expire in February 2016. If we are unable to negotiate a contract with each of those workforces, our operations may be disrupted and we may be prevented from completing production and delivery of products from those facilities, which would negatively impact our results. Contingency plans have been developed that would allow production to continue in the event of a strike.

Effective December 30, 2014, a wholly-owned subsidiary of the Company, Triumph Aerostructures - Tulsa, LLC doing business as Triumph Aerostructures-Vought Aircraft Division-Tulsa, completed the acquisition of the Gulfstream G650 and G280 wing programs located in Tulsa, Oklahoma (the "Tulsa Programs") from Spirit AeroSystems, Inc. ("Spirit"). The acquisition of the Tulsa Programs establishes the Company as a leader in fully integrated wing design, engineering and production and advances its standing as a strategic Tier One Capable aerostructures supplier. The acquired business operates as Triumph Aerostructures-Vought Aircraft Division-Tulsa and its results are included in the Aerostructures Group from the date of acquisition.

Effective October 17, 2014, the Company acquired all of the outstanding shares of North American Aircraft Services, Inc. and its affiliates ("NAAS"). NAAS is based in San Antonio, Texas, with fixed-based operator business units throughout the United States, as well as international locations, and delivers line maintenance and repair, fuel leak detection and fuel bladder cell repair services. The acquired business operates as Triumph Aviation Services-NAAS Division and its results are included in Aftermarket Services Group from the date of acquisition.

Effective June 27, 2014, the Company acquired the hydraulic actuation business of GE Aviation ("GE"). GE's hydraulic actuation business consisted of three facilities located in Yakima, Washington, Cheltenham, England and the Isle of Man and is a technology leader in actuation systems. GE's key product offerings included complete landing gear actuation systems, door actuation, nose-wheel steerings, hydraulic fuses, manifolds flight control actuation and locking mechanisms for the commercial, military and business jet markets. The acquired business operates as Triumph Actuation Systems-Yakima and Triumph Actuation Systems-UK & IOM and its results are included in Aerospace Systems Group from the date of acquisition.

**RESULTS OF OPERATIONS**

The following includes a discussion of our consolidated and business segment results of operations. The Company's diverse structure and customer base do not allow for precise comparisons of the impact of price and volume changes to our results. However, we have disclosed the significant variances between the respective periods.

**Non-GAAP Financial Measures**

We prepare and publicly release quarterly unaudited financial statements prepared in accordance with U.S. GAAP. In accordance with Securities and Exchange Commission (the "SEC") guidance on Compliance and Disclosure Interpretations, we also disclose and discuss certain non-GAAP financial measures in our public releases. Currently, the non-GAAP financial measure that we disclose is Adjusted EBITDA, which is our income from continuing operations before interest, income taxes, amortization of acquired contract liabilities, curtailments, settlements and early retirement incentives, legal settlements and depreciation and amortization. We disclose Adjusted EBITDA on a consolidated and a reportable segment basis in our earnings releases, investor conference calls and filings with the SEC. The non-GAAP financial measures that we use may not be comparable to similarly titled measures reported by other companies. Also, in the future, we may disclose different non-GAAP financial measures in order to help our investors more meaningfully evaluate and compare our future results of operations to our previously reported results

of operations.

We view Adjusted EBITDA as an operating performance measure and, as such, we believe that the U.S. GAAP financial measure most directly comparable to it is income from continuing operations. In calculating Adjusted EBITDA, we exclude from income from continuing operations the financial items that we believe should be separately identified to provide additional analysis of the financial components of the day-to-day operation of our business. We have outlined below the type and scope of these exclusions and the material limitations on the use of these non-GAAP financial measures as a result of these exclusions. Adjusted EBITDA is not a measurement of financial performance under U.S. GAAP and should not be considered as a measure of liquidity, as an alternative to net income (loss), income from continuing operations, or as an indicator of any other measure

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of performance derived in accordance with U.S. GAAP. Investors and potential investors in our securities should not rely on Adjusted EBITDA as a substitute for any U.S. GAAP financial measure, including net income (loss) or income from continuing operations. In addition, we urge investors and potential investors in our securities to carefully review the reconciliation of Adjusted EBITDA to income from continuing operations set forth below, in our earnings releases and in other filings with the SEC and to carefully review the U.S. GAAP financial information included as part of our Quarterly Reports on Form 10-Q and our Annual Reports on Form 10-K that are filed with the SEC, as well as our quarterly earnings releases, and compare the GAAP financial information with our Adjusted EBITDA. Adjusted EBITDA is used by management to internally measure our operating and management performance and by investors as a supplemental financial measure to evaluate the performance of our business that, when viewed with our U.S. GAAP results and the accompanying reconciliation, we believe provides additional information that is useful to gain an understanding of the factors and trends affecting our business. We have spent more than 20 years expanding our product and service capabilities, partially through acquisitions of complementary businesses. Due to the expansion of our operations, which included acquisitions, our income from continuing operations has included significant charges for depreciation and amortization. Adjusted EBITDA excludes these charges and provides meaningful information about the operating performance of our business, apart from charges for depreciation and amortization. We believe the disclosure of Adjusted EBITDA helps investors meaningfully evaluate and compare our performance from quarter to quarter and from year to year. We also believe Adjusted EBITDA is a measure of our ongoing operating performance because the isolation of non-cash charges, such as depreciation and amortization, and non-operating items, such as interest and income taxes, provides additional information about our cost structure and, over time, helps track our operating progress. In addition, investors, securities analysts and others have regularly relied on Adjusted EBITDA to provide a financial measure by which to compare our operating performance against that of other companies in our industry.

Set forth below are descriptions of the financial items that have been excluded from our income from continuing operations to calculate Adjusted EBITDA and the material limitations associated with using this non-GAAP financial measure as compared to income from continuing operations:

Legal settlements may be useful for investors to consider because it reflects gains or losses from disputes with third parties. We do not believe these earnings necessarily reflect the current and ongoing cash earnings related to our operations.

Curtailments, settlements and early retirement incentives may be useful for investors to consider because they represent the current period impact of the change in the defined benefit obligation due to the reduction in future service costs as well as the incremental cost of retirement incentive benefits paid to participants. We do not believe these earnings necessarily reflect the current and ongoing cash earnings related to our operations.

Amortization of acquired contract liabilities may be useful for investors to consider because it represents the non-cash earnings on the fair value of off-market contracts acquired through acquisitions. We do not believe these earnings necessarily reflect the current and ongoing cash earnings related to our operations.

Amortization expense (including impairments) may be useful for investors to consider because it represents the estimated attrition of our acquired customer base and the diminishing value of product rights and licenses. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.

Depreciation may be useful for investors to consider because it generally represents the wear and tear on our property and equipment used in our operations. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.

The amount of interest expense and other we incur may be useful for investors to consider and may result in current cash inflows or outflows. However, we do not consider the amount of interest expense and other to be a representative component of the day-to-day operating performance of our business.

Income tax expense may be useful for investors to consider because it generally represents the taxes which may be payable for the period and the change in deferred income taxes during the period and may reduce the amount of funds

otherwise available for use in our business. However, we do not consider the amount of income tax expense to be a representative component of the day-to-day operating performance of our business.

Management compensates for the above-described limitations of using non-GAAP measures only to supplement our U.S. GAAP results and to provide additional information that is useful to gain an understanding of the factors and trends affecting our business.

