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Wesco Aircraft Holdings, Inc
Form 10-Q
August 05, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2016

OR

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

Commission File No. 001-35253

WESCO AIRCRAFT HOLDINGS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware 20-5441563
(State of Incorporation) (I.R.S. Employer
Identification Number)
24911 Avenue Stanford
Valencia, CA 91355
(Address of Principal Executive Offices and Zip Code)

(661) 775-7200
(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, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The number of shares of common stock (par value \$0.001 per share) of the registrant outstanding as of July 28, 2016 was 98,606,850.

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PART 1 — FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS.

Wesco Aircraft Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share data)

(Unaudited)

	June 30, 2016	September 30, 2015
Assets		
Current assets		
Cash and cash equivalents	\$65,485	\$ 82,866
Accounts receivable, net of allowance for doubtful accounts of \$4,955 and \$5,892 at June 30, 2016 and September 30, 2015, respectively	260,648	253,348
Inventories	714,188	701,535
Prepaid expenses and other current assets	10,031	10,004
Income taxes receivable	184	187
Deferred tax assets, current	89,269	89,401
Total current assets	1,139,805	1,137,341
Property and equipment, net	49,246	46,976
Deferred financing costs, net	10,231	11,248
Goodwill	581,359	590,587
Intangible assets, net	198,691	215,389
Deferred tax assets, non-current	7,813	6,844
Other assets	12,775	12,588
Total assets	\$1,999,920	\$ 2,020,973
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 169,726	\$ 149,615
Accrued expenses and other current liabilities	34,237	38,896
Income taxes payable	10,058	21,442
Capital lease obligations- current portion	1,151	1,044
Total current liabilities	215,172	210,997
Capital lease obligations, less current portion	1,567	1,824
Long-term debt	876,906	952,906
Deferred tax liabilities, non-current	33,734	30,693
Other liabilities	9,651	6,980
Total liabilities	1,137,030	1,203,400
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.001 par value per share: 50,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value, 950,000,000 shares authorized, 98,606,850 and 97,538,124 shares issued and outstanding at June 30, 2016 and September 30, 2015, respectively	99	98
Additional paid-in capital	425,819	412,492
Accumulated other comprehensive loss	(74,849) (38,721
Retained earnings	511,821	443,704
Total stockholders' equity	862,890	817,573
	\$1,999,920	\$ 2,020,973

See the accompanying notes to the consolidated financial statements

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Wesco Aircraft Holdings, Inc. and Subsidiaries
 Consolidated Statements of Earnings and Comprehensive Income
 (In thousands, except share data)
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net sales	\$375,186	\$368,706	\$1,111,771	\$1,127,962
Cost of sales	275,945	265,351	813,564	809,597
Gross profit	99,241	103,355	298,207	318,365
Selling, general and administrative expenses	59,197	67,178	179,708	198,580
Income from operations	40,044	36,177	118,499	119,785
Interest expense, net	(9,325)	(9,335)	(27,436)	(28,054)
Other income (expense), net	2,657	(2,402)	3,960	(1,363)
Income before provision for income taxes	33,376	24,440	95,023	90,368
Provision for income taxes	(9,360)	(7,961)	(26,906)	(31,113)
Net income	24,016	16,479	68,117	59,255
Other comprehensive (loss) income, net	(21,936)	11,203	(36,128)	(11,469)
Comprehensive income	\$2,080	\$27,682	\$31,989	\$47,786
Net income per share:				
Basic	\$0.25	\$0.17	\$0.70	\$0.61
Diluted	\$0.24	\$0.17	\$0.69	\$0.61
Weighted average shares outstanding:				
Basic	97,929,438	97,004,276	97,511,590	96,924,545
Diluted	98,599,215	97,964,138	98,108,904	97,818,380

See the accompanying notes to the consolidated financial statements

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Wesco Aircraft Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended June 30,	
	2016	2015
Cash flows from operating activities		
Net income	\$68,117	\$59,255
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	20,843	19,815
Deferred financing costs	3,144	3,262
Bad debt and sales return reserve	41	3,559
Inventory reserves	9,638	11,691
Stock-based compensation expense	6,406	7,017
Excess tax benefit related to stock-based incentive plans	(796)	(290)
Deferred income taxes	4,240	7
Income from equity investment	(582)	(424)
Other non-cash items	(3,792)	(3,900)
Changes in assets and liabilities		
Accounts receivable	(10,466)	18,694
Inventories	(34,891)	(61,920)
Prepaid expenses and other assets	(352)	(299)
Income taxes receivable	5	12,716
Accounts payable	21,466	8,338
Accrued expenses and other liabilities	(6,098)	(383)
Income taxes payable	(10,330)	6,715
Net cash provided by operating activities	66,593	83,853
Cash flows from investing activities		
Purchase of property and equipment	(11,161)	(4,650)
Proceeds from sales of assets	2,000	—
Acquisition of business, net of cash acquired	—	(250)
Net cash used in investing activities	(9,161)	(4,900)
Cash flows from financing activities		
Repayment of long-term debt	(76,000)	(99,750)
Financing fees	(2,126)	—
Repayment of capital lease obligations	(1,037)	(1,216)
Excess tax benefit related to stock-based incentive plans	796	290
Net proceeds from issuance of common stock	6,126	785
Net cash used in financing activities	(72,241)	(99,891)
Effect of foreign currency exchange rate on cash and cash equivalents	(2,572)	(1,764)
Net decrease in cash and cash equivalents	(17,381)	(22,702)
Cash and cash equivalents, beginning of period	82,866	104,775
Cash and cash equivalents, end of period	\$65,485	\$82,073

See the accompanying notes to the consolidated financial statements

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Wesco Aircraft Holdings, Inc. & Subsidiaries
Notes to the Consolidated Financial Statements
(Unaudited)

Note 1. Basis of Presentation and Significant Accounting Policies

The accompanying unaudited consolidated financial statements include the accounts of Wesco Aircraft Holdings, Inc. and its wholly owned subsidiaries (referred to herein as “Wesco” or the “Company”) prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The financial statements presented herein have not been audited by an independent registered public accounting firm, but include all material adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for fair presentation of the financial position, results of operations and cash flows for the period. However, these results are not necessarily indicative of results for any other interim period or for the full fiscal year. The preparation of financial statements in conformity with GAAP requires us to make certain estimates and assumptions for the reporting periods covered by the financial statements. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. Actual amounts could differ from these estimates.

Certain information and footnote disclosures normally included in financial statements in accordance with GAAP have been omitted pursuant to the rules of the Securities and Exchange Commission (“SEC”). The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 filed with the SEC on November 30, 2015.

Revision of Statements of Comprehensive Income

In fiscal 2015, we revised our presentation of certain personnel costs associated with service contracts to correctly reflect them as cost of sales rather than selling, general and administrative expenses. These personnel costs totaled \$6.0 million for the three months ended June 30, 2015, of which \$5.3 million and \$0.7 million was for North America and Rest of World, respectively. These personnel costs totaled \$17.8 million for the nine months ended June 30, 2015, of which \$16.2 million and \$1.6 million was for North America and Rest of World, respectively. These revisions had no effect on previously reported income from operations, net income or cash flows for the three and nine months ended June 30, 2015.

Note 2. Recent Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (“FASB”) in the form of Accounting Standards Updates (“ASUs”) to the FASB’s Accounting Standards Codification (“ASC”).

We consider the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position and results of operations.

New Accounting Standards Issued

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early application is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, Investments - Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting. ASU 2016-07 eliminates the requirement that when an investment subsequently qualifies for use of the equity method as a result of an increase in level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. ASU 2016-07 requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and to adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. In addition, ASU 2016-07 requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. ASU 2016-07 is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

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In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. ASU 2016-02 retains a distinction between finance leases (i.e. capital leases under current GAAP) and operating leases. The classification criteria for distinguishing between finance leases and operating leases will be substantially similar to the classification criteria for distinguishing between capital leases and operating leases under current GAAP. ASU 2016-02 also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. A modified retrospective transition approach shall be used when adopting ASU 2016-02, which includes a number of optional practical expedients that entities may elect to apply. ASU 2016-02 is effective for annual periods beginning after December 15, 2018 and interim periods therein, with early application permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. ASU 2016-01 is effective for reporting periods beginning after December 15, 2017, with early adoption permitted for certain provisions. We are currently evaluating the impact of ASU 2016-01 related to equity investments and the presentation and disclosure requirements of financial instruments on our consolidated financial statements.

In November 2015, FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 requires that entities present all deferred tax assets and liabilities as non-current in a classified balance sheet. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted for financial statements that have not been previously issued. The adoption of ASU 2015-17 will only impact our consolidated balance sheets. The current portion of deferred tax assets or liabilities will be reclassified into long-term deferred tax assets or liabilities, respectively, and total current assets and total current liabilities will be reduced accordingly. The changes may affect certain financial ratios calculation. As of June 30, 2016, we had current deferred tax assets of \$89.3 million and no current deferred tax liabilities.

In September 2015, FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. ASU 2015-16 should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. As of June 30, 2016, we did not have any provisional amounts outstanding from prior acquisitions.

