

TRIUMPH GROUP INC
Form 10-Q
February 04, 2010
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**United States
Securities and Exchange Commission**

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended December 31, 2009.

or

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

For the Transition Period From to

Commission File Number: 1-12235

TRIUMPH GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

51-0347963

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

1550 Liberty Ridge, Suite 100, Wayne, PA

(Address of principal executive offices)

19087

(Zip Code)

(610) 251-1000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Securities Exchange Act of 1934. (Check one)

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Common Stock, par value \$0.001 per share, 16,667,856 shares outstanding as of December 31, 2009.

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Part I. Financial Information

Item 1. Financial Statements.

**Triumph Group, Inc.
Consolidated Balance Sheets**

(dollars in thousands, except per share data)

| | DECEMBER 31, 2009 (unaudited) | MARCH 31, 2009 (as adjusted, see Note 2) |
|---|-------------------------------------|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 152,284 | \$ 14,478 |
| Accounts receivable, less allowance for doubtful accounts of \$5,196 and \$5,641 | 166,045 | 209,463 |
| Inventories | 378,670 | 389,348 |
| Rotable assets | 25,753 | 25,652 |
| Assets held for sale | 5,281 | 27,695 |
| Deferred income taxes | 1,486 | 1,727 |
| Prepaid income taxes | | 4,434 |
| Prepaid expenses and other | 8,052 | 6,021 |
| Total current assets | 737,571 | 678,818 |
| Property and equipment, net | 322,154 | 332,467 |
| Goodwill | 487,197 | 459,541 |
| Intangible assets, net | 79,907 | 108,350 |
| Other, net | 18,802 | 12,031 |
| Total assets | \$ 1,645,631 | \$ 1,591,207 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 78,402 | \$ 103,711 |
| Accrued expenses | 94,336 | 109,580 |
| Liabilities related to assets held for sale | 681 | 4,283 |
| Current portion of long-term debt | 94,214 | 89,085 |
| Total current liabilities | 267,633 | 306,659 |
| Long-term debt, less current portion | 414,823 | 370,311 |
| Income taxes payable, non-current | 4,093 | 2,917 |
| Deferred income taxes, non-current | 106,991 | 108,413 |
| Other non-current liabilities | 13,139 | 14,344 |
| Stockholders' equity: | | |
| Common stock, \$.001 par value, 100,000,000 shares authorized, 16,820,754 and 16,763,984 shares issued; 16,667,476 and 16,589,567 outstanding | 16 | 16 |
| Capital in excess of par value | 314,095 | 311,434 |
| Treasury stock, at cost, 153,278 and 174,417 shares | (8,404) | (9,785) |

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| | | |
|---|--------------|--------------|
| Accumulated other comprehensive income (loss) | 4,035 | (2,233) |
| Retained earnings | 529,210 | 489,131 |
| Total stockholders' equity | 838,952 | 788,563 |
| Total liabilities and stockholders' equity | \$ 1,645,631 | \$ 1,591,207 |

SEE ACCOMPANYING NOTES.

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

| | THREE MONTHS ENDED DECEMBER 31, | | NINE MONTHS ENDED DECEMBER 31, | |
|--|---------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | 2009 | 2008 (as adjusted, See note 2) | 2009 | 2008 (as adjusted, See note 2) |
| Net sales | \$ 313,530 | \$ 285,243 | \$ 942,799 | \$ 929,190 |
| Operating costs and expenses: | | | | |
| Cost of sales (exclusive of depreciation shown separately below) | 228,988 | 204,398 | 676,837 | 656,357 |
| Selling, general and administrative | 39,119 | 38,687 | 117,168 | 120,075 |
| Depreciation and amortization | 12,485 | 11,727 | 40,858 | 36,285 |
| | 280,592 | 254,812 | 834,863 | 812,717 |
| Operating income | 32,938 | 30,431 | 107,936 | 116,473 |
| Interest expense and other | 7,768 | 4,687 | 18,595 | 14,266 |
| Gain on extinguishment of debt | | (581) | (39) | (581) |
| Income from continuing operations before income taxes | 25,170 | 26,325 | 89,380 | 102,788 |
| Income tax expense | 7,117 | 6,264 | 29,088 | 32,616 |
| Income from continuing operations | 18,053 | 20,061 | 60,292 | 70,172 |
| Loss from discontinued operations, net | (12,453) | (818) | (17,202) | (3,114) |
| Net income | \$ 5,600 | \$ 19,243 | \$ 43,090 | \$ 67,058 |
| Earnings per share basic: | | | | |
| Income from continuing operations | \$ 1.10 | \$ 1.22 | \$ 3.66 | \$ 4.28 |
| Loss from discontinued operations, net | (0.76) | (0.05) | (1.05) | (0.19) |
| Net income | \$ 0.34 | \$ 1.17 | \$ 2.62* | \$ 4.09 |
| Weighted average common shares outstanding basic | 16,467 | 16,387 | 16,454 | 16,382 |
| Earnings per share diluted: | | | | |
| Income from continuing operations | \$ 1.08 | \$ 1.21 | \$ 3.62 | \$ 4.23 |
| Loss from discontinued operations, net | (0.75) | (0.05) | (1.03) | (0.19) |
| Net income | \$ 0.34* | \$ 1.16 | \$ 2.59 | \$ 4.04 |
| Weighted average common shares outstanding diluted | 16,688 | 16,551 | 16,641 | 16,584 |
| Dividends declared and paid per common share | \$ 0.04 | \$ 0.04 | \$ 0.12 | \$ 0.12 |

* Difference due to rounding

SEE ACCOMPANYING NOTES.

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

| | NINE MONTHS ENDED | |
|--|-------------------|--------------------------------------|
| | DECEMBER 31, | |
| | 2009 | 2008 (as adjusted, See note 2) |
| Operating Activities | | |
| Net income | \$ 43,090 | \$ 67,058 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 40,858 | 36,285 |
| Gain on early extinguishment of debt | (39) | (581) |
| Accretion of discount on convertible notes | 4,579 | 4,688 |
| Other amortization included in interest expense | 1,336 | 1,258 |
| Provision for doubtful accounts receivable | 309 | 1,402 |
| Provision for deferred income taxes | 1,565 | 7,551 |
| Employee stock compensation | 2,508 | 2,366 |
| Changes in other current assets and liabilities, excluding the effects of acquisitions and dispositions of businesses: | | |
| Accounts receivable | 42,852 | 25,675 |
| Rotable assets | (101) | (2,870) |
| Inventories | 10,399 | (13,572) |
| Prepaid expenses and other current assets | (2,173) | (1,098) |
| Accounts payable, accrued expenses and income taxes payable | (38,938) | (44,577) |
| Changes in discontinued operations | 21,326 | (6,123) |
| Other | (1,121) | (671) |
| Net cash provided by operating activities | 126,450 | 76,791 |
| Investing Activities | | |
| Capital expenditures | (21,766) | (31,252) |
| Proceeds from sale of property & equipment | 529 | 737 |
| Cash used for businesses and intangible assets acquired | (6,375) | |
| Net cash used in investing activities | (27,612) | (30,515) |
| Financing Activities | | |
| Net decrease in revolving credit facility | (127,730) | (108,750) |
| Proceeds from issuance of long-term debt | 172,878 | 76,403 |
| Proceeds from equipment leasing facility and other capital leases | 13,942 | 147 |
| Retirement of convertible debt and repayment of capital lease obligations | (11,205) | (8,983) |
| Payment of deferred financing cost | (8,277) | (988) |
| Dividends paid | (2,000) | (1,989) |
| Withholding of restricted shares for minimum tax obligation | (470) | |
| Proceeds from exercise of stock options, including excess tax benefit of \$140 and \$196 in fiscal 2010 and 2009 | 1,019 | 1,148 |
| Net cash provided by (used in) financing activities | 38,157 | (43,012) |
| Effect of exchange rate changes on cash | 811 | (174) |
| Net change in cash | 137,806 | 3,090 |
| Cash at beginning of period | 14,478 | 13,738 |

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| | | | | |
|-----------------------|----|---------|----|--------|
| Cash at end of period | \$ | 152,284 | \$ | 16,828 |
|-----------------------|----|---------|----|--------|

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | | | | |
|--|----|--------|----|--------|
| Cash paid for income taxes, net of refunds | \$ | 16,446 | \$ | 20,761 |
| Cash paid for interest | \$ | 13,268 | \$ | 11,756 |

SEE ACCOMPANYING NOTES.

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Triumph Group, Inc.
Consolidated Statements of Comprehensive Income

(dollars in thousands)

(unaudited)

| | THREE MONTHS ENDED DECEMBER 31, | | NINE MONTHS ENDED DECEMBER 31, | |
|---|---------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | 2009 | 2008 (as adjusted, See note 2) | 2009 | 2008 (as adjusted, See note 2) |
| Net income | \$ 5,600 | \$ 19,243 | \$ 43,090 | \$ 67,058 |
| Other comprehensive income | | | | |
| Foreign currency translation adjustment | (502) | (119) | 5,828 | (1,927) |
| Unrealized gain (loss) on cash flow hedge, net of tax expense (benefit) of \$28, \$(1,643), \$221 and \$(970), respectively | 115 | (2,796) | 443 | (1,649) |
| Total comprehensive income | \$ 5,213 | \$ 16,328 | \$ 49,361 | \$ 63,482 |

SEE ACCOMPANYING NOTES.

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Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

1. BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited consolidated financial statements of Triumph Group, Inc. (the Company) have been prepared in conformity with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements, except as otherwise disclosed herein. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended December 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2010. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsequent Events

The Company has evaluated all subsequent events through February 4, 2010, which represents the filing date of this Form 10-Q with the Securities and Exchange Commission, to ensure that this Form 10-Q includes appropriate disclosure of events both recognized in the financial statements as of December 31, 2009, and events which occurred subsequent to December 31, 2009 but were not recognized in the financial statements. As of February 4, 2010, there were no subsequent events which required recognition or disclosure.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual

results could differ from those estimates.

Concentration of Credit Risk

The Company's trade accounts receivable are exposed to credit risk. However, the risk is limited due to the diversity of the customer base and the customer base's wide geographical area. Trade accounts receivable from The Boeing Company (Boeing) represented approximately 21% and 16% of total accounts receivable as of December 31, 2009 and March 31, 2009, respectively. The Company had no other significant concentrations of credit risk. Sales to Boeing for the nine months ended December 31, 2009 were \$283,034, or 30% of net sales, of which \$255,727 and \$27,307 were from the Aerospace Systems segment and the Aftermarket Services segment, respectively. Sales to Boeing for the nine months ended December 31, 2008 were \$213,727, or 23% of net sales, of which \$180,230 and \$33,497 were from the Aerospace Systems segment and the Aftermarket Services segment, respectively. No other single customer accounted for more than 10% of the Company's net sales. However, the loss of any significant customer, including Boeing, could have a material adverse effect on the Company and its operating subsidiaries.

Recently Issued Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion*

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Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(Including Partial Cash Settlement) (FSP APB 14-1), which was primarily codified into Topic 470, *Debt* in the Accounting Standard Codification (ASC). FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Additionally, this FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods.

The Company recognized a cumulative-effect adjustment of \$1,953 reducing the April 1, 2007 balance of retained earnings and reducing the carrying amount of our convertible debt to the discounted value with the discount recorded through capital in excess of par. The retroactive application of FSP APB 14-1 resulted in the recognition of additional pre-tax non-cash interest expense for the nine months ended December 31, 2008 of \$4,688, or \$0.18 per diluted share.