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The following table shows our Adjusted EBITDA reconciled to our net income for the indicated periods (in thousands):

|  | Three Months Ended |             | Nine Months Ended |            |
|--|--------------------|-------------|-------------------|------------|
|  | December 31,       |             | December 31,      |            |
|  | 2015               | 2014        | 2015              | 2014       |
| Net (loss) income                                  | \$(88,649 )        | \$(39,832 ) | \$35,695          | \$155,858  |
| Legal settlement charge (gain), net of expenses    | 12,400             | —           | 12,400            | (134,693 ) |
| Curtailement charge                                | —                  | —           | 2,863             | —          |
| Amortization of acquired contract liabilities, net | (34,425 )          | (15,501 )   | (99,928 )         | (39,332 )  |
| Depreciation and amortization *                    | 270,228            | 39,808      | 356,337           | 116,373    |
| Interest expense and other                         | 15,792             | 13,573      | 49,539            | 71,320     |
| Income tax expense                                 | (53,393 )          | (35,007 )   | 6,429             | 66,778     |
| Adjusted EBITDA                                    | \$121,953          | \$(36,959 ) | \$363,335         | \$236,304  |

\* - Includes Impairment Charge

The following tables show our Adjusted EBITDA by reportable segment reconciled to our operating income for the indicated periods (in thousands):

|  | Three Months Ended December 31, 2015 |                |                   |                      |                         |
|--|--------------------------------------|----------------|-------------------|----------------------|-------------------------|
|  | Total                                | Aerostructures | Aerospace Systems | Aftermarket Services | Corporate/ Eliminations |
| Operating (loss) income                            | \$(126,250 )                         | \$(187,265 )   | \$52,754          | \$12,402             | \$(4,141 )              |
| Legal settlement charge, net                       | 12,400                               | 10,500         | —                 | 1,900                | —                       |
| Amortization of acquired contract liabilities, net | (34,425 )                            | (24,621 )      | (9,804 )          | —                    | —                       |
| Depreciation and amortization *                    | 270,228                              | 255,421        | 11,911            | 2,462                | 434                     |
| Adjusted EBITDA                                    | \$121,953                            | \$54,035       | \$54,861          | \$16,764             | \$(3,707 )              |

\* - Includes Impairment Charge

|  | Three Months Ended December 31, 2014 |                |                   |                      |                         |
|--|--------------------------------------|----------------|-------------------|----------------------|-------------------------|
|  | Total                                | Aerostructures | Aerospace Systems | Aftermarket Services | Corporate/ Eliminations |
| Operating (loss) income                            | \$(61,266 )                          | \$(104,231 )   | \$41,863          | \$12,490             | \$(11,388 )             |
| Amortization of acquired contract liabilities, net | (15,501 )                            | (4,411 )       | (11,090 )         | —                    | —                       |
| Depreciation and amortization                      | 39,808                               | 25,505         | 11,363            | 2,334                | 606                     |
| Adjusted EBITDA                                    | \$(36,959 )                          | \$(83,137 )    | \$42,136          | \$14,824             | \$(10,782 )             |

|  | Nine Months Ended December 31, 2015 |                |                   |                      |                         |
|--|-------------------------------------|----------------|-------------------|----------------------|-------------------------|
|  | Total                               | Aerostructures | Aerospace Systems | Aftermarket Services | Corporate/ Eliminations |
| Operating income (loss)                            | \$91,663                            | \$(54,159 )    | \$150,147         | \$31,514             | \$(35,839 )             |
| Legal settlement charge, net                       | 12,400                              | 10,500         | —                 | 1,900                | —                       |
| Curtailement charge                                | 2,863                               | —              | —                 | —                    | 2,863                   |
| Amortization of acquired contract liabilities, net | (99,928 )                           | (69,611 )      | (30,317 )         | —                    | —                       |
| Depreciation and amortization *                    | 356,337                             | 309,647        | 38,115            | 7,352                | 1,223                   |
| Adjusted EBITDA                                    | \$363,335                           | \$196,377      | \$157,945         | \$40,766             | \$(31,753 )             |

\* - Includes Impairment Charge



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|  | Nine Months Ended December 31, 2014 |                |                      |                         |                            |
|--|-------------------------------------|----------------|----------------------|-------------------------|----------------------------|
|  | Total                               | Aerostructures | Aerospace<br>Systems | Aftermarket<br>Services | Corporate/<br>Eliminations |
| Operating income                                   | \$293,956                           | \$34,596       | \$125,430            | \$34,614                | \$99,316                   |
| Gain on legal settlement, net of expenses          | (134,693 )                          | —              | —                    | —                       | (134,693 )                 |
| Amortization of acquired contract liabilities, net | (39,332 )                           | (14,311 )      | (25,021 )            | —                       | —                          |
| Depreciation and amortization                      | 116,373                             | 76,340         | 32,027               | 6,137                   | 1,869                      |
| Adjusted EBITDA                                    | \$236,304                           | \$96,625       | \$132,436            | \$40,751                | \$(33,508 )                |

Three months ended December 31, 2015 compared to three months ended December 31, 2014

|                            | Three Months Ended December 31, |             |
|----------------------------|---------------------------------|-------------|
|                            | 2015                            | 2014        |
|                            | (dollars in thousands)          |             |
| Net sales                  | \$913,866                       | \$917,417   |
| Segment operating loss     | \$(122,109 )                    | \$(49,878 ) |
| Corporate expense          | (4,141 )                        | (11,388 )   |
| Total operating loss       | (126,250 )                      | (61,266 )   |
| Interest expense and other | 15,792                          | 13,573      |
| Income tax expense         | (53,393 )                       | (35,007 )   |
| Net loss                   | \$(88,649 )                     | \$(39,832 ) |

Net sales decreased by \$3.6 million, or 0.4%, to \$913.9 million for the three months ended December 31, 2015, from \$917.4 million for the three months ended December 31, 2014. The acquisitions of Fairchild, NAAS and the Tulsa Programs contributed \$100.5 million in net sales. Organic sales decreased \$104.1 million, or 11.3%, due to production rate reductions by our customers on the 747-8, A330, C-17 and Gulfstream G450/550 programs. Net sales for the three months ended December 31, 2015, included \$3.5 million in total non-recurring revenues, as compared to \$17.8 million in non-recurring revenues for the three months ended December 31, 2014. The prior year period was negatively impacted by our customers' decreased production rates on existing programs.

Cost of sales decreased \$176.2 million, or 20.3%, to \$691.8 million for the three months ended December 31, 2015, from \$868.0 million for the three months ended December 31, 2014. The acquisitions of Fairchild, NAAS and the Tulsa Programs contributed \$76.3 million to cost of sales. Organic cost of sales decreased \$252.5 million, or 29.1%, due to the decrease in organic sales mentioned above. In addition, the three months ended December 31, 2014, were negatively impacted by a provision for forward losses of \$152.0 million on the 747-8 program and \$13.9 million in losses as a result of losing NADCAP certification at one of our facilities. Excluding the impact of the provision for forward losses in the prior year, the comparable organic gross margin for the three months ended December 31, 2015, was 24.0%, as compared to 23.6% for the prior year period.

Gross margin included net unfavorable cumulative catch-up adjustments on long-term contracts (\$2.8 million). The cumulative catch-up adjustments to gross margin included gross favorable adjustments (\$9.6 million) and gross unfavorable adjustments (\$12.5 million). The cumulative catch-up adjustments for the three months ended December 31, 2015, were mainly due to increased labor cost estimates driven by performance on smaller programs, expedited material supplier costs, offset by favorable production block close outs. Gross margin for the three months ended December 31, 2014, included net unfavorable cumulative catch-up adjustments (\$154.3 million).



Segment operating loss increased by \$72.2 million, or 144.8%, to \$(122.1) million for the three months ended December 31, 2015, from \$(49.9) million for the three months ended December 31, 2014. The acquisitions of Fairchild, NAAS

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and the Tulsa Programs contributed \$21.9 million to segment operating income and organic segment operating income decreased \$94.1 million. Organic segment operating income for the three months ended December 31, 2015, decreased due to the non-cash impairment charge to the Vought tradename of \$229.2 million noted above, a legal settlement of \$10.5 million, settlement of a customer dispute of \$1.9 million and increased legal fees of \$2.8 million. Organic segment operating income for the three months ended December 31, 2014, included a provision for forward losses, as mentioned above.