In August 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU 2015-15 states entities should present debt issuance costs as an asset, and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We do not anticipate the adoption of ASU 2015-15 will have a significant impact on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which requires an entity to measure inventory at the lower of cost and net realizable value, and eliminates current GAAP options for measuring market value. ASU 2015-11 defines realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. ASU 2015-11 can only be applied prospectively. We are currently evaluating the impact of the adoption of ASU 2015-11 on our

consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost. The amendments in ASU 2015-03 are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. ASU 2105-03 is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The adoption of ASU 2015-03 will reduce our non-current assets and non-current debt by the amount of our net deferred financing costs in our consolidated

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balance sheets but will not impact our consolidated statements of comprehensive income and consolidated statements of cash flow. As of June 30, 2016 and September 30, 2015, our deferred financing costs, net was \$10.2 million and \$11.2 million, respectively.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which amends ASC Subtopic 205-40 to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures. Specifically, ASU 2014-15 (1) provides a definition of the term "substantial doubt," (2) requires an evaluation every reporting period, (3) provides principles for considering the mitigating effect of management's plans, (4) requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) requires an express statement and other disclosures when substantial doubt is not alleviated, and (6) requires an assessment for a period of one year after the date that financial statements are issued. ASU 2014-15 is effective for fiscal years ending after December 15, 2016, and for annual periods and interim periods thereafter. We do not anticipate the adoption of ASU 2014-15 will have a significant impact on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments when the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period. ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply ASU 2014-12 either prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this ASU as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. We do not anticipate the adoption of ASU 2014-12 will have a significant impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-11 and ASU 2016-12, which FASB issued in August 2015, March 2016, April 2016, May 2016 and May 2016, respectively (collectively the "amended ASU 2014-09"). The amended ASU 2014-09 provides a single comprehensive model for the recognition of revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. It requires an entity to recognize revenue when the entity transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amended ASU 2014-09 creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which includes (1) identifying the contract(s) with the customer, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue when each performance obligation is satisfied. The amended ASU 2014-09 requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The effective date for the amended ASU 2014-09 is for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are currently evaluating the effect of the adoption of the amended ASU 2014-09 on our consolidated financial statements and the implementation approach to be used.

Adopted Accounting Standards

Effective January 1, 2016, we early adopted ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This new guidance clarifies that if a cloud computing arrangement includes a software license, the customer should account for the license consistent with its accounting for other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. We elected to adopt the amendments prospectively for all arrangements entered into or materially modified after January 1, 2016. The adoption of ASU 2015-05 does not have a significant impact on our consolidated financial statements. We record the qualified cloud-based software license fees as software intangible assets instead of prepaid expenses, and amortize them over the contract length as software amortization expense instead of service expense. Both amortization expense and service expense are included in the selling, general and administrative expense line of

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our consolidated statement of comprehensive income, resulting in no significant impact on our income from operations, net income or cash flows.

Note 3. Restructuring Activities

In September 2015, we committed to a Global Restructuring Plan (GRP), which involved the immediate elimination of redundant positions and the closure and consolidation of various facilities in order to better align our workforce to the growth areas of our business and to streamline our operations in order to increase efficiency and effectiveness. We anticipate that actions under the GRP will continue through the year ending September 30, 2016.

During the nine months ended June 30, 2016, we recorded total expenses of \$296 thousand related to the restructuring activities, consisting of \$170 thousand of employee severance and related costs and \$126 thousand related to the termination of leases and other expenses. Of these amounts, \$170 thousand was recorded in North America and \$126 thousand in Rest of World. Such expenses were recorded in selling, general and administrative expenses in our consolidated statements of comprehensive income.

Our restructuring liabilities were included in the accrued expenses and other current liabilities line of our consolidated balance sheets. The following table summarizes the activities affecting our restructuring liabilities described above during the nine months ended June 30, 2016 (in thousands):

	September 30, 2015	Additions/ Adjustments	Cash Payments	Foreign Currency Translation	June 30, 2016
Employee severance	\$ 2,106	\$ 170	\$(2,098)	\$ (14)	\$164
Lease termination costs and other	2,384	126	(875)	(81)	1,554
Total	\$ 4,490	\$ 296	\$(2,973)	\$ (95)	\$1,718

The following table summarizes the total incurred restructuring costs by segment as of June 30, 2016 (in thousands):

	Restructuring Costs Accrued Since Inception	Cash Payments Year-to-date	Foreign Currency Translation	Restructuring Costs Accrued June 30, 2016
North America segment	\$ 2,734	\$ (2,019)	\$ —	\$ 715
Rest of World segment	2,052	(954)	(95)	1,003
Total	\$ 4,786	\$(2,973)	\$ (95)	\$ 1,718

The remaining costs to be incurred under the GRP are not expected to differ significantly from the amount accrued as of June 30, 2016.

Note 4. Inventory

Our inventory is comprised solely of finished goods.

As of June 30, 2016 and September 30, 2015, our excess and obsolescence (E&O) reserves totaled \$257.8 million and \$264.1 million, respectively. The \$6.3 million decrease during the nine months ended June 30, 2016 represents reserves of \$9.6 million charged to cost of sales to provide for additional E&O inventory, which was more than offset by \$15.9 million decrease of E&O reserves due to the foreign currency translation and the depletion of E&O inventory. Out of the \$15.9 million decrease, \$4.2 million was attributable to the strengthening of the U.S. dollar compared to the British pound and \$11.7 million was for E&O inventory scrapped. Our ending E&O reserves adjusted

our inventory as of June 30, 2016 to reflect the lower of its cost or net realizable value.

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Note 5. Goodwill

During the nine months ended June 30, 2016, we recorded a \$9.2 million decrease to goodwill as a result of the strengthening of the U.S. dollar compared to the British pound.

Goodwill consists of the following (in thousands):

	North America	Rest of World	Total
Goodwill as of September 30, 2015	\$ 515,876	\$ 74,711	\$ 590,587
Foreign currency translation	—	(9,228)	(9,228)
Goodwill as of June 30, 2016	\$ 515,876	\$ 65,483	\$ 581,359

Note 6. Fair Value of Financial Instruments

Derivative Financial Instruments

We use derivative instruments primarily to manage exposures to foreign currency exchange rates and interest rates. Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with fluctuations in foreign exchange rates and changes in interest rates. Our derivatives expose us to credit risk to the extent that the counter-parties may be unable to meet the terms of the agreement. We, however, seek to mitigate such risks by limiting our counter-parties to major financial institutions. In addition, the potential risk of loss with any one counter-party resulting from this type of credit risk is monitored. Management does not expect material losses as a result of defaults by counter-parties.

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for our making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. In July 2015, we entered into two interest rate swap agreements, which we designated as cash flow hedges, in order to reduce our exposure to variability in cash flows related to interest payments on a portion of our outstanding debt. The first interest rate swap agreement has an amortizing notional amount, which was \$437.5 million as of June 30, 2016, and matures on September 30, 2017, giving us the contractual right to pay a fixed interest rate of 1.21% plus the applicable margin under the term loan B facility (as defined in Note 7 below; see Note 7 for the applicable margin). The second interest rate swap agreement also has an amortizing notional amount, initially \$375.0 million, giving us the contractual right to pay a fixed interest rate of 2.2625% plus the applicable margin under the term loan B facility, which is effective on September 29, 2017 and matures on September 30, 2019.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the nine months ended June 30, 2016, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized immediately in earnings. During the nine months ended June 30, 2016, we did not record any hedge ineffectiveness in earnings. No portion of our interest rate swap agreements is excluded from the assessment of hedge effectiveness.

Amounts reported in accumulated other comprehensive income (loss) (AOCI) related to derivatives are reclassified to interest expense as interest payments are made on our variable-rate debt. As of June 30, 2016, we expected to reclassify approximately \$1.1 million from accumulated other comprehensive loss to earnings as an increase to interest expense over the next 12 months.

Non-Designated Derivatives

On December 16, 2015, we entered into one foreign currency forward contract to partially reduce our exposure to foreign currency fluctuations for a subsidiary's net monetary assets, which are denominated in a foreign currency. The derivative is not designated as a hedging instrument. The change in its fair value is recognized as periodic gain or loss in the other income (loss), net line of our consolidated statement of earnings and comprehensive income.

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The following table summarizes the notional principal amounts at June 30, 2016 and September 30, 2015 of our outstanding derivative instruments discussed above (in thousands). We did not have foreign exchange forward contracts as of September 30, 2015.

	Derivative Notional	
	June 30, 2016	September 30, 2015
Instruments designated as accounting hedges:		
Interest rate contracts	\$437,500	\$ 475,000
Instruments not designated as accounting hedges:		
Foreign exchange contract	\$30,000	—

The following table provides the location and fair value amounts of our financial instruments, which are reported in our consolidated balance sheets as of June 30, 2016 and September 30, 2015 (in thousands). We did not have foreign exchange forward contracts as of September 30, 2015.

	Balance Sheet Locations	Fair Value	
		June 30, 2016	September 30, 2015
Instruments designated as accounting hedges:			
Interest rate contracts	Accrued expenses and other current liabilities	\$1,730	\$ 1,902
	Other liabilities	\$6,146	\$ 2,186
Instruments not designated as accounting hedges:			
Foreign exchange contract	Prepaid expenses and other current assets	\$1,961	—

The following table provides the losses of our cash flow hedging instruments (net of income tax benefit) which were transferred from AOCI to our consolidated statement of comprehensive income during the three and nine months ended June 30, 2016 (in thousands). We did not have any derivative instruments in the three and nine months ended June 30, 2015.

Location in Consolidated Statement of Comprehensive Income	Three Months Ended		Nine Months Ended	
	June 30, 2016	2015	2016	2015
Cash Flow Hedge				
Interest rate contracts Interest expense, net	\$ 330	—	\$1,020	—

The following table provides the effective portion of the amount of loss recognized in other comprehensive income (net of income taxes) for the three and nine months ended June 30, 2016 (in thousands). We did not have any

derivative instruments in the three and nine months ended June 30, 2015.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Cash Flow Hedge				
Interest rate contracts	\$(873)	—	\$(2,387)	—

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The following table provides a summary of changes to our accumulated other comprehensive income (loss) related to our cash flow hedging instruments (net of income taxes) during the three and nine months ended June 30, 2016 (in thousands).

AOCI

Three Months Ended June 30, 2016	Nine Months Ended June 30, 2016
Unrealized Gain (Loss) on Hedging Instruments	
Balance at Beginning of Period	\$ (2,577)
Change in fair value	(3,407)
of hedging instruments	
Amounts reclassified to earnings	1,020
Net current period other comprehensive income	(873)
Balance at End of Period	\$ (4,964)

The following table provides the pretax effect of our derivative instruments not designated as hedging instruments on our consolidated earnings and comprehensive income for the three and nine months ended June 30, 2016 (in thousands). We did not have any derivative instruments in the nine months ended June 30, 2015.