The following table sets forth the effect of the retrospective application of FSP APB 14-1 on certain reported line items:

| Consolidated Statement of Income | Three months ended December 31, 2008 | | |
|----------------------------------|--------------------------------------|------------|-------------|
| | As previously reported | Adjustment | As adjusted |
| Interest expense and other | \$ 3,305 | \$ 1,382 | \$ 4,687 |
| Gain on extinguishment of debt | (1,777) | 1,196 | (581) |
| Income tax expense | 6,957 | (693) | 6,264 |
| Net income | \$ 21,128 | \$ (1,885) | \$ 19,243 |

| Consolidated Statement of Income | Nine months ended December 31, 2008 | | |
|----------------------------------|-------------------------------------|------------|-------------|
| | As previously reported | Adjustment | As adjusted |
| Interest expense and other | \$ 9,799 | \$ 4,467 | \$ 14,266 |
| Gain on extinguishment of debt | (1,777) | 1,196 | (581) |
| Income tax expense | 34,402 | (1,786) | 32,616 |
| Net income | \$ 70,935 | \$ (3,877) | \$ 67,058 |

| Consolidated Balance Sheet | March 31, 2009 | | |
|----------------------------|------------------------|------------|-------------|
| | As previously reported | Adjustment | As adjusted |

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| | | | | | | |
|--------------------------------------|----|---------|----|----------|----|---------|
| Other assets, net | \$ | 13,731 | \$ | (1,700) | \$ | 12,031 |
| Long-term debt, less current portion | | 386,219 | | (15,908) | | 370,311 |
| Deferred income taxes other | | 117,462 | | 5,295 | | 122,757 |
| Capital in excess of par | | 291,304 | | 20,130 | | 311,434 |
| Retained earnings | \$ | 500,348 | \$ | (11,217) | \$ | 489,131 |

The debt and equity components recognized for the Company's convertible notes as of March 31, 2009 were as follows:

| | | |
|---------------------------------------|----|---------|
| Principal amount of convertible notes | \$ | 183,250 |
| Unamortized discount (1) | | 15,908 |
| Net carrying amount | | 167,342 |

(1) Remaining recognition period of 2.5 years as of March 31, 2009.

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Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amount of interest expense recognized and the effective rate for the Company's convertible notes were as follows:

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|------------------------------------|----------|-----------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Contractual coupon interest | \$ 1,175 | \$ 1,294 | \$ 3,587 | \$ 3,935 |
| Amortization of discount on convertible notes | 1,535 | 1,547 | 4,552 | 4,688 |
| Interest expense | \$ 2,710 | \$ 2,841 | \$ 8,139 | \$ 8,623 |
| Effective interest rate | 6.5% | 6.5% | 6.5% | 6.5% |

In February 2008, the FASB issued FSP No. 157-1, which amends SFAS No. 157, *Fair Value Measurements* (SFAS 157) to exclude SFAS No. 13, *Accounting for Leases*, and other accounting pronouncements that address fair value measurements for lease transactions, and FSP No. 157-2, which primarily were codified into Topic 820, *Fair Value Measurements and Disclosures* in the ASC and delayed the effective date of SFAS 157 as it relates to nonfinancial assets and nonfinancial liabilities until April 1, 2009 for the Company, except for items that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis. The nonfinancial assets and nonfinancial liabilities for which the Company had previously not applied the fair value provisions of SFAS 157 include: goodwill; intangible and other long-lived asset impairment testing; asset retirement obligations; liabilities for exit or disposal activities; and business combinations. The adoption had no impact on the Company's financial position, results of operations and cash flows as the Company did not have any non-financial assets and non-financial liabilities that were recognized or disclosed at fair value on a recurring basis at March 31, 2009.

In April 2009, the FASB issued FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which primarily was codified into Topic 820, *Fair Value Measurements and Disclosures*, in the ASC. The FSP requires entities to evaluate the significance and relevance of market factors for fair value inputs to determine if, due to reduced volume and market activity, the factors are still relevant and substantive measures of fair value. The FSP is effective for interim and annual reporting periods ending after June 15, 2009, and the adoption did not have a material effect on our financial position or results of operations.

In December 2008, the FASB issued FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which primarily was codified into Topic 715, *Compensation and Benefits*, in the ASC. This FSP amends SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan on investment policies and strategies, major categories of plan assets, inputs and valuation techniques used to measure the fair value of plan assets and significant concentrations of risk within plan assets. This FSP shall be effective for fiscal years

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ending after December 15, 2009, with earlier application permitted. Upon initial application, the provisions of this FSP are not required for earlier periods that are presented for comparative purposes. We are currently evaluating the disclosure requirements of this new FSP.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, which was primarily codified into Topic 825, *Financial Instruments*, in the ASC. This FSP amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this FSP, fair values for these assets and liabilities were only disclosed annually. This FSP applies to all financial instruments within the scope of SFAS 107 and requires all entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. This FSP shall be effective for interim

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Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted this FSP in the quarter ended December 31, 2009 and the adoption of this FSP did not have a material effect on its disclosures.

Effective April 1, 2009, the Company adopted SFAS No. 141(R), *Business Combinations* (SFAS 141(R)) which was primarily codified into Topic 805, *Business Combinations*, in the ASC, and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160), which was primarily codified into Topic 810, *Consolidations* in the ASC. SFAS 141(R) and SFAS 160 significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests. The adoption of SFAS 141(R) and SFAS 160 did not have a material impact on the Company's consolidated financial statements.

Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment* (SFAS 123R), which primarily was codified into Topic 718, *Compensation - Stock Compensation*, in the ASC and requires companies to measure compensation cost for all share-based payments (including employee stock options) at fair value. The Company adopted SFAS 123R, using the modified-prospective transition method, beginning on April 1, 2006, and therefore began to expense the fair value of all outstanding options over their remaining vesting periods to the extent the options were not fully vested as of the adoption date and began to expense the fair value of all options granted subsequent to March 31, 2006 over their requisite service periods. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow (\$140 and \$196 for the nine months ended December 31, 2009 and December 31, 2008, respectively), rather than an operating cash flow. Stock-based compensation expense related to employee stock options and restricted stock awards recognized under SFAS 123R for the three months ended December 31, 2009 and December 31, 2008 was \$814 and \$749, respectively, and for the nine months ended December 31, 2009 and December 31, 2008 was \$2,508 and \$2,366, respectively. The Company has classified share-based compensation within selling, general and administrative expenses to correspond with the same line item as the majority of the cash compensation paid to employees.

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Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

Intangible Assets

The components of intangible assets, net are as follows:

| | | December 31, 2009 | | |
|--|--------------------------------------|----------------------------------|-------------------------------------|------------------|
| | Weighted Average Life | Gross Carrying Amount | Accumulated Amortization | Net |
| Product rights and licenses | 11.3 years | \$ 74,082 | \$ (50,160) | \$ 23,922 |
| Non-compete agreements, customer relationships and other | 10.1 years | 80,150 | (24,165) | 55,985 |
| Total intangibles, net | | \$ 154,232 | \$ (74,325) | \$ 79,907 |

| | | March 31, 2009 | | |
|--|--------------------------------------|----------------------------------|-------------------------------------|-------------------|
| | Weighted Average Life | Gross Carrying Amount | Accumulated Amortization | Net |
| Product rights and licenses | 11.3 years | \$ 74,082 | \$ (45,079) | \$ 29,003 |
| Non-compete agreements, customer relationships and other | 10.1 years | 97,476 | (18,129) | 79,347 |
| Total intangibles, net | | \$ 171,558 | \$ (63,208) | \$ 108,350 |

Amortization expense for the three months ended December 31, 2009 and 2008 was \$2,566 and \$2,755. Amortization expense for the nine months ended December 31, 2009 and 2008 was \$11,110 and \$8,763.

3. ACQUISITIONS

FISCAL 2009 ACQUISITIONS

Acquisition of Merritt Tool Company

Effective March 13, 2009, the Company acquired all of the outstanding shares of Merritt Tool Company, Inc. (Merritt), renamed Triumph Structures East Texas, Inc. Triumph Structures East Texas, Inc. is a manufacturer of aircraft structural components specializing in complex precision machining primarily for commercial and military aerospace programs. Merritt provides the Company with expanded capacity and increased market share in structural components. The results for Triumph Structures East Texas, Inc. are included in the Company s Aerospace Systems segment.

Acquisition of Saygrove Defence & Aerospace Group Limited

Effective March 13, 2009, the Company acquired all of the outstanding shares of Saygrove Defence & Aerospace Group Limited (Saygrove), renamed Triumph Actuation & Motion Control Systems-UK, Ltd. Triumph Actuation & Motion Control Systems-UK, Ltd. is a provider of motion control and actuation products for the aerospace and defense industry. Saygrove provides the Company with added advanced control products for flight actuation and motor control applications in all-electric aircraft and Unmanned

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Triumph Group, Inc.

Notes To Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

3. ACQUISITIONS (Continued)

Aerial Vehicles. The results for Triumph Actuation & Motion Control Systems-UK, Ltd. are included in the Company's Aerospace Systems segment.

Acquisition of Aviation Segment of Kongsberg Automotive Holdings ASA

Effective March 31, 2009, the Company acquired the assets of the aviation segment of Kongsberg Automotive Holdings ASA (KA) through two newly organized wholly-owned subsidiaries, Triumph Controls UK, Ltd. and Triumph Controls Germany, GmbH. The acquired business, which is located in Basildon, U.K. and Heiligenhaus, Germany, provides cable control systems for commercial and military aircraft to Europe's leading aerospace manufacturers. KA provides the Company with expanded capacity and increased market share in cable control systems. The results for Triumph Controls UK, Ltd. and Triumph Controls Germany, GmbH are included in the Company's Aerospace Systems segment.

Acquisition of The Mexmil Company, LLC

Effective March 31, 2009, the Company acquired all of the equity interests of The Mexmil Company, LLC, and all of the equity interests of several affiliates (Mexmil), renamed Triumph Insulation Systems, LLC. Triumph Insulation Systems, LLC and its affiliates primarily provide insulation systems to original equipment manufacturers, or OEMs, airlines, maintenance, repair and overhaul organizations and air cargo carriers. Mexmil provides the Company with an enhanced ability to provide a more comprehensive interiors solution to current and future customers. The results for Triumph Insulation Systems, LLC and its affiliates are included in the Company's Aerospace Systems segment.

The acquisitions of Merritt, Saygrove, KA and Mexmil are herein referred to as the fiscal 2009 acquisitions. The combined purchase price of the fiscal 2009 acquisitions of \$153,604 includes cash paid at closing, estimated deferred payments and direct costs of the transactions. Included in the deferred payments are delayed payments of \$2,132 and \$1,421 payable in March 2010 and September 2010, respectively. The fiscal 2009 acquisitions also provide for contingent payments, certain of which are contingent upon the achievement of specified earnings levels during the earnout period. The maximum amounts payable in respect of earnouts on the fiscal 2009 acquisitions for fiscal 2010, 2011, 2012 and 2013, respectively, are \$2,322, \$4,598, \$5,426 and \$2,629. In addition to the earnouts, there is another \$10,000 that is contingent upon entering into a specific customer contract. The contingent amounts have not been recorded as the contingencies have not been resolved and the consideration has not been paid. The excess of the combined purchase price over the preliminary estimated fair value of the net assets acquired of \$100,126 was recorded as goodwill, \$60,944 of which is tax-deductible. The Company has also identified intangible assets valued at approximately \$27,114, comprised of noncompete agreements, customer relationships, and product rights and licenses with a weighted-average life of 9.3

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years. While the Company is awaiting final appraisals of tangible and intangible assets and assumed liabilities related to the fiscal 2009 acquisitions, adjustments to the preliminary estimated fair value were recorded during the quarter ended December 31, 2009 to reflect current draft appraisals. Accordingly, the Company has recorded its best estimate of the intangibles and property and equipment subject to obtaining final appraisals, which will be finalized in the fourth quarter of fiscal 2010. Therefore, the allocation of purchase price for the fiscal 2009 acquisitions is not complete and is subject to change.

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Triumph Group, Inc.

Notes To Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)**3. ACQUISITIONS (Continued)**

The following condensed balance sheet represents the amounts assigned to each major asset and liability caption in the aggregate for fiscal 2009 acquisitions:

| | | |
|-----------------------------|----|---------|
| Cash | \$ | 5,182 |
| Accounts receivable | | 13,875 |
| Inventory | | 27,225 |
| Prepaid expenses and other | | 1,952 |
| Deferred tax asset | | 1,185 |
| Property and equipment | | 14,136 |
| Goodwill | | 100,126 |
| Intangible assets | | 27,114 |
| Total assets | \$ | 190,795 |
| Accounts payable | \$ | 9,707 |
| Accrued expenses | | 23,405 |
| Other current liabilities | | 108 |
| Other long-term liabilities | | 3,971 |
| Total liabilities | \$ | 37,191 |

The fiscal 2009 acquisitions have been accounted for under the purchase method of accounting and, accordingly, are included in the consolidated financial statements from the effective dates of acquisition. The fiscal 2009 acquisitions were funded by the Company's long-term borrowings in place on the dates of acquisition.

The following unaudited pro forma information for the three and nine months ended December 31, 2008 has been prepared assuming the fiscal 2009 acquisitions had occurred on April 1, 2008. The pro forma information for the three and nine months ended December 31, 2008 is as follows: Net sales: \$303,555 and \$999,669; Income from continuing operations: \$18,400 and \$68,847; Income per share from continuing operations - basic: \$1.12 and \$4.20; Income per share from continuing operations diluted: \$1.11 and \$4.15.