Corporate expenses decreased by \$7.2 million, or 63.6%, to \$4.1 million for the three months ended December 31, 2015, from \$11.4 million for the three months ended December 31, 2014, due to decreased acquisition related expenses of \$7.2 million.

Interest expense and other increased by \$2.2 million, or 16.3%, to \$15.8 million for the three months ended December 31, 2015, compared to \$13.6 million for the prior year period, due to the increased balance of the average outstanding debt and included foreign exchange losses (\$1.1 million) versus foreign exchange losses (\$2.2 million) in the prior year period.

The effective income tax rate for the three months ended December 31, 2015, was 37.6% compared to (46.8)% for the three months ended December 31, 2014. For the three months ended December 31, 2015, the income tax provision included the benefit from the retroactive reinstatement of the R&D tax credit (\$3.0 million). For the three months ended December 31, 2014, the income tax benefit included the benefit from the retroactive reinstatement of the R&D tax credit (\$6.0 million). For the fiscal year ending March 31, 2016, the Company expects its effective tax rate to be approximately 31.2%.

Business Segment Performance

We report our financial performance based on the following three reportable segments: the Aerostructures Group, the Aerospace Systems Group and the Aftermarket Services Group. The results of operations among our operating segments vary due to differences in competitors, customers, extent of proprietary deliverables and performance. For example, our Aerostructures segment generally includes long-term sole-source or preferred supplier contracts and the success of these programs provides a strong foundation for our business and positions us well for future growth on new programs and new derivatives. This compares to our Aerospace Systems segment, which generally includes proprietary products and/or arrangements where we become the primary source or one of a few primary sources to our customers, where our unique manufacturing capabilities command a higher margin. Also OEMs are increasingly focusing on assembly activities while outsourcing more manufacturing and repair to third parties, and as a result, are less of a competitive force than in previous years. In contrast, our Aftermarket Services segment provides MRO services on components and accessories manufactured by third parties, with more diverse competition, including airlines, OEMs and other third-party service providers. In addition, variability in the timing and extent of customer requests performed in the Aftermarket Services segment can provide for greater volatility and less predictability in revenue and earnings than that experienced in the Aerostructures and Aerospace Systems segments.

The Aerostructures segment consists of the Company's operations that manufacture products primarily for the aerospace OEM market. The Aerostructures segment's revenues are derived from the design, manufacture, assembly and integration of both build-to-print and proprietary metallic and composite aerostructures and structural components, including aircraft wings, fuselage sections, tail assemblies, engine nacelles, flight control surfaces and helicopter cabins. Further, the segment's operations also design and manufacture composite assemblies for floor panels and environmental control system ducts. These products are sold to various aerospace OEMs on a global basis. Effective April 1, 2015, the results for Triumph Group Mexico are included in the Aerostructures segment, as doing so better represents the type of work Triumph Group Mexico is performing. Previously, Triumph Group Mexico's results were included in Corporate.

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

The Aftermarket Services segment consists of the Company's operations that provide maintenance, repair and overhaul services to both commercial and military markets on components and accessories manufactured by third parties.

Maintenance,

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repair and overhaul revenues are derived from services on auxiliary power units, airframe and engine accessories, including constant-speed drives, cabin compressors, starters and generators, and pneumatic drive units. In addition, the segment's operations repair and overhaul thrust reversers, nacelle components and flight control surfaces. The segment's operations also perform repair and overhaul services and supply spare parts for various types of cockpit instruments and gauges for a broad range of commercial airlines on a worldwide basis.

We currently generate a majority of our revenue from clients in the commercial aerospace industry, the military, the business jet industry and the regional airline industry. Our growth and financial results are largely dependent on continued demand for our products and services from clients in these industries. If any of these industries experiences a downturn, our clients in these sectors may conduct less business with us. The following table summarizes our net sales by end market by business segment. The loss of one or more of our major customers or an economic downturn in the commercial airline or the military and defense markets could have a material adverse effect on our business.

Business Segment Performance - Three months ended December 31, 2015 compared to three months ended December 31, 2014

|                                      | Three Months Ended December 31, |         |   |
|--------------------------------------|---------------------------------|---------|---|
|                                      | 2015                            | 2014    |   |
| Aerostructures                       |                                 |         |   |
| Commercial aerospace                 | 33.6                            | % 39.6  | % |
| Military                             | 9.8                             | % 11.3  | % |
| Business Jets                        | 16.3                            | % 8.7   | % |
| Regional                             | 0.4                             | % 0.4   | % |
| Non-aviation                         | 0.2                             | % 0.8   | % |
| Total Aerostructures net sales       | 60.3                            | % 60.8  | % |
| Aerospace Systems                    |                                 |         |   |
| Commercial aerospace                 | 14.6                            | % 14.9  | % |
| Military                             | 12.1                            | % 11.4  | % |
| Business Jets                        | 2.2                             | % 1.1   | % |
| Regional                             | 1.1                             | % 1.1   | % |
| Non-aviation                         | 1.3                             | % 2.0   | % |
| Total Aerospace Systems net sales    | 31.3                            | % 30.5  | % |
| Aftermarket Services                 |                                 |         |   |
| Commercial aerospace                 | 6.5                             | % 6.6   | % |
| Military                             | 1.5                             | % 1.6   | % |
| Regional                             | 0.4                             | % 0.5   | % |
| Non-aviation                         | —                               | % —     | % |
| Total Aftermarket Services net sales | 8.4                             | % 8.7   | % |
| Total Consolidated net sales         | 100.0                           | % 100.0 | % |

We continue to experience a higher proportion of our sales mix in the commercial aerospace end market. We recently have experienced an increase in our business jet end market due to the acquisition of the Tulsa Programs and a decrease in our military end market due to the wind-down of the C-17 program.

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|                                    | Three Months Ended<br>December 31, |           |          | % of Total<br>Sales |         |  |  |   |
|------------------------------------|------------------------------------|-----------|----------|---------------------|---------|--|--|---|
|                                    | 2015                               | 2014      | % Change | 2015                | 2014    |  |  |   |
|                                    | (in thousands)                     |           |          |                     |         |  |  |   |
| <b>NET SALES</b>                   |                                    |           |          |                     |         |  |  |   |
| Aerostructures                     | \$553,627                          | \$560,346 | (1.2 )%  | 60.6                | % 61.1  |  |  | % |
| Aerospace Systems                  | 288,288                            | 279,198   | 3.3 %    | 31.5                | % 30.4  |  |  | % |
| Aftermarket Services               | 78,127                             | 80,690    | (3.2 )%  | 8.5                 | % 8.8   |  |  | % |
| Elimination of inter-segment sales | (6,176 )                           | (2,817 )  | 119.2 %  | (0.7 )%             | (0.3 )% |  |  | % |
| Total Net Sales                    | \$913,866                          | \$917,417 | (0.4 )%  | 100.0               | % 100.0 |  |  | % |