Instruments Not Designated As Hedging Instruments	Location in Consolidated Statement of Comprehensive Income	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2015	2016	2015
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Foreign exchange contract	Other income (loss), net	\$(523) —	\$(2,161) —
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Other Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable and payable, accrued expenses and other current liabilities, and a line of credit. The carrying amounts of these instruments approximate fair value because of their short-term maturities. The fair value of the long term debt instruments is determined using current applicable rates for similar instruments as of the balance sheet date, a Level 2 measurement. The carrying amounts and fair values of the debt instruments were as follows (in thousands):

	June 30, 2016		September 30, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
\$625.0 million term loan A	\$401,344	\$400,742	\$477,344	\$476,150
\$525.0 million term loan B	\$475,562	\$470,331	\$475,562	\$467,002

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To determine fair value, we primarily utilize reported market transactions and discounted cash flow analysis. We use a three tier fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels whereby the highest priority is given to Level 1 inputs and the lowest to Level 3 inputs. The three broad categories are:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The definition of fair value includes the consideration of nonperformance risk. Nonperformance risk refers to the risk that an obligation (either by a counter-party or us) will not be fulfilled. For financial assets traded in an active market (Level 1), the nonperformance risk is included in the market price. For certain other financial assets and liabilities (Level 2 and 3), our fair value calculations have been adjusted accordingly.

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There were no transfers between the assets and liabilities under Level 1 and Level 2 during the nine months ended June 30, 2016. The following tables provide the valuation hierarchy classification of assets and liabilities that are carried at fair value and measured on a recurring basis in our consolidated balance sheets as of June 30, 2016 and September 30, 2015 (in thousands).

June Balance Sheet Locations 2016	Total	Level 1	Level 2	Level 3
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Instruments
designated
as
accounting
hedges:

Interest rate contracts	Accrued expenses and other current liabilities	\$1,730	—	\$1,730	—
	Other liabilities	\$6,146	—	\$6,146	—

Instruments
not
designated
as
accounting
hedges:

Foreign exchange contract	Accrued expenses and other current assets	\$1,961	—	\$1,961	—
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September 30, Balance Sheet Locations 2015	Total	Level 1	Level 2	Level 3
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Instruments
designated
as
accounting
hedges:

Interest rate contracts	Accrued expenses and other current liabilities	\$1,902	—	\$1,902	—
	Other liabilities	\$2,186	—	\$2,186	—

We use observable market-based inputs to calculate fair value of our interest rate swap agreements and outstanding debt instruments, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

Note 7. Long-Term Debt

Long-term debt consists of the following (in thousands):

	June 30, 2016	September 30, 2015
\$ 625,000 term loan A facility	\$401,344	\$ 477,344
\$ 525,000 term loan B facility	475,562	475,562
Long-term debt	\$876,906	\$ 952,906

On March 24, 2016, we entered into the Third Amendment (the "Amendment") to our credit agreement, dated as of December 7, 2012, by and among the Company, Wesco Aircraft Hardware Corp. and the lenders and agents party thereto (as amended, the "Credit Agreement"). The Amendment (1) reduced the maximum amount permitted to be incurred under a Cash-Capped Incremental Facility (as such term is defined in the Credit Agreement) from \$150 million to \$100 million, and (2) raised the levels in the Consolidated Total Leverage Ratio (as such ratio is defined in the Credit Agreement) financial covenant set forth in the Credit Agreement to a maximum of 4.50 for the quarters ending March 31, 2016, June 30, 2016 and September 30, 2016, with step-downs to 4.25 for the quarter ending December 31, 2016, 4.00 for the quarter ending March 31, 2017 and 3.75 for the quarter ending June 30, 2017 and thereafter.

As a result of the amendment, we incurred \$2.1 million in fees that were capitalized and will be amortized over the remaining life of the related debt.

The Credit Agreement, as amended, provides for (1) a \$625.0 million term loan A facility (the "term loan A facility"), (2) a \$200.0 million revolving credit facility (the "revolving facility"), and (3) a \$525.0 million senior secured term loan B

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facility (the "term loan B facility"). We refer to the term loan A facility, the term loan B facility and the revolving facility collectively as the Credit Facilities.

As of June 30, 2016, our outstanding indebtedness under our Credit Facilities was \$876.9 million, which consisted of (1) \$401.3 million of indebtedness under the term loan A facility, and (2) \$475.6 million of indebtedness under the term loan B facility. As of June 30, 2016, \$200.0 million was available for borrowing under the revolving facility, of which we could borrow up to \$83.0 million without breaching any covenants contained in the agreements governing our indebtedness.

The interest rate for the term loan A facility is based on our Consolidated Total Leverage Ratio as determined in the most recently delivered financial statements, with the respective margins ranging from 1.75% to 2.50% for Eurocurrency loans and 0.75% to 1.50% for alternate base rate (ABR) loans. The term loan A facility amortizes in equal quarterly installments of 1.25% of the original principal amount of \$625.0 million for the first year, escalating to quarterly installments of 2.50% of the original principal amount of \$625.0 million by the fifth year, with the balance due at maturity on December 7, 2017. As of June 30, 2016, the interest rate for borrowings under the term loan A facility was 2.96%.

The interest rate for the term loan B facility has a margin of 2.50% per annum for Eurocurrency loans (subject to a minimum Eurocurrency rate floor of 0.75% per annum) or 1.50% per annum for ABR loans (subject to a minimum ABR floor of 1.75% per annum). The term loan B facility amortizes in equal quarterly installments of 0.25% of the original principal amount of \$525.0 million, with the balance due at maturity on February 28, 2021. As of June 30, 2016, the interest rate for borrowings under the term loan B facility was 3.25%. In July 2015, we entered into interest rate swap agreements relating to this indebtedness, which are described in greater detail in Note 6 above.

The interest rate for the revolving facility is based on our Consolidated Total Leverage Ratio (as such ratio is defined in the Credit Agreement) as determined in the most recently delivered financial statements, with the respective margins ranging from 1.75% to 2.50% for Eurocurrency loans and 0.75% to 1.50% for ABR loans. The revolving facility expires on December 7, 2017.

Our borrowings under the Credit Facilities are guaranteed by us and all of our direct and indirect, wholly-owned, domestic restricted subsidiaries (subject to certain exceptions) and secured by a first lien on substantially all of our assets and the assets of our guarantor subsidiaries, including capital stock of the subsidiaries (in each case, subject to certain exceptions).

During the nine months ended June 30, 2016, we made voluntary prepayments totaling \$76.0 million on our term loan A facility, which has been applied to future required quarterly payments.

Our borrowings under the Credit Facilities are subject to certain financial covenants set forth in the Credit Agreement. As of June 30, 2016, our Consolidated Total Leverage Ratio (as such ratio is defined in the Credit Agreement) cannot exceed 4.50 and our Consolidated Net Interest Coverage Ratio (as such ratio is defined in the Credit Agreement) cannot be less than 2.25. As noted above, our Consolidated Total Leverage Ratio will gradually step-down during future quarters to 3.75 for the quarter ending June 30, 2017 and thereafter. The Credit Agreement also contains customary negative covenants, including restrictions on our and our restricted subsidiaries' ability to merge and consolidate with other companies, incur indebtedness, grant liens or security interests on assets, make acquisitions, loans, advances or investments, pay dividends, sell or otherwise transfer assets, optionally prepay or modify terms of any junior indebtedness or enter into transactions with affiliates. As of June 30, 2016, we were in compliance with all of the foregoing covenants, and our Consolidated Total Leverage Ratio was 4.08 and our Consolidated Net Interest Coverage Ratio was 6.19.

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As of June 30, 2016, our subsidiary, Wesco Aircraft Europe, Ltd, has available a £7.0 million (\$9.3 million based on the June 30, 2016 exchange rate) line of credit that automatically renews annually on October 1 (the "UK line of credit"). The UK line of credit bears interest based on the base rate plus an applicable margin of 1.65%. As of June 30, 2016, the full £7.0 million was available for borrowing under the UK line of credit without breaching any covenants contained in the agreements governing our indebtedness.

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Note 8. Comprehensive Income

Comprehensive income, which is net of income taxes, consists of the following (in thousands):

	Three Months		Nine Months	
	Ended		Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$24,016	\$16,479	\$68,117	\$59,255
Foreign currency exchange translation adjustment	(21,063)	11,203	(33,741)	(11,469)
Unrealized loss on cash flow hedging instruments	(873)	—	(2,387)	—
Total comprehensive income	\$2,080	\$27,682	\$31,989	\$47,786

Note 9. Net Income Per Share

Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share includes the dilutive effect of both outstanding stock options and restricted shares, calculated using the treasury stock method. Assumed proceeds from in-the-money awards include windfall tax benefits, net of shortfalls, calculated under the “as-if” method as prescribed by ASC 718, Compensation—Stock Compensation. The following table provides our basic and diluted net income per share for the three and nine months ended June 30, 2016 and 2015 (dollars in thousands except share data):

	Three Months		Nine Months Ended	
	Ended		June 30,	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$24,016	\$16,479	\$68,117	\$59,255
Basic weighted average shares outstanding	97,929,438	87,004,276	97,511,596	96,924,545
Dilutive effect of stock options and restricted stock awards/units	669,777	959,862	597,314	893,835
Dilutive weighted average shares outstanding	98,599,215	87,964,138	98,108,910	97,818,380
Basic net income per share	\$0.25	\$0.17	\$0.70	\$0.61
Diluted net income per share	\$0.24	\$0.17	\$0.69	\$0.61

For the three months ended June 30, 2016 and 2015, respectively, 1,595,791 and 1,310,777 shares of common stock equivalents were not included in the diluted calculation due to their anti-dilutive effect. For the nine months ended June 30, 2016 and 2015, respectively, 2,386,294 and 1,453,789 shares of common stock equivalents were not included in the diluted calculation due to their anti-dilutive effect.