The unaudited pro forma information includes adjustments for interest expense that would have been incurred to finance the purchase, additional depreciation based on the estimated fair market value of the property and equipment acquired, and the amortization of the intangible assets arising from the transactions. The unaudited pro forma financial information is not necessarily indicative of the results of operations of the Company as it would have been had the transaction been effected on the assumed date.

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

In September 2007, the Company decided to sell Triumph Precision Castings Co., a casting facility in its Aftermarket Services segment that specializes in producing high quality hot gas path components for aero and land based gas turbines. The Company recognized a pre-tax loss of \$3,500 in the first quarter of fiscal 2008 based upon a write-down of the carrying value of the business to estimated fair value less costs to sell. The write-down was applied to inventory and long-lived assets, consisting primarily of property, plant and equipment. In October 2008, the Company exercised the buy out provision in the operating lease on its casting facility. Accordingly, the property, plant and equipment related to the assets held for sale increased by \$3,535.

Due to failed negotiations with certain potential buyers of the business occurring during the quarter ended December 31, 2009, the Company reassessed its estimated fair value of the business based on current viable offers to purchase the business, recent performance results and overall market conditions, resulting in a write-down, which was applied to accounts receivable, inventory and property, plant and equipment. The Company

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Triumph Group, Inc.

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(dollars in thousands, except per share data)

(unaudited)

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (Continued)

recognized a pre-tax loss of \$17,383 in the third quarter of fiscal 2010. Included in the loss from discontinued operations for the nine months ended December 31, 2009 is an impairment charge of \$2,512 recorded during the first quarter of fiscal 2010.

For financial statement purposes, the assets, liabilities, results of operations and cash flows of these businesses have been segregated from those of the continuing operations and are presented in the Company's consolidated financial statements as discontinued operations and assets and liabilities held for sale.

Revenues of discontinued operations were \$(236) and \$1,258, and \$3,030 and \$7,858 for the three and nine months ended December 31, 2009 and December 31, 2008, respectively. The loss from discontinued operations was \$12,453 and \$17,202, and \$818 and \$3,114 net of income tax benefit of \$6,648 and \$9,205 and \$441 and \$1,677 for the three months and nine months ended December 31, 2009 and December 31, 2008, respectively. Interest expense of \$669 and \$2,274, and \$759 and \$2,151 was allocated to discontinued operations for the three and nine months ended December 31, 2009 and December 31, 2008, respectively, based upon the actual borrowings of the operations, and such interest expense is included in the loss from discontinued operations.

Assets and liabilities held for sale are comprised of the following:

| | December 31, 2009 | March 31, 2009 |
|------------------------------------|----------------------|-------------------|
| Assets held for sale: | | |
| Accounts receivable, net | \$ 1,518 | \$ 6,838 |
| Inventories | 763 | 11,763 |
| Property, plant and equipment | 3,000 | 9,062 |
| Other | | 32 |
| Total assets held for sale | \$ 5,281 | \$ 27,695 |
| Liabilities held for sale: | | |
| Accounts payable | \$ 64 | \$ 1,630 |
| Accrued expenses | 269 | 475 |
| Deferred tax liabilities and other | 348 | 2,178 |
| Total liabilities held for sale | \$ 681 | \$ 4,283 |

5. INVENTORIES

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

| | December 31, 2009 | | March 31, 2009 |
|---------------------------------------|------------------------------|----|---------------------------|
| Raw materials | \$ 52,940 | \$ | 51,856 |
| Manufactured and purchased components | 162,465 | | 142,833 |
| Work-in-process | 117,607 | | 113,641 |
| Finished goods | 45,658 | | 81,018 |
| Total inventories | \$ 378,670 | \$ | 389,348 |

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Triumph Group, Inc.

Notes To Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)**6. LONG-TERM DEBT**

Long-term debt consists of the following:

| | December 31, 2009 | March 31, 2009 |
|---|------------------------------|---------------------------|
| Convertible senior subordinated notes | \$ 168,024 | \$ 167,342 |
| Senior subordinated notes due 2017 | 172,505 | |
| Revolving credit facility | | 127,730 |
| Receivable securitization facility | 75,000 | 75,000 |
| Equipment leasing facility and other capital leases | 72,169 | 65,232 |
| Subordinated promissory notes | 13,482 | 16,575 |
| Other debt | 7,857 | 7,517 |
| | 509,037 | 459,396 |
| Less current portion | 94,214 | 89,085 |
| | \$ 414,823 | \$ 370,311 |

Credit Facility

On August 17, 2009, the Company amended its existing amended and restated credit agreement (the "Credit Facility") with its lenders to (i) increase the availability under the Credit Facility to \$485,000 from \$370,000, (ii) extend the maturity date to January 31, 2013 and (iii) amend certain other terms and covenants. The Credit Facility bears interest at either: (i) LIBOR plus between 2.25% and 3.50%; (ii) the prime rate; or (iii) an overnight rate at the option of the Company. The applicable interest rate is based upon the Company's ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization, as defined in the Credit Facility. In addition, the Company is required to pay a commitment fee of between 0.30% and 0.50% on the unused portion of the Credit Facility. The commitment fee applicable for any fiscal quarter shall be increased over the amounts set forth above by 15 basis points to the extent the average amounts outstanding in such fiscal quarter is less than or equal to 40% of the availability. The Company's obligations under the Credit Facility are guaranteed by the Company's domestic subsidiaries. In connection with the amendment, the Company incurred \$3,946 of bank-related fees. These fees, along with \$934 of unamortized debt issuance costs prior to the amendment, are being amortized into expense over the remaining term of the agreement.

At December 31, 2009, there were no borrowings and \$6,226 in letters of credit outstanding under the facility. At March 31, 2009 there were \$127,730 in borrowings and \$5,600 in letters of credit outstanding under the facility. The level of unused borrowing capacity under the Company's revolving credit facility varies from time to time depending in part upon its compliance with financial and other covenants set forth in the related agreement. The Company is currently in compliance with all such covenants. As of December 31, 2009, the Company had

borrowing capacity under this facility of \$478,774, after reductions for borrowings and letters of credit outstanding under the facility.

Senior Subordinated Notes Due 2017

On November 16, 2009, the Company issued \$175,000 principal amount of 8% Senior Subordinated Notes due 2017 (the 2017 Notes). The 2017 Notes were sold at 98.558% of principal amount and have an effective interest yield of 8.25%. Interest on the 2017 Notes is payable semi-annually in cash in arrears on May 15 and November 15 of each year. In connection with the issuance of the 2017 Notes, the Company incurred approximately \$4,328 of costs, which were deferred and are being amortized on the effective interest method over the term of the 2017 Notes.

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Triumph Group, Inc.

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(dollars in thousands, except per share data)

(unaudited)

6. LONG-TERM DEBT (Continued)

The 2017 Notes are senior subordinated unsecured obligations of the Company and rank subordinated to all of the existing and future senior indebtedness of the Company and the Guarantor Subsidiaries (defined below), including borrowings under the Company's existing Credit Facility, and pari passu with the Company's and the Guarantor Subsidiaries' existing and future senior subordinated indebtedness. The 2017 Notes are guaranteed, on a full, joint and several basis, by each of our domestic restricted subsidiaries that guarantees any of our debt or that of any of our restricted subsidiaries under our Credit Facility, and in the future by any domestic restricted subsidiaries that guarantee any of our debt or that of any of our domestic restricted subsidiaries incurred under any credit facility (collectively, the Guarantor Subsidiaries), in each case on a senior subordinated basis. If the Company is unable to make payments on the 2017 Notes when they are due, each of the Guarantor Subsidiaries would be obligated to make them instead.

The Company has the option to redeem all or a portion of the 2017 Notes at any time prior to November 15, 2013 at a redemption price equal to 100% of the principal amount of the 2017 Notes redeemed plus an applicable premium set forth in the Indenture and accrued and unpaid interest, if any. The 2017 Notes are also subject to redemption, in whole or in part, at any time on or after November 15, 2013, at redemption prices equal to (i) 104% of the principal amount of the 2017 Notes redeemed, if redeemed prior to November 15, 2014, (ii) 102% of the principal amount of the 2017 Notes redeemed, if redeemed prior to November 15, 2015 and (iii) 100% of the principal amount of the Notes redeemed, if redeemed thereafter, plus accrued and unpaid interest. In addition, at any time prior to November 15, 2012, the Company may redeem up to 35% of the principal amount of the 2017 Notes with the net cash proceeds of qualified equity offerings at a redemption price equal to 108% of the aggregate principal amount plus accrued and unpaid interest, if any, subject to certain limitations set forth in the indenture governing the 2017 Notes (the Indenture).

Upon the occurrence of a change of control, the Company must offer to purchase the 2017 Notes from holders at 101% of their principal amount plus accrued and unpaid interest, if any, to the date of purchase. This change of control feature represents an embedded derivative. Since it is in the control of the Company to call the Notes at any time after November 15, 2013, the value of the derivative was determined to be de minimis. Accordingly, no value has been assigned at issuance or at December 31, 2009.

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

Convertible Senior Subordinated Notes

On September 18, 2006, the Company issued \$201,250 in convertible senior subordinated notes (the Notes). The Notes are direct, unsecured, senior subordinated obligations of the Company, and rank (i) junior in right of payment to all of the Company's existing and future senior indebtedness, (ii) equal in right of payment with any other future senior subordinated indebtedness, and (iii) senior in right of payment to all subordinated indebtedness. During the nine months ended December 31, 2009, the Company paid \$3,994 to purchase \$4,200 in principal amount of the Notes, resulting in a reduction in the carrying amount of the Notes of \$3,830 and a gain on extinguishment of \$39. During the nine months ended December 31, 2009, the Company paid \$8,223 to purchase \$10,000 in principal amount of the Notes, resulting in a reduction in the carrying amount of the Notes of \$8,417 and a gain on extinguishment of \$581.

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Triumph Group, Inc.

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6. LONG-TERM DEBT (Continued)

The Company received net proceeds from the sale of the Notes of approximately \$194,998 after deducting debt issuance expenses of approximately \$5,942. Debt issuance costs were recorded as other assets in the accompanying consolidated balance sheets and are being amortized over a period of five years.

The Notes bear interest at a fixed rate of 2.625% per annum, payable in cash semi-annually in arrears on each April 1 and October 1 beginning April 1, 2007. During the period commencing on October 6, 2011 and ending on, but excluding, April 1, 2012 and each nine-month period from October 1 to March 31 or from April 1 to December 31 thereafter, the Company will pay contingent interest during the applicable interest period if the average trading price of a Note for the five consecutive trading days ending on the third trading day immediately preceding the first day of the relevant nine-month period equals or exceeds 120% of the principal amount of the Notes. The contingent interest payable per Note in respect of any nine-month period will equal 0.25% per annum calculated on the average trading price of a Note for the relevant five trading day period. This contingent interest feature represents an embedded derivative. Since the ability to call the Notes at any time after October 6, 2011 is within the control of the Company, the value of the derivative was determined to be de minimis. Accordingly, no value has been assigned at issuance or at December 31, 2009.

The Notes mature on October 1, 2026 unless earlier redeemed, repurchased or converted. The Company may redeem the Notes for cash, either in whole or in part, anytime on or after October 6, 2011 at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest, including contingent interest and additional amounts, if any, up to but not including the date of redemption. In addition, holders of the Notes will have the right to require the Company to repurchase for cash all or a portion of the Notes on October 1, 2011, 2016 and 2021, at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, including contingent interest and additional amounts, if any, up to, but not including, the date of repurchase. The Notes are convertible into the Company's common stock at a rate equal to 18.3655 shares per \$1,000 principal amount of the Notes (equal to an initial conversion price of approximately \$54.45 per share), subject to adjustment as described in the Indenture. Upon conversion, the Company will deliver to the holder surrendering the Notes for conversion, for each \$1,000 principal amount of Notes, an amount consisting of cash equal to the lesser of \$1,000 and the Company's total conversion obligation and, to the extent that the Company's total conversion obligation exceeds \$1,000, at the Company's election, cash or shares of the Company's common stock in respect of the remainder.

The Notes are eligible for conversion upon meeting certain conditions as provided in the indenture governing the Notes. For the fiscal quarter ended December 31, 2009 and December 31, 2008, respectively, the Notes were not eligible for conversion. Accordingly, the Company has classified the Notes as long-term as of December 31, 2009 and December 31, 2008, respectively.