|                                 | Three Months Ended<br>December 31, |              |          | % of Segment<br>Sales |          |  |  |   |
|---------------------------------|------------------------------------|--------------|----------|-----------------------|----------|--|--|---|
|                                 | 2015                               | 2014         | % Change | 2015                  | 2014     |  |  |   |
|                                 | (in thousands)                     |              |          |                       |          |  |  |   |
| <b>SEGMENT OPERATING INCOME</b> |                                    |              |          |                       |          |  |  |   |
| Aerostructures                  | \$(187,265 )                       | \$(104,231 ) | 79.7 %   | (33.8 )%              | (18.6 )% |  |  | % |
| Aerospace Systems               | 52,754                             | 41,863       | 26.0 %   | 18.3                  | % 15.0   |  |  | % |
| Aftermarket Services            | 12,402                             | 12,490       | (0.7 )%  | 15.9                  | % 15.5   |  |  | % |
| Corporate                       | (4,141 )                           | (11,388 )    | 63.6 %   | n/a                   | n/a      |  |  |   |
| Total Operating Loss            | \$(126,250 )                       | \$(61,266 )  | (68.8 )% | (13.8 )%              | (6.7 )%  |  |  | % |

|                        | Three Months Ended<br>December 31, |             |           | % of Segment<br>Sales |            |  |  |   |
|------------------------|------------------------------------|-------------|-----------|-----------------------|------------|--|--|---|
|                        | 2015                               | 2014        | % Change  | 2015                  | 2014       |  |  |   |
|                        | (in thousands)                     |             |           |                       |            |  |  |   |
| <b>Adjusted EBITDA</b> |                                    |             |           |                       |            |  |  |   |
| Aerostructures         | \$54,035                           | \$(83,137 ) | (165.0 )% | 9.8                   | % (14.8 )% |  |  | % |
| Aerospace Systems      | 54,861                             | 42,136      | 30.2 %    | 19.0                  | % 15.1     |  |  | % |
| Aftermarket Services   | 16,764                             | 14,824      | 13.1 %    | 21.5                  | % 18.4     |  |  | % |
| Corporate              | (3,707 )                           | (10,782 )   | 65.6 %    | n/a                   | n/a        |  |  |   |
|                        | \$121,953                          | \$(36,959 ) | 53.8 %    | 13.3                  | % (4.0 )%  |  |  | % |

Aerostructures: Aerostructures segment net sales decreased by \$6.7 million, or 1.2%, to \$553.6 million for the three months ended December 31, 2015, from \$560.3 million for the three months ended December 31, 2014. Organic sales decreased \$96.3 million, or 17.2%. The Tulsa Programs contributed \$89.6 million in net sales. Organic sales decreased primarily due to production rate reductions by our customers on the 747-8, A330, C-17 and Gulfstream G450/550 programs. Net sales for the three months ended December 31, 2015, included \$3.5 million in total non-recurring revenues, as compared to \$17.8 million in total non-recurring revenues for the three months ended December 31, 2014.

Aerostructures segment cost of sales decreased by \$168.6 million, or 27.3%, to \$448.6 million for the three months ended December 31, 2015, from \$617.2 million for the three months ended December 31, 2014. Organic cost of sales decreased \$238.9 million, or 38.8%, and the Tulsa Programs contributed \$70.3 million in cost of sales. The organic cost of sales decreased due to the decrease in net sales noted above. In addition, the three months ended December 31, 2014, were negatively impacted by a provision for forward losses of \$152.0 million on the 747-8 program and \$13.9 million in losses as a result of losing NADCAP certification at one of our facilities. Excluding the impact of the

provision for forward losses in the prior year, the comparable organic gross margin for the three months ended December 31, 2015 was 18.5%, compared with 19.5% for the three months ended December 31, 2014, due to the unfavorable cumulative catch-up adjustments noted below.

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Aerostructures segment cost of sales for the three months ended December 31, 2015, included net unfavorable cumulative catch-up adjustments (\$2.8 million). The gross margin percent decreased during the three months ended December 31, 2015, as the result of net unfavorable cumulative catch-up adjustments with gross favorable adjustments (\$9.6 million) and gross unfavorable adjustments (\$12.5 million). The cumulative catch-up adjustments for the three months ended December 31, 2015 were mainly due to increased labor cost estimates driven by performance on smaller programs and expedited material supplier costs, offset by favorable production block close outs. Segment operating income for the three months ended December 31, 2014 included net unfavorable cumulative catch-up adjustments (\$154.3 million).

Aerostructures segment operating loss increased by \$83.0 million, or 79.7%, to \$(187.3) million for the three months ended December 31, 2015, from \$(104.2) million for the three months ended December 31, 2014. Organic operating income decreased \$101.4 million, and the acquisition of the Tulsa Programs contributed \$18.4 million. Organic operating income for the three months ended December 31, 2015 decreased due to the non-cash impairment charge to the Vought tradename of \$229.2 million noted above, the decreased sales as discussed above and included a legal settlement of \$10.5 million and increased legal fees of \$3.0 million. Organic operating income for the three months ended December 31, 2014 included a provision for forward losses, as mentioned above. These same factors contributed to the decrease in Adjusted EBITDA year over year.

Aerostructures segment operating income as a percentage of segment sales decreased to 33.8% for the three months ended December 31, 2015, due to the decreased operating income noted above.

Aerospace Systems: Aerospace Systems segment net sales increased by \$9.1 million, or 3.3%, to \$288.3 million for the three months ended December 31, 2015, from \$279.2 million for the three months ended December 31, 2014.

Organic sales decreased \$0.1 million and the acquisition of Fairchild contributed \$9.2 million.

Aerospace Systems segment cost of sales decreased by \$0.6 million, or 0.3%, to \$194.8 million for the three months ended December 31, 2015, from \$195.4 million for the three months ended December 31, 2014. Organic cost of sales decreased \$5.4 million, or 2.8% and the acquisition of Fairchild contributed \$4.8 million. Organic gross margin for the three months ended December 31, 2015, was 31.9% compared with 30.0% for the three months ended December 31, 2014, with improvement due to the change in sales mix.

Aerospace Systems segment operating income increased by \$10.9 million, or 26.0%, to \$52.8 million for the three months ended December 31, 2015, from \$41.9 million for the three months ended December 31, 2014. Organic operating income increased \$8.3 million, or 19.9%, and the acquisition of Fairchild contributed \$2.6 million. Organic operating income increased due to improved gross margins noted above, decreased discretionary spending including consulting, travel and marketing related expenses. The increase in Adjusted EBITDA year over year is due to the decreased organic cost of sales and change in sales mix noted above.

Aerospace Systems segment operating income as a percentage of segment sales increased to 18.3% for the three months ended December 31, 2015, as compared to 15.0% for the three months ended December 31, 2014, due to the improvement in gross margins as noted above. These same factors contributed to the increase in Adjusted EBITDA margin year over year.

Aftermarket Services: Aftermarket Services segment net sales decreased by \$2.6 million, or 3.2%, to \$78.1 million for the three months ended December 31, 2015, from \$80.7 million for the three months ended December 31, 2014. Organic sales decreased \$4.2 million, or 5.6%, and the acquisition of NAAS contributed \$1.6 million more than the prior fiscal quarter. Organic sales decreased due to a decreased demand from commercial customers.

Aftermarket Services segment cost of sales decreased by \$3.6 million, or 6.2%, to \$54.6 million for the three months ended December 31, 2015, from \$58.2 million for the three months ended December 31, 2014. Organic cost of sales decreased \$4.7 million, or 8.6%, and the acquisition of NAAS contributed \$1.1 million more than the prior fiscal quarter. The organic cost of sales decreased due to the decrease in organic sales noted above. Organic gross margin for

the three months ended December 31, 2015 was 29.3%, compared with 27.0% for the three months ended December 31, 2014. The organic gross margin increase was the result of a change in sales mix and cost containment measures.

Aftermarket Services segment operating income decreased by \$0.1 million, or 0.7%, to \$12.4 million for the three months ended December 31, 2015, from \$12.5 million for the three months ended December 31, 2014. Organic operating income decreased \$1.0 million, or 9.3%, and the acquisition of NAAS contributed \$0.9 million more than the prior fiscal quarter. Organic operating income decreased due to a settlement of a customer dispute of \$1.9 million partially offset by decreased discretionary spending.