Note 10. Segment Reporting

We are organized based on geographical location. Our reportable segments are comprised of North America and Rest of World.

We evaluate segment performance based primarily on segment income from operations. Each segment reports its results of operations and makes requests for capital expenditures and acquisition funding to our chief operating decision-maker (“CODM”). Our chief executive officer serves as our CODM.

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The following tables present operating and financial information by business segment (in thousands):

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	North America	Rest of World	Consolidated	North America	Rest of World	Consolidated
Net sales	\$300,875	\$ 74,311	\$ 375,186	\$296,094	\$ 72,612	\$ 368,706
Income from operations	29,267	10,777	40,044	29,072	7,105	36,177
Interest expense, net	8,233	1,092	9,325	8,825	510	9,335
Provision for income taxes	6,868	2,492	9,360	6,848	1,113	7,961
Total assets	1,710,012	289,908	1,999,920	2,019,434	350,944	2,370,378
Goodwill	515,876	65,483	581,359	779,648	77,649	857,297
Capital expenditures	3,878	50	3,928	1,525	213	1,738
Depreciation and amortization	5,769	1,021	6,790	5,539	1,014	6,553

	Nine Months Ended June 30, 2016			Nine Months Ended June 30, 2015		
	North America	Rest of World	Consolidated	North America	Rest of World	Consolidated
Net sales	\$889,816	\$221,955	\$ 1,111,771	\$899,193	\$228,769	\$ 1,127,962
Income from operations	86,380	32,119	118,499	99,105	20,680	119,785
Interest expense, net	24,073	3,363	27,436	25,016	3,038	28,054
Provision for income taxes	19,897	7,009	26,906	25,304	5,809	31,113
Total assets	1,710,012	289,908	1,999,920	2,019,434	350,944	2,370,378
Goodwill	515,876	65,483	581,359	779,648	77,649	857,297
Capital expenditures	10,616	545	11,161	4,028	622	4,650
Depreciation and amortization	17,771	3,072	20,843	16,694	3,121	19,815

Note 11. Income Taxes

(dollars in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Provision for income taxes	\$9,360	\$7,961	\$26,906	\$31,113
Effective tax rate	28.0 %	32.6 %	28.3 %	34.4 %

For the three months ended June 30, 2016, our effective tax rate decreased due primarily to a decrease in U.S. pretax income, which is subject to a higher tax rate, and an increase in foreign pretax income, which is subject to a lower tax rate.

For the nine months ended June 30, 2016, our effective tax rate decreased due primarily to a decrease in U.S. pretax income, which is subject to a higher tax rate, and an increase in foreign pretax income, which is subject to a lower tax rate; and the settlement of a tax audit, which occurred during the three months ended December 31, 2015 and resulted in a decrease of our effective tax rate by 0.7%.

Note 12. Commitments and Contingencies

We are involved in various legal matters that arise in the ordinary course of its business. Our management, after consulting with outside legal counsel, believes that the ultimate outcome of such matters will not have a material

adverse effect on our business, financial position, results of operations or cash flows. There can be no assurance, however, that such actions will not be material or adversely affect our business, financial position, results of operations or cash flows.

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

The following discussion and analysis is intended to help the reader understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion in conjunction with our consolidated interim financial statements and the related notes contained elsewhere in this Quarterly Report on Form 10-Q.

The statements in this discussion regarding industry trends, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 filed with the Securities and Exchange Commission (the "SEC") on November 30, 2015 and "—Cautionary Note Regarding Forward-Looking Statements" below. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Unless otherwise noted in this Quarterly Report on Form 10-Q, the term "Wesco Aircraft" means Wesco Aircraft Holdings, Inc., our top-level holding company, and the terms "Wesco," "the Company," "we," "us," "our" and "our company" mean Wesco Aircraft and its subsidiaries. References to "fiscal year" mean the year ending or ended September 30. For example, "fiscal year 2016" or "fiscal 2016" means the period from October 1, 2015 to September 30, 2016.

Executive Overview

We are the world's leading distributors and providers of comprehensive supply chain management services to the global aerospace industry, based on an annual sales. Our services range from traditional distribution to the management of supplier relationships, quality assurance, kitting, just-in-time ("JIT") delivery and point-of-use inventory management. We supply over 575,000 active stock-keeping units ("SKUs"), including hardware, chemicals, electronic components, bearings, tools and machined parts. We serve our customers under both long-term contractual arrangements ("Contracts"), which include JIT contracts that govern the provision of comprehensive outsourced supply chain management services and long-term agreements ("LTAs") that typically set prices for specific products, and ad hoc sales.

Founded in 1953 by the father of our current Chairman of the Board of Directors, Wesco has grown to serve over 8,300 customers, which are primarily in the commercial, military and general aviation sectors, including the leading original equipment manufacturers ("OEMs") and their subcontractors, through which we support nearly all major Western aircraft programs. We also service industrial customers, which include customers in the automotive, energy, pharmaceutical and electronics sectors.

Industry Trends Affecting Our Business

We rely on demand for new commercial and military aircraft for a significant portion of our sales. Commercial aircraft demand is driven by many factors, including the global economy, passenger volumes, airline profitability, introduction of new aircraft models, and the lifecycle of current fleets. Demand for business jets is closely correlated to regional economic conditions and corporate profits, but also influenced by new models and changes in ownership dynamics. Military aircraft demand is primarily driven by government spending, the timing of orders and evolving U.S. Department of Defense strategies and policies.

Aftermarket demand is affected by many of the same trends as those in OEM channels, but is also impacted by requirements to maintain aging aircraft and the cost of fuel, which can lead to greater utilization of existing planes.

Demand in the military aftermarket is further driven by changes in overall fleet size and the level of U.S. military operational activity both overseas and domestically.

Supply chain service providers and distributors have been aided by these trends along with an increase in outsourcing activities, as OEMs and their suppliers focus on reducing their capital commitments and operating costs.

Commercial Aerospace Market

Over the past three years, major airlines have ordered new aircraft at a robust pace, aided by strong profits and increasing passenger volumes. At the same time, volatile fuel prices have led to greater demand for fuel-efficient models and new engine options for existing aircraft designs. The rise of emerging markets has added to this growth in overall demand at a stronger pace than seen historically. More recently, airlines have slowed the pace of orders with large commercial OEMs. In

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spite of this recent development, the commercial OEMs have indicated that they continue to expect a high level of deliveries, primarily due to unprecedented large backlogs. Business aviation has lagged the larger commercial market, reflecting a deeper downturn in the last recession and an uncertain economic outlook. Overall production levels remain well below their pre-recession peak, though newer models have seen a greater acceptance in the marketplace than older and previously owned aircraft.

Military Aerospace Market

Military build-rates have declined recently (and may continue to decline going forward), negatively impacting this portion of our business. We believe the diversity of the military aircraft programs we support can help mitigate the impact of new program delays, changes or cancellations. Increased sales for other established aircraft programs that directly benefit from such changes also help moderate build-rate declines. In addition, we believe the services we provide the Joint Strike Fighter program will benefit our future business as production for that program increases.

Other Factors Affecting Our Financial Results

Fluctuations in Revenue

There are many factors, such as fluctuations in ad hoc sales, timing of aircraft deliveries, changes in selling prices, the amount of new customers' consigned inventory and the volume or timing of customer orders that can cause fluctuations in our financial results from quarter-to-quarter. To normalize for short-term fluctuations, we monitor and manage our performance over several quarters or years of activity rather than discrete short-term periods. As such, it can be difficult to determine longer-term trends in our business based on quarterly comparisons.

We will continue our strategy of seeking to expand our relationships with existing customers by transitioning them to Contracts, as well as expanding relationships with our existing Contract customers to include additional customer sites, additional SKUs and additional levels of service. We believe this strategy serves to mitigate fluctuations in our net sales. However, our sales to Contract customers may fail to meet our expectations for a variety of reasons, in particular if industry build rates are lower than expected or, for certain newer JIT customers, if their consigned inventory, which must be exhausted before corresponding products are purchased directly from us, is larger than we expected.

If any of our customers are acquired or controlled by a company that elects not to utilize our services, or attempts to implement in-sourcing initiatives, it could have a negative effect on our strategy to mitigate fluctuations in our net sales. Additionally, although we derive a significant portion of our net sales from the building of new commercial and military aircraft, we have not typically experienced extreme fluctuations in our net sales when sales for an individual aircraft program decrease, which we believe is attributable to our diverse base of customers and programs. In addition, we believe our substantial sales under Contracts helps to mitigate fluctuations in our financial results, as Contract customers tend to have steadier purchasing patterns than ad hoc customers. However, as mentioned above, our sales to Contract customers may fail to meet our expectations for a variety of reasons, in particular if industry build rates are lower than expected or, for certain newer JIT customers, if their consigned inventory, which must be exhausted before corresponding products are purchased directly from us, is larger than we expected or if estimated usage rates are actually lower. In addition, we believe that during industry growth cycles, our customer's demand may begin to exceed supplier lead times, which could result in an increase in our ad hoc sales.

Fluctuations in Margins

We added chemicals to our product offerings in connection with our acquisition of Haas Group, Inc. (now Haas Group, LLC) and its direct and indirect subsidiaries (collectively, "Haas") on February 28, 2014. Gross profit margins

on chemicals are lower than the gross profit margins on many of the products we sold prior to the Haas acquisition, which resulted in a reduction in our overall gross profit margins. In addition, our gross profit margins may also be negatively impacted by the extent that other lower-margin product lines, such as electronic components, exceed the growth rates of higher margin product lines. In addition, there continues to be pricing pressure throughout the supply chain.

Our strategy of growing our Contract sales and converting ad hoc customers into Contract customers could negatively affect our gross profit margins, as gross profit margins tend to be higher on ad hoc sales than they are on Contract-related sales. However, we believe any potential adverse impact on our gross profit margins is outweighed by the benefits of a more stable long-term revenue stream attributable to Contract customers.