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To be included in the calculation of diluted earnings per share, the average price of the Company's common stock for the quarter must exceed the conversion price per share of \$54.45. The average price of the Company's common stock for the fiscal quarter ended December 31, 2009 and December 31, 2008 was \$48.73 and \$37.17, respectively. Therefore, no additional shares were included in the diluted earnings per share calculation as of the fiscal quarter ended December 31, 2009 or December 31, 2008. The average price of the Company's common stock for the nine months ended December 31, 2009 and December 31, 2008 was \$43.94 and \$48.78, respectively. Therefore, as of the nine months ended December 31, 2009 and December 31, 2008, there were no additional shares included in the diluted earnings per share. If the Company undergoes a fundamental change, holders of the Notes will have the right, subject to certain conditions, to require the Company to repurchase for cash all or a portion of their Notes at a repurchase price equal to 100%

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6. LONG-TERM DEBT (Continued)

of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, including contingent interest and additional amounts, if any.

Effective April 1, 2009, the Company adopted FSP APB 14-1, resulting in the reduction of the carrying amount of our convertible debt to the discounted value with the discount recorded through capital in excess of par. As of December 31, 2009, the remaining discount of \$11,026 will be amortized on the effective interest method through October 1, 2011.

Receivables Securitization Program

In August 2008, the Company entered into a receivable securitization facility (the Securitization Facility) with a purchase limit of \$125,000. In connection with the Securitization Facility, the Company sells on a revolving basis certain accounts receivable to Triumph Receivables, LLC, a wholly-owned special-purpose entity, which in turn sells a percentage ownership interest in the receivables to commercial paper conduits sponsored by financial institutions. The Company is the servicer of the accounts receivable under the Securitization Facility. As of December 31, 2009, the maximum amount available under the Securitization Facility was \$95,724. The Securitization Facility is due to expire in August 2010 and is subject to annual renewal through August 2013. Interest rates are based on prevailing market rates for short-term commercial paper plus a program fee and a commitment fee. The program fee is 0.85% on the amount outstanding under the Securitization Facility. Additionally, the commitment fee is 0.65% on 102% of the maximum amount available under the Securitization Facility. At December 31, 2009, there was \$75,000 outstanding under the Securitization Facility. In connection with entering into the Securitization Facility, the Company incurred approximately \$823 of costs, which were deferred and are being amortized over the life of the Securitization Facility. The Company securitizes its accounts receivable, which are generally non-interest bearing, in transactions that are accounted for as borrowings pursuant to the *Transfers and Servicing* topic of the ASC.

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

Equipment Leasing Facility and Other Capital Leases

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During March 2009, the Company entered into a 7-year Master Lease Agreement (the Leasing Facility) creating a capital lease of certain existing property and equipment, resulting in net proceeds of \$58,546 after deducting debt issuance costs of approximately \$188. During the nine months ended December 31, 2009, the Company originated additional capital lease financing resulting in proceeds of \$13,942. The net proceeds from the Leasing Facility were used to repay a portion of the outstanding indebtedness under the Company's Credit Facility. The debt issuance costs have been recorded as other assets in the accompanying consolidated balance sheets and are being amortized over the term of the Leasing Facility. The Leasing Facility bears interest at a weighted-average fixed rate of 6.2% per annum.

7. DERIVATIVES

Interest Rate Swap

The Company uses interest rate swaps, a derivative financial instrument, to manage interest costs and minimize the effects of interest rate fluctuations on cash flows associated with its Credit Facility. The Company does not use derivative financial instruments for trading or speculative purposes. While interest rate swaps are subject to fluctuations in value, these fluctuations are generally offset by the estimated fair value of the underlying exposures being hedged.

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7. DERIVATIVES (Continued)

The Company follows the *Derivatives and Hedging* topic of ASC to account for its interest rate swaps, which requires that all derivatives be recorded on the consolidated balance sheet at fair value. The standards also require that changes in the fair value be recorded each period in current earnings or other comprehensive income, depending on the effectiveness of the hedge transaction. Interest rate swaps are designated as cash flow hedges. Changes in the fair value of a cash flow hedge, to the extent the hedge is effective, are recorded, net of tax, in other comprehensive income (loss), a component of stockholders' equity, until earnings are affected by the variability of the hedged cash flows. Cash flow hedge ineffectiveness, defined as the extent that the changes in the fair value of the derivative exceed the variability of cash flows of the forecasted transaction, is recorded currently in earnings.

In March 2008, the Company entered into an interest rate swap agreement (the Swap), maturing June 2011 involving the receipt of floating rate amounts in exchange for fixed rate interest payments over the life of the agreement, without exchange of the underlying principal amount. Under the Swap, the Company receives interest equivalent to the one-month LIBOR and pays a fixed rate of interest of 2.925 percent with settlements occurring monthly. The objective of the hedge is to eliminate the variability of cash flows in interest payments for \$85,000 of floating rate debt.

In December 2009, the Company elected to de-designate the Swap as a hedge prospectively. As a result, changes in fair value from the date of de-designation are recognized through interest expense and other in the consolidated statement of income. For the three months ended December 31, 2009, \$222 was recognized as a reduction to interest expense and other for the change in fair value of the Swap from the date of de-designation through December 31, 2009.

As of December 31, 2009, the total notional amount of the Company's receive-variable/pay-fixed interest rate swap was \$85,000. For the nine months ended December 31, 2009, \$1,680 of losses were reclassified into earnings from accumulated other comprehensive income.

The fair value of the interest rate swap of \$2,604 and \$3,429 as of December 31, 2009 and March 31, 2009, respectively, were included in Deferred income taxes and other.

The effect of derivative instruments in the consolidated statements of income is as follows:

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| | Reclassification Adjustment Gain (Loss) Location (Effective Portion) | Amount of Gain (Loss) in OCI (Effective Portion) Nine months ended December 31, 2009 2008 | | Reclassification Adjustment Gain (Loss) Amount Nine months ended December 31, 2009 2008 | | | | | |
|-------------------------|--|---|-------|---|---------|----|---------|----|-------|
| Cash Flow Hedges | | | | | | | | | |
| Interest rate swap | Interest expense and other | \$ | (443) | \$ | (1,649) | \$ | (1,680) | \$ | (143) |

The amount of ineffectiveness on the interest rate swap is not significant. The Company estimates that approximately \$575 of losses presently in accumulated other comprehensive income (loss) will be reclassified into earnings during the remainder of fiscal 2010.

8. FAIR VALUE MEASUREMENTS

The Company follows the *Fair Value Measurement and Disclosures* topic of the ASC, which requires additional disclosures about the Company's assets and liabilities that are measured at fair value and establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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8. FAIR VALUE MEASUREMENTS (Continued)

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3 Unobservable inputs for the asset or liability.

The following table provides the liabilities reported at fair value and measured on a recurring basis as of December 31, 2009:

| Description | Total | Fair Value Measurements Using: | | |
|---|----------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Interest rate swap, net of tax of \$(963) | \$ 1,641 | \$ | \$ 1,641 | \$ |

The fair value of the interest rate swap contract is determined using observable current market information as of the reporting date such as the prevailing LIBOR-based interest rate.

The *Financial Instruments* topic of the ASC requires disclosure of the estimated fair value of certain financial instruments. These estimated fair values as of December 31, 2009 and March 31, 2009 have been determined using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop estimates of fair value. The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange. The use of alternative market assumptions and estimation methodologies could have had a material effect on these estimates of fair value.

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Carrying amounts and the related estimated fair values of the company's financial instruments not recorded at fair value in the financial statements are as follows:

| | December 31, 2009 | | March 31, 2009 | |
|----------------|-------------------|------------|----------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Long-term debt | \$ 509,037 | \$ 544,311 | \$ 459,396 | \$ 469,221 |

The fair value of the long-term debt was calculated based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements.

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9. EARNINGS PER SHARE

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

| | Three months ended December 31, (in thousands) | | Nine months ended December 31, (in thousands) | |
|--|--|--------|---|--------|
| | 2009 | 2008 | 2009 | 2008 |
| Weighted average common shares outstanding - basic | 16,467 | 16,387 | 16,454 | 16,382 |
| Net effect of dilutive stock options | 221 | 164 | 187 | 202 |
| Weighted average common shares outstanding diluted | 16,688 | 16,551 | 16,641 | 16,584 |

10. INCOME TAXES

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

The Company has classified uncertain tax positions as non-current income tax liabilities unless expected to be paid in one year. Penalties and tax-related interest expense are reported as a component of income tax expense. As of December 31, 2009 and March 31, 2009, the total amount of accrued income tax-related interest and penalties was \$374 and \$357, respectively.

As of December 31, 2009 and March 31, 2009, the total amount of unrecognized tax benefits was \$5,166 and \$3,211, respectively, of which \$3,149 and \$3,188, respectively, would impact the effective rate, if recognized. The Company anticipates that total unrecognized tax benefits may be reduced by \$590 due to the expiration of statutes of limitation for various federal tax issues in the next 12 months.

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As of December 31, 2009, the Company was subject to examination in state jurisdictions for fiscal years ended March 31, 2005 through March 31, 2008, none of which we believe is individually material. The Company has filed appeals in a state jurisdiction related to fiscal years ended March 31, 1999 through March 31, 2005. The fiscal year ended March 31, 2008 is currently being examined by the Internal Revenue Service.

The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

With few exceptions, the Company is no longer subject to U.S. federal income tax examinations for fiscal years ended before March 31, 2007, state or local examinations for fiscal years ended before March 31, 2006, or foreign income tax examinations by tax authorities for fiscal years ended before March 31, 2007.

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11. GOODWILL

The following is a summary of the changes in the carrying value of goodwill by reportable segment, from March 31, 2009 through December 31, 2009:

| | Aerospace Systems | | Aftermarket Services | | Total |
|---|------------------------------|----|---------------------------------|----|--------------|
| Balance, March 31, 2009 | \$ 405,982 | \$ | 53,559 | \$ | 459,541 |
| Purchase price allocation adjustments | 27,931 | | | | 27,931 |
| Effect of exchange rate changes and other | 1,435 | | (1,710) | | (275) |
| Balance, December 31, 2009 | \$ 435,348 | \$ | 51,849 | \$ | 487,197 |

12. SEGMENTS

The Company has two reportable segments: the Aerospace Systems Group and the Aftermarket Services Group. The Aerospace Systems segment consists of 39 operating locations, and the Aftermarket Services segment consists of 19 operating locations at December 31, 2009.

The Aerospace Systems segment consists of the Company's operations that manufacture products primarily for the aerospace OEM market. The segment's operations design and engineer mechanical and electromechanical controls, such as hydraulic systems, main engine gearbox assemblies, accumulators and mechanical control cables. The segment's revenues are also derived from stretch forming, die forming, milling, bonding, machining, welding and assembly and fabrication of various structural components used in aircraft wings, fuselages and other significant assemblies. Further, the segment's operations also design and manufacture composite assemblies for floor panels, environmental control system ducts, thermal acoustic insulation systems and non-structural cockpit components. These products are sold to various aerospace OEMs on a global basis.

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

Segment operating income is total segment revenue reduced by operating expenses identifiable with that segment. Corporate includes general corporate administrative costs and any other costs not identifiable with one of the Company's segments.

The Company does not accumulate net sales information by product or service or groups of similar products and services, and therefore the Company does not disclose net sales by product or service because to do so would be impracticable.

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Triumph Group, Inc.

Notes To Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

12. SEGMENTS (Continued)

Selected financial information for each reportable segment is as follows:

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|------------------------------------|------------|-----------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net sales: | | | | |
| Aerospace systems | \$ 262,882 | \$ 222,751 | \$ 779,276 | \$ 738,552 |
| Aftermarket services | 51,409 | 63,107 | 166,506 | 192,556 |
| Elimination of inter-segment sales | (761) | (615) | (2,983) | (1,918) |
| | \$ 313,530 | \$ 285,243 | \$ 942,799 | \$ 929,190 |
| Income from continuing operations before income taxes: | | | | |
| Operating income (expense): | | | | |
| Aerospace systems | \$ 39,090 | \$ 34,269 | \$ 120,021 | \$ 126,854 |
| Aftermarket services | 1,390 | 2,219 | 7,294 | 9,002 |
| Corporate | (7,542) | (6,057) | (19,379) | (19,383) |
| | 32,938 | 30,431 | 107,936 | 116,473 |
| Interest expense and other | 7,768 | 4,687 | 18,595 | 14,266 |
| Gain on early extinguishment of debt | | (581) | (39) | (581) |
| | \$ 25,170 | \$ 26,325 | \$ 89,380 | \$ 102,788 |
| Depreciation and amortization: | | | | |
| Aerospace systems | \$ 9,084 | \$ 8,498 | \$ 30,674 | \$ 25,888 |
| Aftermarket services | 3,211 | 3,171 | 9,650 | 10,206 |
| Corporate | 190 | 58 | 534 | 191 |
| | \$ 12,485 | \$ 11,727 | \$ 40,858 | \$ 36,285 |
| Capital expenditures: | | | | |
| Aerospace systems | \$ 5,005 | \$ 6,097 | \$ 17,197 | \$ 24,008 |
| Aftermarket services | 1,474 | 1,684 | 3,234 | 6,676 |
| Corporate | 1,242 | 81 | 1,335 | 568 |
| | \$ 7,721 | \$ 7,862 | \$ 21,766 | \$ 31,252 |
| Total Assets: | | | | |
| Aerospace systems | | | \$ 1,172,238 | \$ 1,213,142 |
| Aftermarket services | | | 301,816 | 318,596 |

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| | | | | |
|-------------------------|----|-----------|----|-----------|
| Corporate | | 166,296 | | 31,774 |
| Discontinued Operations | | 5,281 | | 27,695 |
| | \$ | 1,645,631 | \$ | 1,591,207 |

During the three months ended December 31, 2009 and 2008, the Company had foreign sales of \$58,253 and \$64,653, respectively. During the nine month period ended December 31, 2009 and 2008, the Company had international sales of \$183,778 and \$203,826, respectively.