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Aftermarket Services segment operating income as a percentage of segment sales increased to 15.9% for the three months ended December 31, 2015, as compared to 15.5% for the three months ended December 31, 2014, due to the increased gross margin noted above.

Nine months ended December 31, 2015 compared to nine months ended December 31, 2014

|                            | Nine Months Ended December 31, |             |
|----------------------------|--------------------------------|-------------|
|                            | 2015                           | 2014        |
|                            | (dollars in thousands)         |             |
| Net sales                  | \$2,828,278                    | \$2,808,444 |
| Segment operating income   | \$127,502                      | \$194,640   |
| Corporate (expense) income | (35,839                        | ) 99,316    |
| Total operating income     | 91,663                         | 293,956     |
| Interest expense and other | 49,539                         | 71,320      |
| Income tax expense         | 6,429                          | 66,778      |
| Net income                 | \$35,695                       | \$155,858   |

Net sales increased by \$19.8 million, or 0.7%, to \$2.83 billion for the nine months ended December 31, 2015, from \$2.81 billion for the nine months ended December 31, 2014. The acquisition of Fairchild and the fiscal 2015 acquisitions contributed \$354.4 million in net sales. Organic sales decreased \$334.6 million, or 12.5%, due to production rate reductions by our customers on the 747-8, Gulfstream G450/550 programs, A330, and C-17 programs. Net sales for the nine months ended December 31, 2015, included \$17.7 million in total non-recurring revenues, as compared to \$30.3 million in non-recurring revenues for the nine months ended December 31, 2014. The prior year period was negatively impacted by our customers' decreased production rates on existing programs.

Cost of sales decreased \$169.5 million, or 7.3%, to \$2.15 billion for the nine months ended December 31, 2015, from \$2.32 billion for the nine months ended December 31, 2014. The acquisition of Fairchild and the fiscal 2015 acquisitions contributed \$273.0 million to cost of sales. Organic cost of sales decreased \$442.5 million, or 19.9%, due to the decrease in organic sales mentioned above. In addition, results for the nine months ended December 31, 2014, were negatively impacted by a provision for forward losses of \$152.0 million on the 747-8 program and \$13.9 million in losses as a result of losing NADCAP certification at one of our facilities. Excluding the impact of the provision for forward losses in the prior year, the comparable organic gross margin for the nine months ended December 31, 2015 was 24.0%, as compared to 24.5%.

Gross margin included net unfavorable cumulative catch-up adjustments on long-term contracts (\$13.8 million). The cumulative catch-up adjustments to gross margin included gross favorable adjustments (\$28.5 million) and gross unfavorable adjustments (\$42.3 million). The cumulative catch-up adjustments for the nine months ended December 31, 2015 were mainly due to increased labor cost estimates driven by performance on smaller programs, expedited material supplier costs, offset by favorable production block close outs. Gross margin for the nine months ended December 31, 2014 included net unfavorable cumulative catch-up adjustments (\$158.2 million).

Segment operating income decreased by \$67.1 million, or 34.5%, to \$127.5 million for the nine months ended December 31, 2015, from \$194.6 million for the nine months ended December 31, 2014. The acquisition of Fairchild and the fiscal 2015 acquisitions contributed \$70.1 million to segment operating income. Organic segment operating income decreased \$140.1 million. Organic operating income for the nine months ended December 31, 2015 included a non-cash impairment charge to the Vought tradename of \$229.2 million noted above, a legal settlement of \$10.5 million, facility consolidation costs which includes impairment of tangible and intangible assets and write down of

inventory of \$5.4 million and costs related to exiting a facility in China of \$1.9 million. The operating income for the nine months ended December 31, 2014 included a provision for forward losses noted above.

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Corporate expenses were \$35.8 million for the nine months ended December 31, 2015, as compared to income of \$99.3 million for the nine months ended December 31, 2014. This difference is due to the legal settlement reached during the first quarter of fiscal 2015 between the Company and Eaton Corporation and several of its subsidiaries, for a net gain of \$134.7 million, partially offset by increased compensation expense (\$3.2 million) largely due to severance to the former Chief Executive Officer, increased consulting fees (\$3.2 million), and a pension curtailment charge (\$2.9 million) as result of a plan amendment to our largest union-represented group of employees.

Interest expense and other decreased by \$21.8 million, or 30.5%, to \$49.5 million for the nine months ended December 31, 2015, compared to \$71.3 million for the nine months ended December 31, 2014. Interest expense and other for the nine months ended December 31, 2015 included foreign exchange losses (\$0.9 million) versus foreign exchange gains (\$4.3 million) for the nine months ended December 31, 2014. Interest expense and other for the prior year period included the redemption of the 2018 Notes, which included pre-tax losses associated with the 4.79% redemption premium, and the write-off of the remaining related unamortized discount and deferred financing fees (\$22.7 million).

The effective income tax rate for the nine months ended December 31, 2015 was 15.3% compared to 30.0% for the nine months ended December 31, 2014. For the nine months ended December 31, 2015, the income tax provision was reduced to reflect the benefit from a decrease to the state deferred tax rate (\$4.2 million), the benefit related to the effects of transfer pricing adjustments carried back to prior periods (\$0.4 million) and the benefit from the retroactive reinstatement of the R&D tax credit (\$3.0 million). For the nine months ended December 31, 2014, the income tax provision was reduced to reflect the release of previously reserved for unrecognized tax benefits (\$1.1 million), the additional tax benefit related to the net operating loss carryback claim (\$0.4 million), the benefit from the decrease of the state deferred tax rate (\$2.0 million) and the income tax benefit included the benefit from the retroactive reinstatement of the R&D tax credit (\$6.0 million). For the fiscal year ending March 31, 2016, the Company expects its effective tax rate to be approximately 31.2%.

## Business Segment Performance - Nine months ended December 31, 2015 compared to nine months ended December 31, 2014

|                                   | Nine Months Ended December 31, |        |   |
|-----------------------------------|--------------------------------|--------|---|
|                                   | 2015                           | 2014   |   |
| Aerostructures                    |                                |        |   |
| Commercial aerospace              | 35.6                           | % 40.6 | % |
| Military                          | 9.9                            | % 13.7 | % |
| Business Jets                     | 16.4                           | % 9.0  | % |
| Regional                          | 0.4                            | % 0.4  | % |
| Non-aviation                      | 0.1                            | % 0.4  | % |
| Total Aerostructures net sales    | 62.4                           | % 64.1 | % |
| Aerospace Systems                 |                                |        |   |
| Commercial aerospace              | 14.4                           | % 12.8 | % |
| Military                          | 11.0                           | % 11.0 | % |
| Business Jets                     | 2.1                            | % 1.4  | % |
| Regional                          | 1.0                            | % 1.1  | % |
| Non-aviation                      | 1.2                            | % 1.8  | % |
| Total Aerospace Systems net sales | 29.7                           | % 28.1 | % |
| Aftermarket Services              |                                |        |   |
| Commercial aerospace              | 6.1                            | % 6.3  | % |
| Military                          | 1.4                            | % 0.9  | % |

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|                                      |       |         |   |
|--------------------------------------|-------|---------|---|
| Regional                             | 0.4   | % 0.5   | % |
| Non-aviation                         | —     | % 0.1   | % |
| Total Aftermarket Services net sales | 7.9   | % 7.8   | % |
| Total Consolidated net sales         | 100.0 | % 100.0 | % |

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We continue to experience a higher proportion of our sales mix in the commercial aerospace end market. We recently have experienced an increase in our business jet end market due to the acquisition of the Tulsa Programs and a decrease in our military end market due to the wind-down of the C-17 program.