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Continuing competition in the ad hoc market has slightly reduced our typically higher ad hoc margins. However, we believe that as industry build rates and manufacturer lead times increase, margins on ad hoc sales could increase.

Our Contracts generally provide for fixed prices, which can expose us to risks if prices we pay to our suppliers rise due to increased raw material or other costs. However, we believe our expansive product offerings and inventories, our ad hoc sales and, where possible, our longer-term agreements with suppliers have enabled us to mitigate this risk.

Fluctuations in Cash Flow

We believe our cash flows may be affected by fluctuations in our inventory that can occur over time. When we are awarded new programs, we generally increase our inventory to account for expected sales related to the new program, which often take time to materialize. As a result, if certain programs for which we have procured inventory are delayed or if certain newer JIT customers' consigned inventory is larger than we expected, we may experience a more sustained inventory increase.

Inventory fluctuations may also be attributable to general industry trends. Factors that may contribute to fluctuations in inventory levels in the future could include (1) strategic purchases (a) to take advantage of favorable pricing, (b) made in anticipation of the expected industry growth cycle, (c) to support new customer Contracts or (d) to acquire high-volume products that are typically difficult to obtain in sufficient quantities, (2) changes in supplier lead times and the timing of inventory deliveries, (3) purchases made in anticipation of future growth (particularly growth in our MRO business) and (4) purchases made in connection with the expansion of existing Contracts. While effective inventory management is an ongoing challenge, we continue to take steps to enhance the sophistication of our materials and demand management practices to mitigate the negative impact of inventory buildups on our cash flow.

Our accounts receivable balance as a percentage of net sales may fluctuate from quarter-to-quarter. These fluctuations are primarily driven by changes, from quarter-to-quarter, in the timing of sales and the current average days' sales outstanding. The completion of customer Contracts with accelerated payment terms can also contribute to these quarter-to-quarter fluctuations. Similarly, our accounts payable may fluctuate from quarter-to-quarter, which is primarily driven by the timing of purchases or payments made to our suppliers.

Segment Presentation

We conduct our business through two reportable segments: North America and Rest of World. We evaluate segment performance based on segment income or loss from operations. Each segment reports its results of operations and makes requests for capital expenditures and acquisition funding to our chief operating decision maker (CODM). Our chief executive officer serves as our CODM.

Restructuring Activities

In September 2015, we committed to a Global Restructuring Plan, which involved the immediate elimination of redundant positions and the closure and consolidation of various facilities in order to better align our workforce to the growth areas of our business and to streamline our operations in order to increase efficiency and effectiveness. We anticipate that actions under the Global Restructuring Plan will continue through the year ending September 30, 2016, resulting in \$25.0 million to \$30.0 million of recurring cost savings to our Company. These projected cost savings are expected to impact the North America segment by \$19.0 million to \$23.0 million and the Rest of World segment by \$6.0 million to \$7.0 million. For the nine months ended June 30, 2016, the actual cost savings were in line with our expectations. Based on our fiscal 2016 annual selling, general and administrative expenses projected as of June 30, 2016, the annual cost savings are expected to be within the range of \$25.0 million to \$30.0 million, most of which is driven by actions under the Global Restructuring Plan. For more information on our Global Restructuring Plan, see

Note 3 of the Notes to the Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Revision of Statements of Comprehensive Income

In fiscal 2015, we revised our presentation of certain personnel costs associated with service contracts to correctly reflect them as cost of sales rather than selling, general and administrative expenses. These personnel costs totaled \$6.0 million for the three months ended June 30, 2015, of which \$5.3 million and \$0.7 million was for North America and Rest of World, respectively. These personnel costs totaled \$17.8 million for the nine months ended June 30, 2015, of which \$16.2 million and \$1.6 million was for North America and Rest of World, respectively. These revisions had no effect on previously reported income from operations, net income or cash flows for the three and nine months ended June 30, 2015.

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Key Components of Our Results of Operations

The following is a discussion of the key line items included in our financial statements for the periods presented below under the heading “Results of Operations.” These are the measures that management utilizes to assess our results of operations, anticipate future trends and evaluate risks in our business.

Net Sales

Our net sales include sales of hardware, chemicals, electronic components, bearings, tools and machined parts, and eliminate all intercompany sales. We also provide certain services to our customers, including quality assurance, kitting, JIT delivery and point-of-use inventory management. However, these services are provided by us contemporaneously with the delivery of the product, and as such, once the product is delivered, we do not have a post-delivery obligation to provide services to the customer. Accordingly, the price of such services is generally included in the price of the products delivered to the customer, and revenue is recognized upon delivery of the product, at which point, we have satisfied our obligations to the customer. We do not account for these services as a separate element, as the services generally do not have stand-alone value and cannot be separated from the product element of the arrangement.

We serve our customers under both Contracts, which include JIT contracts and LTAs, and ad hoc sales. Under JIT contracts, customers typically commit to purchase specified products from us at a fixed price, on an if-and-when needed basis, and we are responsible for maintaining high levels of stock availability of those products. LTAs are typically negotiated price lists for customers or individual customer sites that cover a range of pre-determined products, purchased on an as-needed basis. Ad hoc customers purchase products from us on an as-needed basis and are generally supplied out of our existing inventory. In addition, Contract customers often purchase products that are not captured under their Contract on an ad hoc basis.

Income from Operations

Income from operations is the result of subtracting the cost of sales and selling, general and administrative expenses from net sales, and is used primarily to evaluate our performance and profitability.

The principal component of our cost of sales is product cost, which was 93.0% of our total cost of sales for the nine months ended June 30, 2016 and 93.9% for the nine months ended June 30, 2015. The remaining components are freight and expediting fees, import duties, tooling repair charges, supplies and contract labor costs, which collectively were 7.0% and 6.1% of our total cost of sales for the nine months ended June 30, 2016 and 2015, respectively.

Product cost is determined by the current weighted average cost of each inventory item, except for chemical parts for which the first-in, first-out method is used, and the adjustment to the reserve, if any, for excess and obsolete inventory. The inventory reserve is calculated to estimate the amount of excess and obsolete inventory we currently have on-hand. We review inventory for excess quantities and obsolescence quarterly and adjust the reserve and future forecasted demand as necessary. For a description of our excess and obsolescence (E&O) reserve policy, see Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Inventory” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 filed with the SEC on November 30, 2015. During the three months ended June 30, 2016 and 2015, we recorded an increase to cost of sales of \$3.2 million and \$2.8 million, respectively, and during the nine months ended June 30, 2016 and 2015, we recorded an increase to cost of sales of \$9.6 million and \$11.7 million, respectively, due to changes to our E&O reserves.

The principal components of our selling, general and administrative expenses are salaries, wages, benefits and bonuses paid to our employees; stock-based compensation; commissions paid to outside sales representatives; travel and other business expenses; training and recruitment costs; marketing, advertising and promotional event costs; rent; bad debt expense; professional services fees (including legal, audit and tax); and ordinary day-to-day business expenses. Depreciation and amortization expense is also included in selling, general and administrative expenses, and consists primarily of scheduled depreciation for leasehold improvements, machinery and equipment, vehicles, computers, software and furniture and fixtures. Depreciation and amortization also includes intangible asset amortization expense.

Other Expenses

Interest Expense, Net. Interest expense, net consists of the interest we pay on our long-term debt, fees on our revolving facility (as defined below under “—Liquidity and Capital Resources—Credit Facilities-Senior Secured Credit Facilities”) and the UK line of credit (as defined below under “—Liquidity and Capital Resources—Credit Facilities—UK Line of Credit”), deferred financing costs and interest swap costs, net of interest income.

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Other Income (Expense), Net. Other income (expense), net is primarily comprised of realized foreign currency exchange gain or loss associated with transactions denominated in currencies other than the respective functional currency of the reporting subsidiary.

Critical Accounting Policies and Estimates

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. We evaluate our estimates and judgments on an on-going basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate, and different assumptions or estimates about the future could change our reported results. For a description of our critical accounting policies and estimates, see Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 filed with the SEC on November 30, 2015.

Results of Operations

(In thousands)	Three Months Ended		Nine Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Consolidated result of operations:				
Net sales:				
North America	\$300,875	\$296,094	\$889,816	\$899,193
Rest of World	74,311	72,612	221,955	228,769
Total net sales	\$375,186	\$368,706	\$1,111,771	\$1,127,962
Income from operations:				
North America	\$29,267	\$29,072	\$86,380	\$99,105
Rest of World	10,777	7,105	32,119	20,680
Total Income from operations	40,044	36,177	118,499	119,785
Interest expense, net	(9,325)	(9,335)	(27,436)	(28,054)
Other income (expense), net	2,657	(2,402)	3,960	(1,363)
Income before provision for income taxes	33,376	24,440	95,023	90,368
Provision for income taxes	(9,360)	(7,961)	(26,906)	(31,113)
Net income	\$24,016	\$16,479	\$68,117	\$59,255

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	Three Months Ended June 30,		Nine Months Ended June 30,	
(As a % of total net sales; numbers have been rounded)	2016	2015	2016	2015
Income from operations by segment:				
North America	9.7 %	9.8 %	9.7 %	11.0 %
Rest of World	14.5 %	9.8 %	14.5 %	9.0 %
Consolidated:				
Income from operations	10.7 %	9.8 %	10.7 %	10.6 %
Interest expense, net	(2.5)	(2.5)	(2.5)	(2.5)
Other income (expense), net	0.7	(0.7)	0.3	(0.1)
Income before provision for income taxes	8.9	6.6	8.5	8.0
Provision for income taxes	(2.5)	(2.1)	(2.4)	(2.7)
Net income	6.4 %	4.5 %	6.1 %	5.3 %

Three months ended June 30, 2016 compared with three months ended June 30, 2015

Net Sales

Consolidated net sales increased \$6.5 million, or 1.8%, to \$375.2 million for the three months ended June 30, 2016, compared with \$368.7 million for the same period in the prior year. Ad hoc and Contract sales as a percentage of net sales represented 26% and 74%, respectively, for the three months ended June 30, 2016 as compared to 27% and 73%, respectively, for the same period in the prior year. The net sales increase was primarily driven by a \$12.9 million increase in Contract sales due to increased production and expanded content, as well as new business and scope expansion on commercial and military Contracts. This increase was partially offset by a \$6.1 million negative impact of foreign currency exchange rates.