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Triumph Group, Inc.

Notes To Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

The Company's 2017 Notes are fully and unconditionally guaranteed on a joint and several basis by Guarantor Subsidiaries. The total assets, stockholder's equity, revenue, earnings and cash flows from operating activities of the Guarantor Subsidiaries exceeded a majority of the consolidated total of such items as of and for the periods reported. The only consolidated subsidiaries of the Company that are not guarantors of the 2017 Notes (the Non-Guarantor Subsidiaries) are: (a) the receivables securitization special purpose entity, and (b) the foreign operating subsidiaries. The following tables present condensed consolidating financial statements including Triumph Group, Inc. (the Parent), the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries. Such financial statements include balance sheets as of December 31, 2009 and March 31, 2009, statements of operations for the three and nine months ended December 31, 2009 and 2008, and statements of cash flows for the nine months ended December 31, 2009 and 2008.

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Triumph Group, Inc.

Notes To Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

SUMMARY CONSOLIDATING BALANCE SHEETS:

| | December 31, 2009 | | | | |
|---|--------------------------|-----------------------------------|---------------------------------------|---------------------|-------------------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated Total |
| Current assets: | | | | | |
| Cash | \$ 144,293 | \$ 228 | \$ 7,763 | \$ | \$ 152,284 |
| Accounts receivable, net | 733 | 18,135 | 147,177 | | 166,045 |
| Inventories | | 349,540 | 29,130 | | 378,670 |
| Rotable assets | | 22,622 | 3,131 | | 25,753 |
| Assets held for sale | | 5,281 | | | 5,281 |
| Deferred income taxes | 1,486 | | | | 1,486 |
| Prepaid expenses and other | 3,191 | 3,826 | 1,035 | | 8,052 |
| Total current assets | 149,703 | 399,632 | 188,236 | | 737,571 |
| Property and equipment, net | 4,937 | 301,084 | 16,133 | | 322,154 |
| Goodwill and other intangible assets, net | | 515,161 | 51,943 | | 567,104 |
| Other, net | 16,938 | 1,661 | 203 | | 18,802 |
| Intercompany investments and advances | 517,037 | (114,109) | (8,182) | (394,746) | |
| Total assets | \$ 688,615 | \$ 1,103,429 | \$ 248,333 | \$ (394,746) | \$ 1,645,631 |
| Current liabilities: | | | | | |
| Accounts payable | \$ 1,853 | \$ 72,445 | \$ 4,104 | \$ | \$ 78,402 |
| Accrued expenses | 13,954 | 75,823 | 4,559 | | 94,336 |
| Liabilities related to assets held for sale | | 681 | | | 681 |
| Current portion of long-term debt | 465 | 14,716 | 79,033 | | 94,214 |
| Total current liabilities | 16,272 | 163,665 | 87,696 | | 267,633 |
| Long-term debt, less current portion | 341,052 | 73,771 | | | 414,823 |
| Intercompany debt | (632,099) | 539,994 | 92,105 | | |
| Income taxes payable, non-current | 4,093 | | | | 4,093 |
| Deferred income taxes and other | 120,345 | (396) | 181 | | 120,130 |
| Total stockholders equity | 838,952 | 326,395 | 68,351 | (394,746) | 838,952 |
| Total liabilities and stockholders equity | \$ 688,615 | \$ 1,103,429 | \$ 248,333 | \$ (394,746) | \$ 1,645,631 |

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Triumph Group, Inc.

Notes To Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

SUMMARY CONSOLIDATING BALANCE SHEETS:

| | Parent | Guarantor Subsidiaries | March 31, 2009 Non-Guarantor Subsidiaries | Eliminations | Consolidated Total |
|--|------------|---------------------------|---|--------------|-----------------------|
| Current assets: | | | | | |
| Cash | \$ 3,821 | \$ 5,457 | \$ 5,200 | \$ | \$ 14,478 |
| Accounts receivable, net | 690 | 16,124 | 192,649 | | 209,463 |
| Inventories | | 368,653 | 20,695 | | 389,348 |
| Rotable assets | | 22,608 | 3,044 | | 25,652 |
| Assets held for sale | | 27,695 | | | 27,695 |
| Deferred income taxes | 1,416 | | 311 | | 1,727 |
| Prepaid income taxes | 4,434 | | | | 4,434 |
| Prepaid expenses and other | 1,137 | 4,246 | 638 | | 6,021 |
| Total current assets | 11,498 | 444,783 | 222,537 | | 678,818 |
| Property and equipment, net | 3,070 | 312,568 | 16,829 | | 332,467 |
| Goodwill and other intangible assets, net | | 521,841 | 46,050 | | 567,891 |
| Other, net | 9,890 | 1,945 | 196 | | 12,031 |
| Intercompany investments and advances | 367,614 | (10,070) | 2,751 | (360,295) | |
| Total assets | \$ 392,072 | \$ 1,271,067 | \$ 288,363 | \$ (360,295) | \$ 1,591,207 |
| Current liabilities: | | | | | |
| Accounts payable | \$ 5,315 | \$ 94,133 | \$ 4,263 | \$ | \$ 103,711 |
| Accrued expenses | 18,765 | 84,037 | 6,778 | | 109,580 |
| Liabilities related to assets held for sale | | 4,283 | | | 4,283 |
| Current portion of long-term debt | 452 | 11,469 | 77,164 | | 89,085 |
| Total current liabilities | 24,532 | 193,922 | 88,205 | | 306,659 |
| Long-term debt, less current portion | 295,946 | 72,935 | 1,430 | | 370,311 |
| Intercompany debt | (837,174) | 700,292 | 136,882 | | |
| Income taxes payable, non-current | 2,917 | | | | 2,917 |
| Deferred income taxes and other | 117,288 | 337 | 5,132 | | 122,757 |
| Total stockholders' equity | 788,563 | 303,581 | 56,714 | (360,295) | 788,563 |
| Total liabilities and stockholders equity | \$ 392,072 | \$ 1,271,067 | \$ 288,363 | \$ (360,295) | \$ 1,591,207 |

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Triumph Group, Inc.

Notes To Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

CONDENSED CONSOLIDATING STATEMENTS OF INCOME:

| | Three months ended December 31, 2009 | | | | | Consolidated Total |
|---|---|-----------------------------------|---------------------------------------|---------------------|----|-------------------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | | |
| Net sales | \$ | \$ 301,348 | \$ 15,568 | \$ (3,386) | \$ | 313,530 |
| Operating costs and expenses: | | | | | | |
| Cost of sales | | 218,349 | 14,025 | (3,386) | | 228,988 |
| Selling, general and administrative | 7,352 | 29,091 | 2,676 | | | 39,119 |
| Depreciation and amortization | 190 | 11,897 | 398 | | | 12,485 |
| | 7,542 | 259,337 | 17,099 | (3,386) | | 280,592 |
| Operating income | (7,542) | 42,011 | (1,531) | | | 32,938 |
| Intercompany interest and charges | (21,487) | 21,484 | 3 | | | |
| Interest expense and other | 6,414 | 856 | 498 | | | 7,768 |
| Gain on extinguishment of debt | | | | | | |
| Income from continuing operations, before income taxes | 7,531 | 19,671 | (2,032) | | | 25,170 |
| Income tax expense | 907 | 6,212 | (2) | | | 7,117 |
| Income from continuing operations | 6,624 | 13,459 | (2,030) | | | 18,053 |
| Loss on discontinued operations, net | | (12,453) | | | | (12,453) |
| Net income | \$ 6,624 | \$ 1,006 | \$ (2,030) | \$ | \$ | 5,600 |

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Triumph Group, Inc.

Notes To Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

CONDENSED CONSOLIDATING STATEMENTS OF INCOME:

| | Three months ended December 31, 2008 | | | | | Consolidated Total |
|---|---|-----------------------------------|---------------------------------------|---------------------|----|-------------------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | | |
| Net sales | \$ | \$ 276,291 | \$ 13,348 | \$ (4,396) | \$ | 285,243 |
| Operating costs and expenses: | | | | | | |
| Cost of sales | | 199,316 | 9,478 | (4,396) | | 204,398 |
| Selling, general and administrative | 5,999 | 30,354 | 2,334 | | | 38,687 |
| Depreciation and amortization | 58 | 11,343 | 326 | | | 11,727 |
| | 6,057 | 241,013 | 12,138 | (4,396) | | 254,812 |
| Operating income | (6,057) | 35,278 | 1,210 | | | 30,431 |
| Intercompany interest and charges | (20,629) | 20,935 | (306) | | | |
| Interest expense and other | 4,680 | (597) | 604 | | | 4,687 |
| Gain on extinguishment of debt | (581) | | | | | (581) |
| Income from continuing operations, before income taxes | 10,473 | 14,940 | 912 | | | 26,325 |
| Income tax expense | 994 | 5,093 | 177 | | | 6,264 |
| Income from continuing operations | 9,479 | 9,847 | 735 | | | 20,061 |
| Loss on discontinued operations, net | | (818) | | | | (818) |
| Net income | \$ 9,479 | \$ 9,029 | \$ 735 | \$ | \$ | 19,243 |

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Triumph Group, Inc.

Notes To Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

CONDENSED CONSOLIDATING STATEMENTS OF INCOME:

| | Nine months ended December 31, 2009 | | | | | |
|---|-------------------------------------|---------------------------|-------------------------------|--------------|-----------------------|----------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated Total | |
| Net sales | \$ | \$ 906,023 | \$ 46,318 | \$ (9,542) | \$ | 942,799 |
| Operating costs and expenses: | | | | | | |
| Cost of sales | | 648,582 | 37,797 | (9,542) | | 676,837 |
| Selling, general and administrative | 18,845 | 90,930 | 7,393 | | | 117,168 |
| Depreciation and amortization | 534 | 38,004 | 2,320 | | | 40,858 |
| | 19,379 | 777,516 | 47,510 | (9,542) | | 834,863 |
| Operating income | (19,379) | 128,507 | (1,192) | | | 107,936 |
| Intercompany interest and charges | (67,705) | 67,831 | (126) | | | |
| Interest expense and other | 15,192 | 2,053 | 1,350 | | | 18,595 |
| Gain on extinguishment of debt | (39) | | | | | (39) |
| Income from continuing operations, before income taxes | 33,173 | 58,623 | (2,416) | | | 89,380 |
| Income tax expense | 8,721 | 19,445 | 922 | | | 29,088 |
| Income from continuing operations | 24,452 | 39,178 | (3,338) | | | 60,292 |
| Loss on discontinued operations, net | | (17,202) | | | | (17,202) |
| Net income | \$ 24,452 | \$ 21,976 | \$ (3,338) | \$ | \$ | 43,090 |

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Triumph Group, Inc.