|                                    | Nine Months Ended December 31, |             |          | % of Total Sales |         |   |  |
|------------------------------------|--------------------------------|-------------|----------|------------------|---------|---|--|
|                                    | 2015<br>(in thousands)         | 2014        | % Change | 2015             | 2014    |   |  |
| <b>NET SALES</b>                   |                                |             |          |                  |         |   |  |
| Aerostructures                     | \$1,770,338                    | \$1,805,016 | (1.9 )%  | 62.6             | % 64.3  | % |  |
| Aerospace Systems                  | 846,091                        | 787,951     | 7.4      | % 29.9           | % 28.1  | % |  |
| Aftermarket Services               | 226,649                        | 222,641     | 1.8      | % 8.0            | % 7.9   | % |  |
| Elimination of inter-segment sales | (14,800 )                      | (7,164 )    | 106.6    | % (0.5 )%        | (0.3 )% | % |  |
| Total Net Sales                    | \$2,828,278                    | \$2,808,444 | 0.7      | % 100.0          | % 100.0 | % |  |

|                                 | Nine Months Ended December 31, |           |           | % of Segment Sales |        |   |  |
|---------------------------------|--------------------------------|-----------|-----------|--------------------|--------|---|--|
|                                 | 2015<br>(in thousands)         | 2014      | % Change  | 2015               | 2014   |   |  |
| <b>SEGMENT OPERATING INCOME</b> |                                |           |           |                    |        |   |  |
| Aerostructures                  | \$(54,159 )                    | \$34,596  | (256.5 )% | (3.1 )%            | 1.9    | % |  |
| Aerospace Systems               | 150,147                        | 125,430   | 19.7      | % 17.7             | % 15.9 | % |  |
| Aftermarket Services            | 31,514                         | 34,614    | (9.0 )%   | 13.9               | % 15.5 | % |  |
| Corporate                       | (35,839 )                      | 99,316    | 136.1     | % n/a              | n/a    |   |  |
| Total Operating Income          | \$91,663                       | \$293,956 | (68.8 )%  | 3.2                | % 10.5 | % |  |

|                        | Nine Months Ended December 31, |           |          | % of Segment Sales |        |   |  |
|------------------------|--------------------------------|-----------|----------|--------------------|--------|---|--|
|                        | 2015<br>(in thousands)         | 2014      | % Change | 2015               | 2014   |   |  |
| <b>Adjusted EBITDA</b> |                                |           |          |                    |        |   |  |
| Aerostructures         | \$196,377                      | \$96,625  | 103.2    | % 11.1             | % 5.4  | % |  |
| Aerospace Systems      | 157,945                        | 132,436   | 19.3     | % 18.7             | % 16.8 | % |  |
| Aftermarket Services   | 40,766                         | 40,751    | —        | % 18.0             | % 18.3 | % |  |
| Corporate              | (31,753 )                      | (33,508 ) | 5.2      | % n/a              | n/a    |   |  |
|                        | \$363,335                      | \$236,304 | 53.8     | % 12.8             | % 8.4  | % |  |

Aerostructures: Aerostructures segment net sales decreased by \$34.7 million, or 1.9%, to \$1.77 billion for the nine months ended December 31, 2015, from \$1.81 billion for the nine months ended December 31, 2014. Organic sales decreased \$288.8 million, or 16.0%. The Tulsa Programs contributed \$254.1 million in net sales. Organic sales decreased primarily due to production rate reductions by our customers on the 747-8, Gulfstream G450/550 programs, A330, and C-17 programs. Net sales for the nine months ended December 31, 2015 included \$17.7 million in total non-recurring revenues, as compared to \$30.3 million in total non-recurring revenues for the nine months ended December 31, 2014.

Aerostructures segment cost of sales decreased by \$193.2 million, or 11.9%, to \$1.43 billion for the nine months ended December 31, 2015, from \$1.63 billion for the nine months ended December 31, 2014. Organic cost of sales

decreased \$404.1 million, or 24.8%, and the Tulsa Programs contributed \$210.9 million in cost of sales. The organic cost of sales decreased due to the decrease in net sales noted above and plus the benefit due to the settlement of a grant with the state of Texas (\$5.3 million). In addition, the nine months ended December 31, 2014 were negatively impacted by a provision for forward losses of \$152.0 million on the 747-8 program and \$13.9 million in losses as a result of losing NADCAP certification at one of our

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facilities. Excluding the impact of the provision for forward losses in the prior year, the comparable organic gross margin for the nine months ended December 31, 2015 was 19.4% compared with 20.6% for the nine months ended December 31, 2014.

Aerostructures segment cost of sales for the nine months ended December 31, 2015 included net unfavorable cumulative catch-up adjustments (\$13.8 million). The cumulative catch-up adjustments to gross margin for the nine months ended December 31, 2015 included gross favorable adjustments (\$28.5 million) and gross unfavorable adjustments (\$42.3 million). The cumulative catch-up adjustments for the nine months ended December 31, 2015, were mainly due to increased labor cost estimates driven by performance on smaller programs, expedited material supplier costs, offset by favorable production block close outs. Segment operating income for the nine months ended December 31, 2014 included net unfavorable cumulative catch-up adjustments (\$158.2 million).

Aerostructures segment operating income decreased by \$88.8 million, or 256.5%, to \$54.2 million for the nine months ended December 31, 2015, from \$34.6 million for the nine months ended December 31, 2014. Excluding the provision for forward losses of \$165.9 million in the prior year as discussed above, operating income decreased for the nine months ended December 31, 2015, due to the non-cash impairment charge to the Vought tradename of \$229.2 million noted above, the decreased sales as discussed above, a legal settlement of \$10.5 million, and costs related to exiting a facility in China (\$1.9 million), which were partially offset by costs related to the relocation from our Jefferson Street facilities incurred in the prior year period (\$3.1 million). Operating income for the nine months ended December 31, 2014 included a provision for forward losses, as mentioned above. The increase in Adjusted EBITDA year over year is due to the same factors that increased operating income.

Aerostructures segment operating income as a percentage of segment sales decreased to (3.1)% for the nine months ended December 31, 2015, as compared to 1.9% for the nine months ended December 31, 2014, due to the decrease in operating income as noted above. These same factors contributed to the increase in Adjusted EBITDA year over year.

Aerospace Systems: Aerospace Systems segment net sales increased by \$58.1 million, or 7.4%, to \$846.1 million for the nine months ended December 31, 2015, from \$788.0 million for the nine months ended December 31, 2014.

Organic sales decreased \$25.5 million, or 3.9%, primarily due to order timing on certain military programs, slower commercial rotorcraft demand and lower aftermarket revenue. The acquisitions of Fairchild and GE contributed \$83.6 million in net sales.

Aerospace Systems segment cost of sales increased by \$29.8 million, or 5.5%, to \$572.1 million for the nine months ended December 31, 2015, from \$542.3 million for the nine months ended December 31, 2014. Organic cost of sales decreased \$21.8 million, or 5.0%, and the acquisitions of Fairchild and GE contributed \$51.6 million in cost of sales. The organic cost of sales decreased due to the decrease in net sales noted above. Organic gross margin for the nine months ended December 31, 2015 was 34.4%, compared with 33.7% for the nine months ended December 31, 2014, due to changes in sales mix.

Aerospace Systems segment operating income increased by \$24.7 million, or 19.7%, to \$150.1 million for the nine months ended December 31, 2015, from \$125.4 million for the nine months ended December 31, 2014. Operating income increased primarily due to the acquisitions of Fairchild and GE (\$25.6 million) and reduced discretionary spending, partially offset by facility consolidation costs which includes impairment of tangible and intangible assets and write down of inventory (\$5.4 million). These same factors contributed to the increase in Adjusted EBITDA year over year.