Net sales for our North America segment increased \$4.8 million, or 1.6%, to \$300.9 million for the three months ended June 30, 2016, compared with \$296.1 million for the same period in the prior year, largely due to an increase in Contract sales of \$9.0 million driven by increased production and expanded content, as well as new business and scope expansion on commercial and military Contracts. This increase in net sales was partially offset by a \$4.2 million decrease in ad hoc sales.

Net sales for our Rest of World segment increased \$1.7 million, or 2.3%, to \$74.3 million for the three months ended June 30, 2016, compared with \$72.6 million for the same period in the prior year, primarily driven by growth of \$4.0 million in ad hoc sales and \$3.9 million in Contract sales that was primarily due to increased production and expanded content, as well as new business and scope expansion on commercial Contracts. This increase was partially offset by a \$6.1 million negative impact of foreign currency exchange.

Income from Operations

Consolidated income from operations increased \$3.9 million, or 10.7%, to \$40.0 million for the three months ended June 30, 2016, compared with \$36.2 million for the same period in the prior year. Income from operations as a percentage of net sales was 10.7% for the three months ended June 30, 2016, compared to 9.8% for the three months ended June 30, 2015. The increase in income from operations was comprised of a decrease in selling, general and administrative (SG&A) expenses of \$8.0 million driven largely by our global restructuring activities. The \$8.0 million decrease in SG&A expenses, of which \$1.2 million was due to foreign currency exchange rate movements, was

partially offset by a decrease in gross profit of \$4.1 million, of which \$2.0 million was due to foreign currency exchange rate movements. The decrease in SG&A expenses, excluding the impact of foreign currency exchange rate movements, was largely driven by decreases in payroll and other people related costs, bad debt and professional fees of \$3.7 million, \$2.3 million and \$1.2 million, respectively. The decrease in gross profit, excluding the impact of foreign currency exchange rate movements, was primarily driven by inventory adjustments, lower chemical margins due to commodity-based cost and pricing changes on certain pass through Contracts and changes in the sales mix of ad hoc and Contract business.

Income from operations for our North America segment increased \$0.2 million, or 0.7%, to \$29.3 million compared with \$29.1 million for the same period in the prior year. Income from operations as a percentage of net sales was 9.7% for the three months ended June 30, 2016, compared to 9.8% for the same period in the prior year, a decrease of 0.1%. The increase in

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income from operations was comprised of a decrease in SG&A expenses of \$6.6 million, which was largely offset by a decrease in gross profit of \$6.3 million. The decrease in SG&A expenses was largely driven by decreases in payroll and other people related costs, bad debt and professional fees of \$3.7 million, \$2.1 million and \$1.2 million, respectively. The decrease in gross profit was largely driven by changes in the mix of ad hoc and Contract business, inventory adjustments and lower chemical margins due to commodity-based cost and pricing changes on certain pass through Contracts.

Income from operations for our Rest of World segment increased \$3.7 million, or 51.7%, to \$10.8 million, compared with \$7.1 million for the same period in the prior year. Income from operations as a percentage of net sales was 14.5% for the three months ended June 30, 2016, compared to 9.8% for the same period in the prior year, an increase of 4.7%. The increase in income from operations was the result of an increase in gross profit of \$2.3 million, net of a \$2.0 million negative impact from foreign currency exchange rate movements, and a decrease in SG&A expenses of \$1.4 million, million, of which \$1.2 million was due to foreign currency exchange rate movements. The increase in gross profit, excluding the impact of foreign currency exchange rate movements, was primarily driven by an increase in Contract margins and changes in the mix of ad hoc and Contract business. The decrease in SG&A expenses, excluding the impact of foreign currency exchange rate movements, was largely driven by a decrease in bad debt of \$0.2 million.

Other Expenses

Interest Expense, Net

Interest expense, net was \$9.3 million for both the three months ended June 30, 2016 and 2015. Interest expense decreased due to the repayment of our long-term debt during the twelve months ended June 30, 2016, but the decrease of interest expense was offset by periodical interest swap costs that commenced after June 30, 2015 and an acceleration in the amortization of deferred financing costs as a result of the repayment of our long-term debt during the twelve months ended June 30, 2016.

Other Income (Expense), Net

Other income, net was \$2.7 million for the three months ended June 30, 2016, compared with other expense, net of \$2.4 million for the same period in the prior year. The \$5.1 million increase in other income was primarily related to foreign currency exchange gain associated with transactions denominated in currencies other than the respective functional currency of the reporting subsidiary.

Provision for Income Taxes

The provision for income taxes for the three months ended June 30, 2016 was \$9.4 million, compared with \$8.0 million for the same period in the prior year. Our effective tax rate was 28.0% and 32.6% for the three months ended June 30, 2016 and 2015, respectively. The decrease in our effective tax rate resulted primarily from a decrease in U.S. pretax income, which is subject to a higher tax rate, and an increase in foreign pretax income, which is subject to a lower tax rate.

Net Income

Net income increased \$7.5 million, or 45.7% for the three months ended June 30, 2016 to \$24.0 million, compared with \$16.5 million for the same period in the prior year. Net income as a percentage of net sales was 6.4% for the three months ended June 30, 2016, compared to 4.5% for the same period in the prior year. Net income per diluted share was \$0.24 and \$0.17 for the three months ended June 30, 2016 and 2015, respectively.

Nine months ended June 30, 2016 compared with nine months ended June 30, 2015

Net Sales

Consolidated net sales decreased \$16.2 million, or 1.4%, to \$1,111.8 million for the nine months ended June 30, 2016, compared with \$1,128.0 million for the same period in the prior year. Ad hoc and Contract sales as a percentage of net sales represented 25% and 75%, respectively, for the nine months ended June 30, 2016 as compared to 26% and 74%, respectively, for the same period in the prior year. The decrease was primarily due to the end of a large commercial hardware contract on March 31, 2015, which resulted in a \$26.4 million net decline in sales for the nine months ended June 30, 2016 as compared to the same period in the prior year. In addition, foreign currency impacts reduced sales by \$18.6 million and ad hoc sales declined by \$6.0 million during the nine months ended June 30, 2016 as compared to the same period in the prior year. These

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declines were partially offset by Contract sales growth of \$34.8 million, primarily due to increased production and expanded content, as well as new business and scope expansion on commercial and military Contracts.

Net sales for our North America segment decreased \$9.4 million, or 1.0%, to \$889.8 million for the nine months ended June 30, 2016, compared with \$899.2 million for the same period in the prior year, primarily due to a \$18.4 million decline in sales due to the end of the large commercial contract on March 31, 2015 and a \$14.7 million decline in ad hoc sales. These declines were partially offset by Contract sales growth of \$23.7 million, primarily due to increased production and expanded content, as well as new business and scope expansion on commercial and military Contracts.

Net sales for our Rest of World segment decreased \$6.8 million, or 3.0%, to \$222.0 million for the nine months ended June 30, 2016, compared with \$228.8 million for the same period in the prior year, primarily driven by an \$18.6 million negative impact of foreign currency exchange and an \$8.0 million decline in sales due to the end of the large commercial contract on March 31, 2015. These declines were partially offset by ad hoc sales growth of \$8.7 million and Contract sales growth of \$11.1 million that was primarily due to increased production and expanded content, as well as new business and scope expansion on commercial Contracts.

Income from Operations

Consolidated income from operations decreased \$1.3 million, or 1.1%, to \$118.5 million for the nine months ended June 30, 2016, compared with \$119.8 million for the same period in the prior year. Income from operations as a percentage of net sales was 10.7% for the nine months ended June 30, 2016, compared to 10.6% for the nine months ended June 30, 2015. The decrease in income from operations was comprised of a decrease in gross profit of \$20.2 million, of which \$5.7 million was due to foreign currency exchange rate movements. The \$20.2 million decrease in gross profit was largely offset by a decrease in SG&A expenses of \$18.9 million driven largely by our global restructuring activities, of which \$3.5 million was due to foreign currency exchange rate movements. The decrease in gross profit, excluding the impact of foreign currency exchange rate movements, was primarily driven by the conclusion of a large commercial contract and lower chemical margins due to commodity-based cost and pricing changes on certain pass through Contracts. The decrease in SG&A expenses, excluding the impact of foreign currency exchange rate movements, was largely driven by decreases in payroll and other people related costs, bad debt, professional fees and integration expenses of \$9.2 million, \$3.6 million, \$1.9 million, and \$1.7 million, respectively. These decreases were partially offset by a \$1.3 million increase in depreciation expense.

Income from operations for our North America segment decreased \$12.7 million, or 12.8%, to \$86.4 million, compared with \$99.1 million for the same period in the prior year. Income from operations as a percentage of net sales was 9.7% for the nine months ended June 30, 2016, compared to 11.0% for the same period in the prior year, a decrease of 1.3%. The decrease in income from operations was comprised of a decrease in gross profit of \$25.6 million, partially offset by a decrease in SG&A expenses of \$12.9 million. The decrease in gross profit was largely driven by the conclusion of a large commercial contract and lower chemical margins due to commodity-based cost and pricing changes on certain pass through Contracts. The decrease in SG&A expenses was largely driven by decreases in payroll and other people related costs, bad debt, professional fees and integration expenses of \$7.9 million, \$3.2 million, \$1.9 million and \$1.7 million, respectively. These decreases were partially offset by a \$1.3 million increase in depreciation expense.