Notes To Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

CONDENSED CONSOLIDATING STATEMENTS OF INCOME:

| | Nine months ended December 31, 2008 | | | | |
|---|-------------------------------------|---------------------------|-------------------------------|--------------|-----------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated Total |
| Net sales | \$ | \$ 907,391 | \$ 38,825 | \$ (17,026) | \$ 929,190 |
| Operating costs and expenses: | | | | | |
| Cost of sales | | 646,463 | 26,920 | (17,026) | 656,357 |
| Selling, general and administrative | 19,192 | 94,116 | 6,767 | | 120,075 |
| Depreciation and amortization | 191 | 35,112 | 982 | | 36,285 |
| | 19,383 | 775,691 | 34,669 | (17,026) | 812,717 |
| Operating income | (19,383) | 131,700 | 4,156 | | 116,473 |
| Intercompany interest and charges | (67,824) | 66,692 | 1,132 | | |
| Interest expense and other | 14,769 | 1,210 | (1,713) | | 14,266 |
| Gain on extinguishment of debt | (581) | | | | (581) |
| Income from continuing operations, before income taxes | 34,253 | 63,798 | 4,737 | | 102,788 |
| Income tax expense | 8,989 | 22,739 | 888 | | 32,616 |
| Income from continuing operations | 25,264 | 41,059 | 3,849 | | 70,172 |
| Loss on discontinued operations, net | | (3,114) | | | (3,114) |
| Net income | \$ 25,264 | \$ 37,945 | \$ 3,849 | \$ | \$ 67,058 |

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Triumph Group, Inc.

Notes To Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

| | Nine months ended December 31, 2009 | | | | |
|--|-------------------------------------|---------------------------|-------------------------------|--------------|-----------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated Total |
| Net income | \$ 24,452 | \$ 21,976 | \$ (3,338) | \$ | \$ 43,090 |
| Adjustments to reconcile net income to net cash provided by operating activities | 7,040 | 41,498 | 34,822 | | 83,360 |
| Net cash provided by operating activities | 31,492 | 63,474 | 31,484 | | 126,450 |
| Capital expenditures | (1,335) | (18,634) | (1,797) | | (21,766) |
| Proceeds from sale of assets and businesses | 1 | 527 | 1 | | 529 |
| Cash used for businesses and intangible assets acquired | | (4,896) | (1,479) | | (6,375) |
| Net cash used in investing activities | (1,334) | (23,003) | (3,275) | | (27,612) |
| Net decrease in revolving credit facility | (127,730) | | | | (127,730) |
| Proceeds on issuance of debt | 172,477 | 14,343 | | | 186,820 |
| Retirements and repayments of debt | (4,332) | (6,782) | (91) | | (11,205) |
| Payments of deferred financing costs | (8,277) | | | | (8,277) |
| Dividends paid | (2,000) | | | | (2,000) |
| Withholding of restricted shares for minimum tax obligation | (470) | | | | (470) |
| Proceeds from exercise of stock options, including excess tax benefit | 1,019 | | | | 1,019 |
| Intercompany financing and advances | 79,627 | (53,261) | (26,366) | | |
| Net cash (used in) provided by financing activities | 110,314 | (45,700) | (26,457) | | 38,157 |
| Effect of exchange rate changes on cash | | | 811 | | 811 |
| Net change in cash | 140,472 | (5,229) | 2,563 | | 137,806 |
| Cash at beginning of period | 3,821 | 5,457 | 5,200 | | 14,478 |
| Cash at end of period | \$ 144,293 | \$ 228 | \$ 7,763 | \$ | \$ 152,284 |

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Triumph Group, Inc.

Notes To Consolidated Financial Statements

(dollars in thousands, except per share data)

(unaudited)

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

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

| | Nine months ended December 31, 2008 | | | | | Consolidated Total |
|--|-------------------------------------|---------------------------|-------------------------------|--------------|----|-----------------------|
| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | | |
| Net income | \$ 25,265 | \$ 37,944 | \$ 3,849 | \$ | \$ | 67,058 |
| Adjustments to reconcile net income to net cash provided by operating activities | (3,330) | 5,898 | 7,576 | | | 10,144 |
| Net cash provided by operating activities | 21,935 | 43,842 | 11,425 | | | 77,202 |
| Capital expenditures | (568) | (29,849) | (835) | | | (31,252) |
| Proceeds from sale of assets and businesses | | 734 | 3 | | | 737 |
| Cash used for businesses and intangible assets acquired | | | | | | |
| Net cash used in investing activities | (568) | (29,115) | (832) | | | (30,515) |
| Net decrease in revolving credit facility | (108,750) | | | | | (108,750) |
| Proceeds on issuance of debt | | 1,550 | 75,000 | | | 76,550 |
| Retirements and repayments of debt | (8,223) | (760) | | | | (8,983) |
| Payments of deferred financing costs | (988) | | | | | (988) |
| Dividends paid | (1,989) | | | | | (1,989) |
| Proceeds from exercise of stock options, including excess tax benefit | 1,148 | | | | | 1,148 |
| Intercompany financing and advances | 102,640 | (15,410) | (87,230) | | | |
| Net cash (used in) provided by financing activities | (16,162) | (14,620) | (12,230) | | | (43,012) |
| Effect of exchange rate changes on cash | | | (585) | | | (585) |
| Net change in cash | 5,205 | 107 | (2,222) | | | 3,090 |
| Cash at beginning of period | 7,080 | 401 | 6,257 | | | 13,738 |
| Cash at end of period | \$ 12,285 | \$ 508 | \$ 4,035 | \$ | \$ | 16,828 |

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

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

OVERVIEW

We are a major supplier to the aerospace industry and have two operating segments: (i) Triumph Aerospace Systems Group, whose companies design, engineer and manufacture a wide range of proprietary and build-to-print components, assemblies and systems for the global aerospace original equipment manufacturers, or OEM, market; and (ii) Triumph Aftermarket Services Group, whose companies serve aircraft fleets, notably commercial airlines, the U.S. military and cargo carriers, through the maintenance, repair and overhaul of aircraft components and accessories manufactured by third parties.

Financial highlights for the three and nine months ended December 31, 2009 include:

- Net sales for the third quarter of the fiscal year ending March 31, 2010 increased 10.0% to \$313.5 million.
- Operating income in the third quarter of fiscal 2010 increased 8.2% to \$32.9 million.
- Income from continuing operations for the third quarter of fiscal 2010 decreased 10.0% to \$18.1 million.
- Backlog decreased 3% from the third quarter of the prior year to \$1.25 billion, but increased 2% sequentially from the prior quarter.
- Income from continuing operations was \$1.08 per diluted common share for the third quarter, an 11% decrease versus the prior year.
- For the nine months ended December 31, 2009, we generated \$126.5 million of cash flow from operating activities.

OUTLOOK

Based upon the market assumptions included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2009, and assuming current production rates, our existing share count and successful negotiation of a final retroactive pricing agreement during the fourth quarter of fiscal 2010, we are reaffirming our guidance on revenue and restating guidance on full year earnings per share from continuing operations to \$4.80 per diluted share, which includes the after-tax effect of the interest expense associated with the recently issued senior secured notes due 2017. While we have continued to realize reduced sales in our business jet and regional jet end markets, commensurate with the current weakness in those markets generally, our commercial and military sales continue to grow. In addition, our backlog remains very strong despite production cuts, particularly on the Boeing 777, business jets, and regional jets.

While our assessment of the foregoing trends leads us presently to expect to maintain earnings per share for fiscal year 2010 noted above based on current share count, there can be no assurance that our assessment of these trends will prove to be correct, nor any assurance that other events or trends will cause our actual results to differ from those expected.

RESULTS OF OPERATIONS

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

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Management's Discussion and Analysis of
Financial Condition and Results of Operations

(continued)

Non-GAAP Financial Measures

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

We view EBITDA as an operating performance measure and as such we believe that the GAAP financial measure most directly comparable to it is income from continuing operations. In calculating EBITDA, we exclude from income from continuing operations the financial items that we believe should be separately identified to provide additional analysis of the financial components of the day-to-day operation of our business. We have outlined below the type and scope of these exclusions and the material limitations on the use of these non-GAAP financial measures as a result of these exclusions. EBITDA is not a measurement of financial performance under GAAP and should not be considered as a measure of liquidity, as an alternative to net income (loss), income from continuing operations, or as an indicator of any other measure of performance derived in accordance with GAAP. Investors and potential investors in our securities should not rely on EBITDA as a substitute for any GAAP financial measure, including net income (loss) or income from continuing operations. In addition, we urge investors and potential investors in our securities to carefully review the reconciliation of EBITDA to income from continuing operations set forth below, in our earnings releases and in other filings with the SEC and to carefully review the GAAP financial information included as part of our Quarterly Reports on Form 10-Q and our Annual Reports on Form 10-K that are filed with the SEC, as well as our quarterly earnings releases, and compare the GAAP financial information with our EBITDA.

EBITDA is used by management to internally measure our operating and management performance and by investors as a supplemental financial measure to evaluate the performance of our business that, when viewed with our GAAP results and the accompanying reconciliation, we believe provides additional information that is useful to gain an understanding of the factors and trends affecting our business. We have spent more than 15 years expanding our product and service capabilities partially through acquisitions of complementary businesses. Due to the expansion of our operations, which included acquisitions, our income from continuing operations has included significant charges for depreciation and amortization. EBITDA excludes these charges and provides meaningful information about the operating performance of our business, apart from charges for depreciation and amortization. We believe the disclosure of EBITDA helps investors meaningfully evaluate and compare our performance from quarter to quarter and from year to year. We also believe EBITDA is a measure of our ongoing operating performance because the isolation of non-cash charges, such as depreciation and amortization, and non-operating items, such as interest and income taxes, provides additional information about our cost structure, and, over time, helps track our operating progress. In addition, investors, securities analysts and others have regularly relied on EBITDA to provide a financial measure by which to compare our operating performance against that of other companies in our industry.

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

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

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

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

- Income tax expense may be useful for investors to consider because it generally represents the taxes which may be payable for the period and the change in deferred income taxes during the period and may reduce the amount of funds otherwise available for use in our business. However, we do not consider the amount of income tax expense to be a representative component of the day-to-day operating performance of our business.

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

The following table shows our EBITDA reconciled to our income from continuing operations for the indicated periods (in thousands):

| | Three months ended December 31, | | Nine months ended December 31, | |
|--------------------------------------|------------------------------------|-----------|-----------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Income from continuing operations | \$ 18,053 | \$ 20,061 | \$ 60,292 | \$ 70,172 |
| Depreciation and amortization | 12,485 | 11,727 | 40,858 | 36,285 |
| Interest expense and other | 7,768 | 4,687 | 18,595 | 14,266 |
| Gain on early extinguishment of debt | | (581) | (39) | (581) |
| Income tax expense | 7,117 | 6,264 | 29,088 | 32,616 |
| EBITDA | \$ 45,423 | \$ 42,158 | \$ 148,794 | \$ 152,758 |

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The fluctuations from period to period within the amounts of the components of the reconciliations above are discussed further below within Results of Operations.

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Quarter ended December 31, 2009 compared to quarter ended December 31, 2008

| | QUARTER ENDED DECEMBER 31, | |
|---|-------------------------------|------------|
| | 2009 | 2008 |
| | (dollars in thousands) | |
| Net sales | \$ 313,530 | \$ 285,243 |
| Segment operating income | \$ 40,480 | \$ 36,488 |
| Corporate expenses | (7,542) | (6,057) |
| Total operating income | 32,938 | 30,431 |
| Interest expense and other | 7,768 | 4,687 |
| (Gain) loss on early extinguishment of debt | | (581) |
| Income tax expense | 7,117 | 6,264 |
| Income from continuing operations | \$ 18,053 | \$ 20,061 |
| Loss from discontinued operations, net | (12,453) | (818) |
| Net income | \$ 5,600 | \$ 19,243 |

Net sales increased by \$28.3 million, or 9.9%, to \$313.5 million for the quarter ended December 31, 2009 from \$285.2 million for the quarter ended December 31, 2008. The acquisitions of Merritt Tool Company, Inc. (now Triumph Structures East Texas), Saygrove Defence & Aerospace Group Limited (now Triumph Actuation & Motion Control Systems-UK), the aviation segment of Kongsberg Automotive Holdings ASA (now Triumph Controls-U.K and Triumph Controls-Germany) and The Mexmil Company, LLC (now Triumph Insulation Systems), collectively the fiscal 2009 acquisitions, contributed \$34.6 million in net sales for the quarter ended December 31, 2009. Organic sales declined approximately \$6.3 million, or 2.2%, primarily as a result of the reduction in demand for business jets, major program delays (particularly in the 747-8 program), the decline in the regional jet market due to the overall economy, lower passenger and freight traffic and airline inventory de-stocking. Prior year sales were negatively impacted by the Boeing strike.

Cost of sales increased by \$24.6 million, or 12.0%, to \$229.0 million for the quarter ended December 31, 2009 from \$204.4 million for the quarter ended December 31, 2008. This increase includes the impact of the fiscal 2009 acquisitions noted above, which contributed \$27.2 million. Gross margin for the quarter ended December 31, 2009 was 27.0%, as compared to 28.3% for the prior year period. Excluding the effects of the fiscal 2009 acquisitions, gross margin was 27.7% for the quarter ended December 31, 2009, compared with 28.3% for the quarter ended December 31, 2008. Gross margin for the quarter ended December 31, 2009 was negatively impacted by approximately \$11.5 million of sales recognized at zero margin representing progress payments for ongoing negotiations of a retroactive pricing agreement, which we expect to finalize during the quarter ending March 31, 2010.