Aerospace Systems segment operating income as a percentage of segment sales increased to 17.7% for the nine months ended December 31, 2015, as compared to 15.9% for the nine months ended December 31, 2014, due to the effects of the Fairchild and GE acquisitions. These same factors contributed to the increase in Adjusted EBITDA margin year over year.

Aftermarket Services: Aftermarket Services segment net sales increased by \$4.0 million, or 1.8%, to \$226.6 million for the nine months ended December 31, 2015, from \$222.6 million for the nine months ended December 31, 2014.

Organic sales decreased \$12.6 million, or 5.8%, and the acquisition of NAAS contributed \$16.6 million. Organic sales decreased due to a decreased demand from commercial customers.

Aftermarket Services segment cost of sales increased by \$1.6 million, or 1.0%, to \$163.8 million for the nine months ended December 31, 2015, from \$162.3 million for the nine months ended December 31, 2014. Organic cost of sales decreased \$9.0 million, or 5.7%, due to the decreased sales noted above and the acquisition of NAAS contributed \$10.6 million. Organic gross margin for the nine months ended December 31, 2015 was 26.7% compared with 26.8% for the nine months ended December 31, 2014.

Aftermarket Services segment operating income decreased by \$3.1 million, or 9.0%, to \$31.5 million for the nine months ended December 31, 2015, from \$34.6 million for the nine months ended December 31, 2014. Organic operating income decreased \$6.8 million, or 20.1%, and the acquisition of NAAS contributed \$3.7 million. Organic operating income decreased



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due to the decreased gross margin as noted above, an increase to the bad debt reserve resulting from an international customer's declaration of bankruptcy (\$1.1 million) and a settlement of a customer dispute (\$1.9 million). These same factors contributed to the decrease in Adjusted EBITDA year over year.

Aftermarket Services segment operating income as a percentage of segment sales decreased to 13.9% for the nine months ended December 31, 2015, as compared to 15.5% for the nine months ended December 31, 2014, due to the decrease in operating income as noted above. These same factors contributed to the decrease in Adjusted EBITDA margin year over year.

## Liquidity and Capital Resources

Our working capital needs are generally funded through cash flows from operations and borrowings under our credit arrangements. During the nine months ended December 31, 2015, we used approximately \$174.7 million of cash flows from operating activities, used approximately \$115.5 million in investing activities and received approximately \$298.7 million in financing activities.

Cash flows used in operating activities for the nine months ended December 31, 2015 were \$174.7 million, compared to cash flows provided by operating activities for the nine months ended December 31, 2014 of \$310.0 million.

During the nine months ended December 31, 2015, net cash used in operating activities was primarily due the timing of payments on accounts payable and other accrued expenses (\$225.2 million) driven by pre-production costs and net spending on the Tulsa Programs discussed below, and by decreased receipts from customers and others related to a decline in organic sales (\$67.8 million). During the nine months ended December 31, 2014, net cash provided by operating activities was primarily due to cash received from legal settlement (\$134.7 million) and an income tax refund (\$26.0 million).

We continue to invest in inventory for new programs which impacts our cash flows from operating activities. During the nine months ended December 31, 2015, inventory build for capitalized pre-production costs on new programs excluding progress payments, including the Bombardier Global 7000/8000 program and the Embraer E-Jet, were \$104.5 million and \$68.7 million, respectively. Net spending on the Tulsa Programs for the nine months ended December 31, 2015 was approximately \$65.2 million. Additionally, inventory build on mature programs, including costs associated with deferred shipments on several programs, was approximately \$89.3 million. Unliquidated progress payments netted against inventory decreased \$37.9 million, due to timing of receipts.

Cash flows used in investing activities for the nine months ended December 31, 2015 increased \$70.8 million from the nine months ended December 31, 2014. Cash flows used in investing activities for the nine months ended December 31, 2015, included the acquisition of Fairchild (\$57.0 million) and a payment to settle working capital adjustment related to the acquisition of GE (\$6.0 million) and capital expenditures (\$63.4 million). The nine months ended December 31, 2014 included cash used in the acquisition of GE (\$60.9 million) and capital expenditures (\$85.2 million) due to the completion of the relocation of our Jefferson Street facilities.

Cash flows provided by financing activities for the nine months ended December 31, 2015 were \$298.7 million, compared to cash flows used in financing activities for the nine months ended December 31, 2014 of \$259.9 million. Cash flows provided by financing activities for the nine months ended December 31, 2015 included additional borrowings on our Credit Facility (as defined below) to fund the acquisition of Fairchild and to fund operations. Cash flows provided by financing activities for the nine months ended December 31, 2014, included additional borrowings on our Credit Facility to fund the acquisition of GE, the redemption of the Senior Notes due 2018 (the "2018 Notes"), settlement of the Convertible Senior Subordinated Notes ("Convertible Notes") redemptions and the purchase of our common stock (\$93.0 million), offset by the issuance of the 2022 Notes (as defined below).

As of December 31, 2015, \$580.7 million was available under our revolving credit facility (the "Credit Facility"). On December 31, 2015, an aggregate amount of approximately \$393.7 million was outstanding under the Credit Facility, all of which was accruing interest at LIBOR plus applicable basis points totaling 2.0% per annum. Amounts repaid

under the Credit Facility may be reborrowed.

At December 31, 2015, there was \$191.0 million outstanding under our receivable securitization facility ("Securitization Facility"). Interest rates on the Securitization Facility are based on prevailing market rates for short-term commercial paper, plus a program fee and a commitment fee.

In June 2014, the Company issued the Senior Notes due 2022 (the "2022 Notes") for \$300.0 million in principal amount. The 2022 Notes were sold at 100% of principal amount and have an effective yield of 5.25%. Interest on the 2022 Notes is

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(continued)

payable semiannually in cash in arrears on June 1 and December 1 of each year. We used the net proceeds to redeem the 2018 Notes and pay related fees and expenses. In connection with the issuance of the 2022 Notes, the Company incurred approximately \$5.0 million of costs, which were deferred and are being amortized on the effective interest method over the term of the notes.

In February 2013, the Company issued the Senior Notes due 2021 (the "2021 Notes") for \$375.0 million in principal amount. The 2021 Notes were sold at 100% of principal amount and have an effective yield of 4.875%. Interest on the 2021 Notes is payable semiannually in cash in arrears on April 1 and October 1 of each year. We used the net proceeds to repay borrowings under our Credit Facility and pay related fees and expenses, and for general corporate purposes. In connection with the issuance of the 2021 Notes, the Company incurred approximately \$6.3 million of costs, which were deferred and are being amortized on the effective interest method over the term of the notes.

On June 23, 2014, the Company completed the redemption of the 2018 Notes. The principal amount of \$350.0 million was redeemed at a price of 104.79% plus accrued and unpaid interest. As a result of the redemption, we recognized a pre-tax loss in the first quarter of fiscal 2015 of \$22.6 million, consisting of early termination premium, unamortized discount and deferred financing fees.

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

Capital expenditures were approximately \$63.4 million for the nine months ended December 31, 2015. We funded these expenditures through borrowings under the Credit Facility. For our fiscal year ending March 31, 2016, we expect capital expenditures of approximately \$80.0 million to \$100.0 million and investments in new major programs of \$190.0 million to \$220.0 million, which will be reflected in inventory. The expenditures are expected to be used mainly to expand capacity or replace old equipment at several facilities.