Income from operations for our Rest of World segment increased \$11.4 million, or 55.3%, to \$32.1 million, compared with \$20.7 million for the same period in the prior year. Income from operations as a percentage of net sales was 14.5% for the nine months ended June 30, 2016, compared to 9.0% for the same period in the prior year, an increase of 5.4%. The increase in income from operations was the result of an increase in gross profit of \$5.4 million, net of a \$5.7 million negative impact from foreign currency exchange rate movements, and a decrease in SG&A expenses of

\$6.0 million, of which \$3.5 million was due to foreign currency exchange rate movements. The increase in gross profit, excluding the impact of foreign currency exchange rate movements, was primarily driven by a decrease in the E&O reserves, an increase in Contract margins and changes in the mix of ad hoc and Contract business. The decrease in SG&A expenses, excluding the impact of foreign currency exchange rate movements, was largely driven by decreases in payroll costs, bad debt, utilities and warehouse expenses of \$1.3 million, \$0.4 million, \$0.4 million and \$0.3 million, respectively.

Other Expenses

Interest Expense, Net

Interest expense, net was \$27.4 million for the nine months ended June 30, 2016, compared with \$28.1 million for the same period in the prior year. The decrease was primarily due to the repayment of our long-term debt during the twelve months ended June 30, 2016, partially offset by periodical interest swap costs that commenced after June 30, 2015 and an acceleration

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in the amortization of deferred financing costs as a result of the repayment of our long-term debt during the twelve months ended June 30, 2016.

Other Income (Expense), Net

Other income, net was \$4.0 million for the nine months ended June 30, 2016, compared with other expense, net of \$1.4 million for the same period in the prior year. The \$5.4 million increase in other income was primarily related to foreign currency exchange gain associated with transactions denominated in currencies other than the respective functional currency of the reporting subsidiary.

Provision for Income Taxes

The provision for income taxes for the nine months ended June 30, 2016 was \$26.9 million, compared with \$31.1 million for the same period in the prior year. Our effective tax rate was 28.3% and 34.4% for the nine months ended June 30, 2016 and 2015, respectively. The decrease in our effective tax rate resulted primarily from a decrease in U.S. pretax income, which is subject to a higher tax rate, and an increase in foreign pretax income, which is subject to a lower tax rate; and the settlement of a tax audit, which occurred during the three months ended December 31, 2015 and resulted in a decrease of our effective tax rate by 0.7%.

Net Income

Net income increased \$8.9 million, or 15.0%, for the nine months ended June 30, 2016 to \$68.1 million, compared with \$59.3 million for the same period in the prior year. Net income as a percentage of net sales was 6.1% for the nine months ended June 30, 2016, compared to 5.3% for the same period in the prior year. Net income per diluted share was \$0.69 and \$0.61 for the nine months ended June 30, 2016 and 2015, respectively. This increase in net income was primarily driven by a decrease in the income tax provision, as discussed above, as well as an increase in other income, partially offset by a decrease in operating income.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are cash flow from operations and available borrowings under our revolving facility. We have historically funded our operations, debt payments, capital expenditures and discretionary funding needs from our cash from operations. We had total available cash and cash equivalents of \$65.5 million and \$82.9 million as of June 30, 2016 and September 30, 2015, respectively, of which \$40.8 million, or 62.3%, and \$30.8 million, or 37.2%, was held by our foreign subsidiaries as of June 30, 2016 and September 30, 2015, respectively. None of our cash and cash equivalents consisted of restricted cash and cash equivalents as of June 30, 2016 or September 30, 2015. All of our foreign cash and cash equivalents are readily convertible into U.S. dollars or other foreign currencies. Our strategic plan does not require the repatriation of foreign cash in order to fund our operations in the U.S. and it is our current intention to permanently reinvest our foreign cash and cash equivalents outside of the U.S. If we were to repatriate foreign cash to the U.S., we may be required to accrue and pay U.S. taxes in accordance with applicable U.S. tax rules and regulations as a result of the repatriation. Our primary uses of cash are for:

- operating expenses;
- working capital requirements to fund the growth of our business;
- capital expenditures that primarily relate to IT equipment and our warehouse operations;
-

debt service requirements for borrowings under the Credit Facilities (as defined below under “—Credit Facilities—Senior Secured Credit Facilities”); and
• strategic acquisitions.

Generally, cash provided by operating activities has been adequate to fund our operations. Due to fluctuations in our cash flows and the growth in our operations, it may be necessary from time to time in the future to borrow under our revolving facility to meet cash demands. We anticipate that cash provided by operating activities, cash and cash equivalents and borrowing capacity under our revolving facility will be sufficient to meet our cash requirements for the next twelve months. For additional information about our revolving facility, see “—Credit Facilities—Senior Secured Credit Facilities” below. As of June 30, 2016, we did not have any material capital expenditure commitments.

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Credit Facilities

Senior Secured Credit Facilities

On March 24, 2016, we entered into the Third Amendment (the "Amendment") to our credit agreement, dated as of December 7, 2012, by and among the Company, Wesco Aircraft Hardware Corp. and the lenders and agents party thereto (as amended, the "Credit Agreement"). The Amendment (1) reduced the maximum amount permitted to be incurred under a Cash-Capped Incremental Facility (as such term is defined in the Credit Agreement) from \$150 million to \$100 million, and (2) raised the levels in the Consolidated Total Leverage Ratio (as such ratio is defined in the Credit Agreement) financial covenant set forth in the Credit Agreement to a maximum of 4.50 for the quarters ending March 31, 2016, June 30, 2016 and September 30, 2016, with step-downs to 4.25 for the quarter ending December 31, 2016, 4.00 for the quarter ending March 31, 2017 and 3.75 for the quarter ending June 30, 2017 and thereafter.

As a result of the amendment, we incurred \$2.1 million in fees that were capitalized and will be amortized over the remaining life of the related debt.

The Credit Agreement, as amended, provides for (1) a \$625.0 million term loan A facility (the "term loan A facility"), (2) a \$200.0 million revolving credit facility (the "revolving facility"), and (3) a \$525.0 million senior secured term loan B facility (the "term loan B facility"). We refer to the term loan A facility, the term loan B facility and the revolving facility collectively as the Credit Facilities.

As of June 30, 2016, our outstanding indebtedness under our Credit Facilities was \$876.9 million, which consisted of (1) \$401.3 million of indebtedness under the term loan A facility and (2) \$475.6 million of indebtedness under the term loan B facility. As of June 30, 2016, \$200.0 million was available for borrowing under the revolving facility, of which we could borrow up to \$83.0 million without breaching any covenants contained in the agreements governing our indebtedness.

The interest rate for the term loan A facility, is based on our Consolidated Total Leverage Ratio (as such ratio is defined in the Credit Agreement) as determined in the most recently delivered financial statements, with the respective margins ranging from 1.75% to 2.50% for Eurocurrency loans and 0.75% to 1.50% for alternate base rate (ABR) loans. The term loan A facility amortizes in equal quarterly installments of 1.25% of the original principal amount of \$625.0 million for the first year, escalating to quarterly installments of 2.50% of the original principal amount of \$625.0 million by the fifth year, with the balance due at maturity on December 7, 2017. As of June 30, 2016, the interest rate for borrowings under the term loan A facility was 2.96%.

The interest rate for the term loan B facility has a margin of 2.50% per annum for Eurocurrency loans (subject to a minimum Eurocurrency rate floor of 0.75% per annum) or 1.50% per annum for ABR loans (subject to a minimum ABR floor of 1.75% per annum). The term loan B facility amortizes in equal quarterly installments of 0.25% of the original principal amount of \$525.0 million, with the balance due at maturity on February 28, 2021. As of June 30, 2016, the interest rate for borrowings under the term loan B facility was 3.25%. In July 2015, we entered into interest rate swap agreements relating to this indebtedness, which are described in greater detail in Note 6 of the Notes to Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The interest rate for the revolving facility is based on our Consolidated Total Leverage Ratio as determined in the most recently delivered financial statements, with the respective margins ranging from 1.75% to 2.50% for Eurocurrency loans and 0.75% to 1.50% for ABR loans. The revolving facility expires on December 7, 2017.

Our borrowings under the Credit Facilities are guaranteed by us and all of our direct and indirect, wholly-owned, domestic restricted subsidiaries (subject to certain exceptions) and secured by a first lien on substantially all of our assets and the assets of our guarantor subsidiaries, including capital stock of the subsidiaries (in each case, subject to certain exceptions).

During the nine months ended June 30, 2016, we made voluntary prepayments totaling \$76.0 million on our term loan A facility, which has been applied to future required quarterly payments.

Our borrowings under the Credit Facilities are subject to certain financial covenants set forth in the Credit Agreement. As of June 30, 2016, our Consolidated Total Leverage Ratio (as such ratio is defined in the Credit Agreement) cannot exceed 4.50 and our Consolidated Net Interest Coverage Ratio (as such ratio is defined in the Credit Agreement) cannot be less than 2.25. As noted above, our Consolidated Total Leverage Ratio will gradually step-down during future quarters to 3.75 for the quarter ending June 30, 2017 and thereafter. The Credit Agreement also contains customary negative covenants, including

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restrictions on our and our restricted subsidiaries' ability to merge and consolidate with other companies, incur indebtedness, grant liens or security interests on assets, make acquisitions, loans, advances or investments, pay dividends, sell or otherwise transfer assets, optionally prepay or modify terms of any junior indebtedness or enter into transactions with affiliates. As of June 30, 2016, we were in compliance with all of the foregoing covenants, and our Consolidated Total Leverage Ratio was 4.08 and our Consolidated Net Interest Coverage Ratio was 6.19.

A breach of any of these covenants could result in an event of default under the Credit Agreement. If any such event of default occurs, the lenders under the Credit Agreement may elect to declare all outstanding borrowings, together with accrued interest and other amounts payable thereunder, to be immediately due and payable. The lenders under the Credit Agreement also have the right in these circumstances to terminate any commitments they have to provide further borrowings. In addition, following an event of default under the Credit Agreement, the lenders under those facilities will have the right to proceed against the collateral granted to them to secure the debt, which includes our available cash. If the debt under the Credit Agreement was to be accelerated, our assets would not be sufficient to repay in full our debt.