Segment operating income increased by \$4.0 million, or 10.9%, to \$40.5 million for the quarter ended December 31, 2009 from \$36.5 million for the quarter ended December 31, 2008. The increase includes \$3.9 million contributed from the fiscal 2009 acquisitions.

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Corporate expenses increased by \$1.5 million, or 24.5%, to \$7.5 million for the quarter ended December 31, 2009 from \$6.1 million for the quarter ended December 31, 2008. Corporate expenses increased primarily due to increases in healthcare costs (\$0.7 million) and stock based compensation (\$0.2 million). In addition, we have charged to expense approximately \$0.8 million start up costs related to the Mexican facility, predominately recorded within corporate expenses.

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Interest expense and other increased by \$3.1 million, or 65.7%, to \$7.8 million for the quarter ended December 31, 2009 compared to \$4.7 million for the prior year period. This increase was due to higher average debt outstanding during the quarter ended December 31, 2009 as compared to the quarter ended December 31, 2008, including the Senior Subordinated Notes Due 2017 (the 2017 Notes), as well as higher interest rates on our revolving credit facility. Effective April 1, 2009, the Company adopted FASB Staff Position (FSP) No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1), which was primarily codified into Topic 470, *Debt* in the Accounting Standard Codification (ASC). The retroactive application of FSP APB 14-1 resulted in the recognition of additional pre-tax non-cash interest expense for the three months ended December 31, 2008 of \$1.5 million, or \$0.06 per diluted share. The results of operations for the three months ended December 31, 2009 also include \$1.5 million of non-cash interest expense.

The effective income tax rate for the quarter ended December 31, 2009 was 28.3% compared to 23.8% for the quarter ended December 31, 2008. In the third quarter ended December 31, 2008, we recognized a benefit for the retroactive reinstatement of the research and experimentation tax credit back to January 1, 2008. For the fiscal year ending March 31, 2010, the Company expects its effective tax rate to be approximately 33%, assuming that the research and experimentation credit is not extended.

Loss from discontinued operations before income taxes was \$19.1 million for the quarter ended December 31, 2009, compared with a loss from discontinued operations before income taxes of \$1.3 million, for the quarter ended December 31, 2008. Due to failed negotiations with certain potential buyers of the business occurring during the quarter ended December 31, 2009, the Company reassessed its estimated fair value of the business based on current viable offers to purchase the business, recent performance results and overall market conditions, resulting in a write-down, which was applied to accounts receivable, inventory and property, plant and equipment. The Company recognized a pre-tax loss of \$17.4 million in the third quarter of fiscal 2010, based on the write-down of the carrying value of the business to estimated fair value less cost to sell. The benefit for income taxes was \$6.6 million for the quarter ended December 31, 2009 compared to a benefit of \$0.4 million in the prior year period.

Business Segment Performance

The Aerospace Systems segment consists of the Company's operations that manufacture products primarily for the aerospace OEM market. The Aerospace Systems segment's operations design and engineer mechanical and electromechanical controls, such as hydraulic systems and components, main engine gearbox assemblies, accumulators and mechanical control cables. The Aerospace Systems segment's revenues are also derived from stretch forming, die forming, milling, bonding, machining, welding and assembly and fabrication of various structural components used in aircraft wings, fuselages and other significant assemblies. Further, the segment's operations also design and manufacture composite assemblies for floor panels, environmental control system ducts, thermal acoustic insulation systems and non-structural cockpit components. These products are sold to various aerospace OEMs on a global basis.

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

We currently generate a majority of our revenue from clients in the commercial aerospace industry, the military, and the regional airline industry. Our growth and financial results are largely dependent on continued demand for our products and services from clients in these industries. If any of these industries experiences a

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downturn, our clients in these sectors may conduct less business with us. The following table summarizes our net sales by end market by business segment. The loss of one or more of our major customers or an economic downturn in the commercial airline or the military and defense markets could have a material adverse effect on our business.

| | Three months ended December 31, | |
|--------------------------------------|---------------------------------|--------|
| | 2009 | 2008 |
| Aerospace Systems | | |
| Commercial aerospace | 35.6% | 23.0% |
| Military | 35.9% | 35.2% |
| Regional | 2.7% | 5.3% |
| Business Jets | 4.6% | 8.8% |
| Non-aviation and other | 4.6% | 5.5% |
| Total Aerospace Systems net sales | 83.4% | 77.8% |
| Aftermarket Systems | | |
| Commercial aerospace | 12.8% | 15.8% |
| Military | 1.9% | 3.4% |
| Regional | 0.5% | 0.7% |
| Business Jets | 0.6% | 0.9% |
| Non-aviation and other | 0.8% | 1.4% |
| Total Aftermarket Services net sales | 16.6% | 22.2% |
| Total Consolidated net sales | 100.0% | 100.0% |

The decline in our percentage of net sales of business jets and regional jets was attributable to the decline in that particular market due to overall economic conditions. Despite major program delays (particularly in the 747-8 program) within the Commercial aerospace market, we have experienced an increase in the mix of that market due in part to the fiscal 2009 acquisitions and the impact of the machinist strike at Boeing in the prior year period. We also continue to experience growth in the Military market.

| | QUARTER ENDED DECEMBER 31, | | % Change | % OF TOTAL SALES | |
|------------------------------------|-------------------------------|------------|-------------|------------------|--------|
| | 2009 | 2008 | | 2009 | 2008 |
| (dollars in thousands) | | | | | |
| NET SALES | | | | | |
| Aerospace Systems | \$ 262,882 | \$ 222,751 | 18.0% | 83.8% | 78.1% |
| Aftermarket Services | 51,409 | 63,107 | (18.5)% | 16.4% | 22.1% |
| Elimination of inter-segment sales | (761) | (615) | 23.7% | (0.2)% | (0.2)% |
| Total Net Sales | \$ 313,530 | \$ 285,243 | 9.9% | 100.0% | 100.0% |

| | QUARTER ENDED DECEMBER 31, | % | % OF SEGMENT SALES |
|--|-------------------------------|---|--------------------|
|--|-------------------------------|---|--------------------|

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| | 2009 | 2008 | Change | 2009 | 2008 |
|---------------------------------|------------------------|-----------|---------|-------|-------|
| | (dollars in thousands) | | | | |
| SEGMENT OPERATING INCOME | | | | | |
| Aerospace Systems | \$ 39,090 | \$ 34,269 | 14.1% | 14.9% | 15.4% |
| Aftermarket Services | 1,390 | 2,219 | (37.4)% | 2.7% | 3.5% |
| Corporate | (7,542) | (6,057) | 24.5% | n/a | n/a |
| Total Segment Operating Income | \$ 32,938 | \$ 30,431 | 8.2% | 10.5% | 10.7% |

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Aerospace Systems: The Aerospace Systems segment net sales increased by \$40.1 million, or 18.0%, to \$262.9 million for the quarter ended December 31, 2009 from \$222.8 million for the quarter ended December 31, 2008. The increase was primarily due to the additional sales associated with the fiscal 2009 acquisitions of \$34.6 million. Organic sales increased \$5.5 million; however, the prior year period sales were negatively impacted by the Boeing strike.

Aerospace Systems segment operating income increased by \$4.8 million, or 14.1%, to \$39.1 million for the quarter ended December 31, 2009 from \$34.3 million for the quarter ended December 31, 2008. Operating income increased primarily due to a \$3.9 million contribution from the fiscal 2009 acquisitions.

Aerospace Systems segment operating income as a percentage of segment sales decreased to 14.9% for the quarter ended December 31, 2009 as compared to 15.4% for the quarter ended December 31, 2008. Segment operating margin for the quarter ended December 31, 2009 was negatively impacted by approximately \$11.5 million of sales recognized at zero margin representing progress payments for ongoing negotiations of a retroactive pricing agreement, which we expect to finalize during the quarter ending March 31, 2010.

Aftermarket Services: The Aftermarket Services segment net sales decreased by \$11.7 million, or 18.5%, to \$51.4 million for the quarter ended December 31, 2009 from \$63.1 million for the quarter ended December 31, 2008. This decrease was due to a decline in global commercial air traffic and airline inventory de-stocking resulting in lower demand for the repair and overhaul of auxiliary power units and the brokering of similar units.

Aftermarket Services segment operating income decreased by \$0.8 million, or 37.4%, to \$1.4 million for the quarter ended December 31, 2009 from \$2.2 million for the quarter ended December 31, 2008. Operating income decreased primarily due to declines in sales volume as discussed above. While the results of our Phoenix APU operations continue to improve, operating margins continued to be dilutive to the segment's results.

Aftermarket Services segment operating income as a percentage of segment sales decreased to 2.7% for the quarter ended December 31, 2009 as compared with 3.5% for the quarter ended December 31, 2008, due to declines in sales volume as discussed above.

Nine months ended December 31, 2009 compared to nine months ended December 31, 2008.

NINE MONTHS ENDED

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DECEMBER 31,
2009 2008
(dollars in thousands)

| | 2009 | 2008 |
|---|------------|------------|
| Net sales | \$ 942,799 | \$ 929,190 |
| Segment operating income | \$ 127,315 | \$ 135,856 |
| Corporate expenses | (19,379) | (19,383) |
| Total operating income | 107,936 | 116,473 |
| Interest expense and other | 18,595 | 14,266 |
| (Gain) loss on early extinguishment of debt | (39) | (581) |
| Income tax expense | 29,088 | 32,616 |
| Income from continuing operations | \$ 60,292 | \$ 70,172 |
| Loss from discontinued operations, net | (17,202) | (3,114) |
| Net income | \$ 43,090 | \$ 67,058 |

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Net sales increased by \$13.6 million, or 1.5%, to \$942.8 million for the nine months ended December 31, 2009 from \$929.2 million for the nine months ended December 31, 2008. The fiscal 2009 acquisitions contributed an increase of \$85.6 million to net sales. Organic sales declined \$71.9 million, or 7.7%, primarily as a result of the reduction in demand for business jets, the decline in the regional jet market due to the overall economy, major program delays (particularly in the 747-8 program), lower passenger and freight traffic and airline inventory de-stocking. Prior year sales were negatively impacted by the Boeing strike.

Cost of sales increased \$20.4 million or 3.1% to \$676.8 million for the nine months ended December 31, 2009, from \$656.4 million for the nine months ended December 31, 2008. This increase includes the impact of the fiscal 2009 acquisitions noted above, which contributed \$65.0 million. Gross margin for the nine months ended December 31, 2009 was 28.2%, as compared to 29.4% for the prior year period. Excluding the effects of the fiscal 2009 acquisitions, gross margin was 28.6% for the nine months ended December 31, 2009, compared with 29.4% for the nine months ended December 31, 2008. Gross margin for the quarter ended December 31, 2009 was negatively impacted by approximately \$11.5 million of sales recognized at zero margin representing progress payments for ongoing negotiations of a retroactive pricing agreement, which we expect to finalize during the quarter ending March 31, 2010.

Segment operating income decreased by \$8.5 million, or 6.3%, to \$127.3 million for the nine months ended December 31, 2009 from \$135.8 million for the nine months ended December 31, 2008. The operating income decrease was a direct result of the decline in gross sales volume as described above, offset by increases of \$6.7 million for contributions from the fiscal 2009 acquisitions.

Corporate expenses remained consistent at \$19.4 million for both the nine months ended December 31, 2009 and the nine months ended December 31, 2008. Corporate expenses for fiscal 2010 include increases in healthcare costs (\$1.0 million), offset by decreases in compensation costs (\$0.5 million) and workers compensation (\$0.7 million). In addition, we have incurred approximately \$2.8 million of start up costs related to the Mexican facility, predominately recognized within corporate expenses in fiscal 2010.

Interest expense and other increased by \$4.3 million, or 30.3%, to \$18.6 million for the nine months ended December 31, 2009 compared to \$14.3 million for the prior year period. This increase was due to higher average debt outstanding during the nine months ended December 31, 2009 as compared to the nine months ended December 31, 2008, including the 2017 Notes, as well as by higher interest rates on our revolving credit facility. Effective April 1, 2009, the Company adopted FSP APB 14-1. The retroactive application of FSP APB 14-1 resulted in the recognition of additional pre-tax non-cash interest expense for the nine months ended December 31, 2008 of \$4.7 million, or \$0.19 per diluted share. The results of operations for the nine months ended December 31, 2009 also include \$4.6 million of non-cash interest expense.