The expected future cash flows for the next five years for long-term debt, leases and other obligations are as follows:

| Contractual Obligations | Payments Due by Period |                     |           |           |                      |
|-------------------------|------------------------|---------------------|-----------|-----------|----------------------|
|                         | Total                  | Less than<br>1 year | 1-3 years | 4-5 years | More than 5<br>years |
| Debt principal (1)      | \$1,690,383            | \$42,759            | \$287,224 | \$678,202 | \$682,198            |
| Debt interest (2)       | 233,876                | 46,242              | 92,211    | 77,304    | 18,119               |
| Operating leases        | 160,238                | 26,675              | 45,510    | 33,658    | 54,395               |
| Purchase obligations    | 1,957,441              | 1,480,086           | 412,448   | 63,805    | 1,102                |
| Total                   | \$4,041,938            | \$1,595,762         | \$837,393 | \$852,969 | \$755,814            |

(1) Included in the Company's balance sheet at December 31, 2015.

(2) Includes fixed-rate interest only.

The above table excludes unrecognized tax benefits of \$9.0 million as of December 31, 2015, since we cannot predict with reasonable certainty the timing of cash settlements with the respective taxing authorities.

In addition to the financial obligations detailed in the table above, we also had obligations related to our benefit plans at March 31, 2015, as detailed in the following table. Our other postretirement benefits are not required to be funded in advance, so benefit payments are paid as they are incurred. Our expected net contributions and payments are included in the table below:

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|  | Pension<br>Benefits | Other<br>Postretirement<br>Benefits |
|--|---------------------|-------------------------------------|
|  | (in thousands)      |                                     |
| Projected benefit obligation at March 31, 2015 | \$2,479,319         | \$ 239,267                          |
| Plan assets at March 31, 2015                  | 2,156,148           | —                                   |
| Projected contributions by fiscal year         |                     |                                     |
| 2016   | 40,000              | 20,482                              |
| 2017   | 40,000              | 19,714                              |
| 2018   | —                   | 19,083                              |
| 2019   | —                   | 19,022                              |
| 2020   | —                   | 18,373                              |
| Total 2016 - 2020                              | \$80,000            | \$96,674                            |

For the nine months ended December 31, 2014, the Company made a pension contribution \$55.4 million. For the fiscal year ending March 31, 2016, the Company is not required to make minimum contributions to its U.S. defined benefit pension plans under the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006.

We believe that cash generated by operations and borrowings under the Credit Facility will be sufficient to meet anticipated cash requirements for our current operations for the foreseeable future. However, we have a stated policy to grow through acquisitions and are continuously evaluating various acquisition opportunities, while opportunistically buying back shares to return capital to our shareholders. As a result, we currently are pursuing the potential purchase of a number of candidates. In the event that more than one of these transactions are successfully consummated, the availability under the Credit Facility might be fully utilized and additional funding sources may be needed. There can be no assurance that such funding sources will be available to us on terms favorable to us, if at all.

## Critical Accounting Policies

The Company's critical accounting policies are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations and notes accompanying the condensed consolidated financial statements that appear in the Annual Report on Form 10-K for the fiscal year ended March 31, 2015. Except as otherwise disclosed in the financial statements and accompanying notes included in this report, there were no material changes subsequent to the filing of the Annual Report on Form 10-K for the fiscal year ended March 31, 2015, in the Company's critical accounting policies or in the assumptions or estimates used to prepare the financial information appearing in this report.

## Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 relating to our future operations and prospects, including statements that are based on current projections and expectations about the markets in which we operate, and our beliefs concerning future performance and capital requirements based upon current available information. Such statements are based on our beliefs as well as assumptions made by and information currently available to us. When used in this document, words like “may,” “might,” “will,” “expect,” “anticipate,” “believe,” “potential,” and similar expressions are intended to identify forward-looking statements. Actual results could differ materially from our current expectations. For example, there can be no assurance that

additional capital will not be required or that additional capital, if required, will be available on reasonable terms, if at all, at such times and in such amounts as may be needed by us. In addition to these factors, among other factors that could cause actual results to differ materially are uncertainties relating to the integration of acquired businesses, general economic conditions affecting our business, dependence of certain of our businesses on certain key customers as well as competitive factors relating to the aviation industry. For a more detailed discussion of these and other factors affecting us, see the risk factors described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2015, filed with the SEC on May 21, 2015.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For information regarding our exposure to certain market risks, see “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended March 31, 2015. There has been no material change in this information during the period covered by this report.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports pursuant to the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. As of December 31, 2015, we completed an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2015.

(b) Changes in internal control over financial reporting.

There were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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## TRIUMPH GROUP, INC.

## Part II. Other Information

## Item 1. Legal Proceedings

As previously disclosed, on June 13, 2013, American Brownfield MCIC, LLC (“American Brownfield”) filed suit (the “Lawsuit”) in the 298th Judicial District Court of Dallas County, Texas against Triumph Aerostructures, LLC (“Triumph Aerostructures”), a wholly-owned subsidiary of the Company, for amounts allegedly owed pursuant to a lease dated October 24, 2007 covering the use and occupancy of approximately 314 acres of land and improvements in Dallas, Texas, previously known as the Naval Weapons Industrial Reserve Plant (the “Jefferson Street Facility”). Triumph Aerostructures, the Company, and American Brownfield agreed to a mediated settlement of the Lawsuit, effective November 18, 2015. Under the terms of the settlement, American Brownfield was paid \$5.0 million on November 23, 2015, and is entitled to a second payment of \$5.5 million on or before May 20, 2016. The Lawsuit has been administratively closed, and will be dismissed with prejudice upon receipt by American Brownfield of the second payment. Also as part of the settlement, the Company has leased approximately 272,700 square feet of space at the Jefferson Street Facility for a 15 year term beginning December 1, 2015, for annual base rent of approximately \$1.3 million.

## Item 6. Exhibits.

- |              |   |
|--------------|---|
| Exhibit 31.1 | Certification by President and Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).  |
| Exhibit 31.2 | Certification by Senior Vice President and Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).  |
| Exhibit 32.1 | Certification of Periodic Report by President and Chief Executive Officer Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 Sarbanes-Oxley Act of 2002.  |
| Exhibit 32.2 | Certification of Periodic Report by Senior Vice President and Chief Financial Officer Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 Sarbanes-Oxley Act of 2002.  |
| Exhibit 101  | The following financial information from Triumph Group, Inc.’s Quarterly Report on Form 10-Q for the quarter ended December 31, 2015 formatted in XBRL: (i) Condensed Consolidated Balance Sheets as of December 31, 2015 and March 31, 2015; (ii) Condensed Consolidated Statements of Income for the three and nine months ended December 31, 2015 and 2014; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended December 31, 2015 and 2014; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2015 and 2014; and (1) Notes to Condensed Consolidated Financial Statements. |

TRIUMPH GROUP, INC.

Signatures

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(continued)

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

Triumph Group, Inc.  
(Registrant)

/s/ Daniel J. Crowley February 3, 2016  
Daniel J. Crowley, President, Chief Executive Officer and  
Director  
(Principal Executive Officer)

/s/ Jeffrey L. McRae February 3, 2016  
Jeffrey L. McRae, Senior Vice President & Chief Financial  
Officer  
(Principal Financial Officer)

/s/ Thomas A. Quigley, III February 3, 2016  
Thomas A. Quigley, III, Vice President and Controller  
(Principal Accounting Officer)

EXHIBIT INDEX

| Exhibit Number | Description   |
|----------------|---|
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| 101            | The following financial information from Triumph Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2105 formatted in XBRL: (i) Condensed Consolidated Balance Sheets as of December 31, 2015 and March 31, 2015; (ii) Condensed Consolidated Statements of Income for the three and nine months ended December 31, 2015 and 2014; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended December 31, 2015 and 2014; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2015 and 2014; and (v) Notes to Condensed Consolidated Financial Statements. |