UK Line of Credit

As of June 30, 2016, our subsidiary, Wesco Aircraft Europe, Ltd, has available a £7.0 million (\$9.3 million based on the June 30, 2016 exchange rate) line of credit that automatically renews annually on October 1 (the "UK line of credit"). The UK line of credit bears interest based on the base rate plus an applicable margin of 1.65%. As of June 30, 2016, the full £7.0 million was available for borrowing under the UK line of credit without breaching any covenants contained in the agreements governing our indebtedness.

Cash Flows

A summary of our operating, investing and financing activities are shown in the following table (in thousands):

Consolidated statements of cash flows data:	Nine Months Ended June 30,	
	2016	2015
Net cash provided by operating activities	\$66,593	\$83,853
Net cash used in investing activities	(9,161)	(4,900)
Net cash used in financing activities	(72,241)	(99,891)

Operating Activities

Our operating activities generated \$66.6 million of cash in the nine months ended June 30, 2016, a decrease of \$17.3 million, as compared to \$83.9 million for the same period in the prior year. The decrease of \$17.3 million was driven primarily by higher tax payments of \$25.5 million and higher use of cash for accrued expenses and other liabilities of \$5.7 million, partially offset by an increase in cash provided by the net change in other working assets and liabilities of \$11.0 million as well as an increase in cash provided by results of operations of \$3.0 million.

Investing Activities

Cash used in our investing activities was \$9.2 million in the nine months ended June 30, 2016, compared with \$4.9 million used in the same period of prior year. During the nine months ended June 30, 2016, \$11.2 million was used primarily for the purchase of property and equipment, partially offset by \$2.0 million proceeds from a sale of certain assets during the three months ended March 31, 2016. During the nine months ended June 30, 2015, the \$4.9 million

was used primarily for the purchase of property and equipment. Our purchases of property and equipment may vary from period to period due to the timing of the expansion of our business and the investment requirements to provide us with technology that allows us to better serve our customers.

Financing Activities

Cash used in our financing activities totaled \$72.2 million in the nine months ended June 30, 2016, compared with \$99.9 million used in the same period of the prior year. We paid down our debt by \$76.0 million and \$99.8 million in the nine months ended June 30, 2016 and 2015, respectively.

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Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements.

Recent Accounting Pronouncements

See Note 2 of the Notes to the Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a summary of recent accounting pronouncements.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements (including within the meaning of the Private Securities Litigation Reform Act of 1995) concerning Wesco and other matters. These statements may discuss goals, intentions and expectations as to future plans, trends, events, results of operations or financial condition, or otherwise, based on current beliefs of management, as well as assumptions made by, and information currently available to, management. Forward-looking statements may be accompanied by words such as “achieve,” “aim,” “anticipate,” “believe,” “could,” “drive,” “estimate,” “expect,” “forecast,” “future,” “grow,” “improve,” “increase,” “intend,” “possible,” “potential,” “predict,” “project,” “should,” “target,” “will,” “would” or similar words, phrases or expressions. These forward-looking statements are subject to various risks and uncertainties, many of which are outside our control. Therefore, you should not place undue reliance on such statements.

Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, the following: general economic and industry conditions; conditions in the credit markets; changes in military spending; risks unique to suppliers of equipment and services to the U.S. government; risks associated with our long-term, fixed-price agreements that have no guarantee of future sales volumes; risks associated with the loss of significant customers, a material reduction in purchase orders by significant customers or the delay, scaling back or elimination of significant programs on which we rely; our ability to effectively compete in our industry; our ability to effectively manage our inventory; our ability to fully integrate the acquired business of Haas and realize anticipated benefits of the combined operations; risks relating to unanticipated costs of integration; our suppliers’ ability to provide us with the products we sell in a timely manner, in adequate quantities and/or at a reasonable cost; our ability to maintain effective information technology systems; our ability to retain key personnel; risks associated with our international operations, including exposure to foreign currency movements; risks associated with assumptions we make in connection with our critical accounting estimates (including goodwill) and legal proceedings; our dependence on third-party package delivery companies; fuel price risks; our ability to establish and maintain effective internal control over financial reporting; fluctuations in our financial results from period-to-period; environmental risks; risks related to the handling, transportation and storage of chemical products; risks related to the aerospace industry and the regulation thereof; risks related to our indebtedness; and other risks and uncertainties.

The foregoing list of factors is not exhaustive. You should carefully consider the foregoing factors and the other risks and uncertainties that affect our business, including those described under Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 filed with the SEC on November 30, 2015 and the other documents we file from time to time with the SEC, including this Quarterly Report on Form 10-Q. All forward-looking statements included in this Quarterly Report on Form 10-Q (including information included or incorporated by reference herein) are based upon information available to us as of the date hereof, and we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.

Except as disclosed in our Quarterly Report on Form 10-Q for the quarter ended December 31, 2015 filed with the SEC on February 5, 2016, there have been no material changes to our market risks since September 30, 2015. For a description of our exposure to market risks, see Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risks” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 filed with the SEC on November 30, 2015, as supplemented by Part I, Item 3 “Quantitative and Qualitative Disclosures About Market Risks” in our Quarterly Report on Form 10-Q for the quarter ended December 31, 2015 filed with the SEC on February 5, 2016.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

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Our management, with the participation of the chief executive officer and chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation and because our previously reported material weaknesses have not been remediated as of June 30, 2016, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were not effective as of June 30, 2016.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

As disclosed in more detail in Part II, Item 9A. "Controls and Procedures" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, the initial material weakness we identified in fiscal 2014 relates to a lack of a sufficient complement of accounting and financial reporting personnel with an appropriate level of accounting knowledge and experience commensurate with our financial reporting requirements. This material weakness contributed to the following two additional material weaknesses identified in fiscal 2015. We did not maintain effective controls over the preparation and review of account reconciliations. Specifically, our controls over the reconciliation of our balance sheet accounts did not operate effectively. We also did not maintain effective controls over the integration of policies, practices and controls over the acquired Haas business. These material weaknesses could result in misstatements of substantially all accounts and disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

In light of the material weaknesses, management performed additional analyses and supplementary review procedures and has concluded that the unaudited consolidated financial statements contained in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the fiscal years presented in conformity with generally accepted accounting principles. Additionally, these material weaknesses did not result in any material misstatements of our unaudited consolidated financial statements and disclosures for the three and nine months ended June 30, 2016.

Remediation Activities

While significant progress has been made to enhance our internal control over financial reporting relating to the previously reported material weaknesses, we are still in the process of testing these enhanced processes and procedures to assess and ensure the sustainability of these processes and procedures over a meaningful period of time.

The following remedial actions have been taken in the three months ended June 30, 2016:

Our staff attended a third training session as part of our comprehensive training program to upgrade the skills of our internal audit and accounting personnel. We expect these trainings to occur at least quarterly during the remainder of fiscal 2016 at our corporate headquarters and through videoconferencing for employees located outside of our corporate headquarters.

We have formalized all of our critical accounting and reporting policies, which have been approved by our chief financial officer and made available on our intranet, and we have trained our finance personnel on these policies.

We conducted a thorough assessment of the account reconciliation process implemented in prior quarters in accordance with the formal account reconciliation policy and procedures established at that time. Based on the results of our assessment, which included performing a walk-through of the process and testing on a sample basis, we concluded that the process is designed and operating effectively for the three months ended June 30, 2016.

We have reviewed our control environment and related control activities to identify and implement enhancements and other integration activities to simplify and, where possible, centralize our processes and related controls.

We will continue to test these enhanced processes and procedures to assess and ensure the sustainability of these processes and procedures over a meaningful period of time.

We believe these actions will be effective in remediating the previously reported material weaknesses, and we will continue to devote significant time and attention to these remedial efforts. However, the material weaknesses cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We intend to complete the implementation and testing of our remediation plan and remediate the material weaknesses by the end of fiscal 2016.

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Changes in Internal Control over Financial Reporting

Except as described above, there were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are involved in various legal matters that arise in the ordinary course of our business. We believe that the ultimate outcome of such matters will not have a material adverse effect on our business financial condition or results of operations. However, there can be no assurance that such actions will not be material or adversely affect our business, financial condition or results of operations.

ITEM 1A. RISK FACTORS.

The risk factor presented below is added to the risk factors previously disclosed in Part I, Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, under the heading “Risks Related to Our Business and Industry”:

The results of the United Kingdom’s referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business, which could reduce the price of our common stock.

We have material business operations in both the United Kingdom and the broader European Union. In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the United Kingdom formally initiates a withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, and has given rise to calls for the governments of other European Union member states to consider withdrawal.

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Asset valuations, currency exchange rates and credit ratings may be especially subject to increased market volatility. Lack of clarity about future United Kingdom laws and regulations as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal, including financial laws and regulations, tax and free trade agreements, intellectual property rights, supply chain logistics, environmental, health and safety laws and regulations, immigration laws and employment laws, could decrease foreign direct investment in the United Kingdom, increase costs, depress economic activity and restrict our access to capital. If the United Kingdom and the European Union are unable to negotiate acceptable withdrawal terms or if other European Union member states pursue withdrawal, barrier-free access between the United Kingdom and other European Union member states or among the European economic area overall could be diminished or eliminated. Any of these factors could have direct or indirect impact on our business in the United Kingdom and the broader European Union, on our suppliers and customers in the United Kingdom and the broader European Union and on our business outside the United Kingdom and the broader European Union, which could have a material adverse effect on our business, financial condition and results of operations and reduce the price of our common stock.

There have been no other material changes to the risk factors disclosed in Part I, Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

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ITEM 6. EXHIBITS.

(a) Exhibits

Exhibit
Number Description

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

32.1 Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

Date: August 4, 2016 WESCO AIRCRAFT HOLDINGS, INC.

By: /s/ David J. Castagnola
Name: David J. Castagnola
Title: President and Chief Executive Officer
(Principal Executive Officer)

Date: August 4, 2016 By: /s/ Richard J. Weller
Name: Richard J. Weller
Title: Executive Vice President and Chief Financial Officer
(Principal Financial Officer)