The effective income tax rate for the nine months ended December 31, 2009 was 32.5% compared to 31.7% for the nine months ended December 31, 2008. In the third quarter ended December 31, 2008, we recognized a benefit for the retroactive reinstatement of the research and experimentation tax credit back to January 1, 2008. For the fiscal year ending March 31, 2010, the Company expects its effective tax rate to be approximately 33%, assuming that the research and experimentation credit is not extended.

Loss from discontinued operations before income taxes was \$26.4 million for the nine months ended December 31, 2009, which includes an impairment charge of \$19.9 million, compared with a loss from discontinued operations before income taxes of \$4.8 million for the nine months ended December 31, 2008. Due to failed negotiations with certain potential buyers of the business occurring during the quarter ended December 31, 2009, the Company reassessed its estimated fair value of the business based on current viable offers to purchase the business, recent performance results and overall market conditions, resulting in a write-down, which was applied to accounts receivable, inventory and property, plant and equipment. The Company recognized a pre-tax loss of \$17.4 million in the third quarter of fiscal 2010, based on the write-down of the

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| | DECEMBER 31, | | Change | 2009 | 2008 |
|------------------------------------|------------------------|------------|---------|--------|--------|
| | 2009 | 2008 | | | |
| | (dollars in thousands) | | | | |
| NET SALES | | | | | |
| Aerospace Systems | \$ 779,276 | \$ 738,552 | 5.5% | 82.6% | 79.5% |
| Aftermarket Services | 166,506 | 192,556 | (13.5)% | 17.7% | 20.7% |
| Elimination of inter-segment sales | (2,983) | (1,918) | 55.5% | (0.3)% | (0.2)% |
| Total Net Sales | \$ 942,799 | \$ 929,190 | 1.5% | 100.0% | 100.0% |

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| | NINE MONTHS ENDED | | % | % OF SEGMENT SALES | |
|---------------------------------|------------------------|------------|---------|--------------------|-------|
| | 2009 | 2008 | | Change | 2009 |
| | DECEMBER 31, | | | | |
| | (dollars in thousands) | | | | |
| SEGMENT OPERATING INCOME | | | | | |
| Aerospace Systems | \$ 120,021 | \$ 126,854 | (5.4)% | 15.4% | 17.2% |
| Aftermarket Services | 7,294 | 9,002 | (19.0)% | 4.4% | 4.7% |
| Corporate | (19,379) | (19,383) | (0.0)% | n/a | n/a |
| Total Segment Operating Income | \$ 107,936 | \$ 116,473 | (7.3)% | 11.4% | 12.5% |

Aerospace Systems: The Aerospace Systems segment net sales increased by \$40.7 million, or 5.5%, to \$779.3 million for the nine months ended December 31, 2009 from \$738.6 million for the nine months ended December 31, 2008. The increase was primarily due to the additional sales associated with the fiscal 2009 acquisitions of \$85.6 million. Organic sales decreased \$44.8 million due to declines in the business jet and regional jet markets due to the overall economic conditions and major program delays (particularly in the 747-8 program), however, the prior year period sales were negatively impacted by the Boeing strike.

Aerospace Systems segment operating income decreased by \$6.8 million, or 5.4%, to \$120.0 million for the nine months ended December 31, 2009 from \$126.8 million for the nine months ended December 31, 2008. Operating income decreased due to declines in gross margin primarily resulting from lower sales volume of business jet and regional jet products, as described above, partially offset by operating margins from the fiscal 2009 acquisitions.

Aerospace Systems segment operating income as a percentage of segment sales decreased to 15.4% for the nine months ended December 31, 2009 as compared to 17.2% for the nine months ended December 31, 2008, due to the decrease in operating income as a result of lower organic sales volume and lower margins contributed by the fiscal 2009 acquisitions.

Aftermarket Services: The Aftermarket Services segment net sales decreased by \$26.1 million, or 13.5%, to \$166.5 million for the nine months ended December 31, 2009 from \$192.6 million for the nine months ended December 31, 2008. This decrease was due to a decline in global commercial air traffic and airline inventory de-stocking resulting in lower demand for the repair and overhaul of auxiliary power units and the brokering of similar units.

Aftermarket Services segment operating income decreased by \$1.7 million, or 19%, to \$7.3 million for the nine months ended December 31, 2009 from \$9.0 million for the nine months ended December 31, 2008. Operating income decreased primarily due to decreased sales volume as described above, as well as \$0.3 million in expenses incurred to shut down a service facility in Austin, Texas. While the results of our Phoenix APU operations continue to improve, operating margins continued to be dilutive to the segment's results.

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Aftermarket Services segment operating income as a percentage of segment sales decreased slightly to 4.4% for the nine months ended December 31, 2009 as compared with 4.7% for the nine months ended December 31, 2008, due to a decline in sales volume offset by improved results at the Phoenix APU operations.

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Liquidity and Capital Resources

Our working capital needs are generally funded through cash flows from operations and borrowings under our credit arrangements and leasing arrangements. During the nine months ended December 31, 2009, we generated approximately \$126.5 million of cash flows in operating activities, used approximately \$27.6 million in investing activities and generated approximately \$38.2 million in financing activities.

Cash flows from operations for the nine months ended December 31, 2009 increased \$49.7 million, or 65.0%, from the nine months ended December 31, 2008. Our cash flows from operations increased despite a decrease of \$24.0 million in net income, which included \$4.2 million in additional non-cash charges for depreciation and amortization due to the fiscal 2009 acquisitions and \$19.9 million in impairment charges within discontinued operations during the nine months ended December 31, 2009. The increase in cash flows resulted from continued improvements in cash collection efforts, offset by lower sales, resulting in a \$17.2 million improvement as compared to the nine months ended December 31, 2008. In addition, we improved our inventory management resulting in a source of cash of \$10.4 million as compared to the use of cash of \$13.6 million in the prior year period.

As of December 31, 2009, \$478.8 million was available under our revolving credit facility (the Credit Facility). On December 31, 2009, there were no borrowings outstanding under the Credit Facility. Amounts repaid under the Credit Facility may be reborrowed.

Also as of December 31, 2009, \$95.7 million of borrowings were available under our receivable securitization facility (the Securitization Facility), of which, there was \$75.0 million outstanding, representing the minimum borrowing requirement under the Securitization Facility. Interest rates on the Securitization Facility are based on prevailing market rates for short-term commercial paper, plus a program fee and a commitment fee.

In November 2009, the Company issued the 2017 Notes for \$175.0 million in principal amount. The 2017 Notes were sold at 98.558% of principal amount for net proceeds of \$172.5 million, and have an effective interest yield of 8.25%. Interest on the 2017 Notes is payable semi-annually in cash in arrears on May 15 and November 15 of each year. We intend to use the net proceeds for general corporate purposes, which includes debt reduction, including repayment of amounts outstanding under the Credit Facility, without any permanent reduction of the commitments thereunder. In connection with the issuance of the 2017 Notes, the Company incurred approximately \$4.0 million of costs, which were deferred and are being amortized on the effective interest method over the term of the notes.

In March 2009, the Company entered into a 7-year Master Lease Agreement (the Leasing Facility) creating a capital lease of certain existing property and equipment, resulting in net proceeds of \$58.5 million after deducting debt issuance costs of approximately \$0.2 million. During the nine months ended December 31, 2009, the Company added additional capital leases resulting in proceeds of \$13.9 million. The net proceeds from the Leasing Facility were used to repay a portion of the outstanding indebtedness under the Company's Credit Facility. Debt issuance costs

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of \$0.2 million have been recorded as other assets in the consolidated balance sheets and are being amortized over the term of the Leasing Facility. The Leasing Facility bears interest at a weighted-average fixed rate of 6.2% per annum.

On April 18, 2008, the Company entered into a financing agreement amendment with the City of Shelbyville, Indiana related to the City of Shelbyville, Indiana Economic Development Revenue Bonds, Series 2005 (the 2005 Bonds). The amendment divides the original \$6.3 million bond, of which \$5.8 million was drawn as of April 18, 2008, into two separate bonds, a floating rate bond and a fixed rate bond that replace the original bond in its entirety. Both bonds are due to mature on October 1, 2020. The floating rate bond, Series 2005A, is authorized to be issued in the aggregate principal amount of \$0.5 million, and bears interest at a variable rate equal to approximately ninety percent of the three-month LIBOR rate, with a floor of 2.00% (the effective rate was 2.00% at December 31, 2009). The proceeds of the Series 2005A Bonds of up to \$0.5 million are

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being used to fund the expansion of one of the Company's subsidiary's facility. The fixed rate bond, Series 2005B, is authorized to be issued in the aggregate principal amount of \$5.8 million, and bears interest at a fixed rate equal to 4.45%.

On April 18, 2008, the Company entered into a loan agreement with the Montgomery County Industrial Development Authority related to the Economic Development Revenue Bond, Series 2008 (the "2008 Bonds"). The proceeds of the 2008 Bonds of up to \$5.0 million were used to fund improvements to property and equipment at one of the Company's subsidiaries. The 2008 Bonds are due to mature on April 18, 2023 and bear interest at a variable rate equal to approximately ninety percent of the three-month LIBOR rate, with a floor of 2.50% (the effective rate was 2.50% at December 31, 2009). As of December 31, 2009, \$2.0 million was drawn against the 2008 bonds.

On September 18, 2006, the Company issued \$201.3 million in convertible senior subordinated notes (the "Notes"). The Notes are direct, unsecured, senior obligations of the Company, and rank (i) junior in right of payment to all of the Company's existing and future senior indebtedness, (ii) equal in right of payment with any other senior subordinated indebtedness, and (iii) senior in right of payment to all subordinated indebtedness. The Notes bear interest at a fixed rate of 2.625% per annum, payable in cash semi-annually in arrears on each April 1 and October 1 beginning April 1, 2007. During the nine months ended December 31, 2009, the Company paid \$4.2 million in principal on the Notes, resulting in a reduction in the carrying amount of the notes of \$3.8 million and a gain on extinguishment of less than \$0.1 million. During the nine months ended December 31, 2008, the Company paid \$8.2 million to purchase \$10.0 million of principal on the Notes, resulting in a reduction in the carrying amount of the Notes of \$8.4 million and a gain on extinguishment of \$0.6 million.

Capital expenditures were approximately \$22.0 million for the nine months ended December 31, 2009, primarily for manufacturing machinery and equipment. We funded these expenditures through cash generated from operations. We expect capital expenditures of approximately \$35 to \$45 million for our fiscal year ending March 31, 2010. The expenditures are expected to be used mainly to expand capacity or replace equipment at several facilities. In addition, for the fiscal year ending March 31, 2010, we anticipate approximately \$6.0 million of start up costs related to the Mexican facility, which is in addition to our investment in capital and infrastructure.

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

| Contractual Obligations | Total | Payments Due by Period (dollars in thousands) | | | |
|-------------------------|------------|--|------------|-----------|----------------------|
| | | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Debt Principal (1) | \$ 522,558 | \$ 94,214 | \$ 206,451 | \$ 22,702 | \$ 199,191 |
| Debt Interest (2) | 137,348 | 23,469 | 39,794 | 32,232 | 41,853 |
| Operating Leases | 53,841 | 12,583 | 22,914 | 5,943 | 12,401 |
| Purchase Obligations | 276,090 | 225,021 | 50,416 | 550 | 103 |
| Total | \$ 989,837 | \$ 355,287 | \$ 319,575 | \$ 61,427 | \$ 253,548 |

(1) Included in the Company's balance sheet at December 31, 2009, plus discounts on Convertible Senior Subordinated Notes and the 2017 Notes of \$11.0 million and \$2.5 million, respectively, being amortized to expense through September 2011 and November 2017, respectively.

(2) Includes fixed-rate interest only.

The above table excludes unrecognized tax benefits of \$3.2 million as of December 31, 2009 since we cannot predict with reasonable certainty the timing of cash settlements with the respective taxing authorities.

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Management's Discussion and Analysis of
Financial Condition and Results of Operations

(continued)

The table also excludes our pension benefit obligations. We made pension contributions of \$0.3 million and \$2.7 million in fiscal 2009 and 2008, respectively. These contributions include payments related to a supplemental executive retirement plan of zero in fiscal 2009 and \$2.3 million in fiscal 2008, and payments to our union pension plans of \$0.3 million and \$0.4 million in fiscal 2009 and 2008, respectively. We expect to make total pension contributions of \$0.3 million to our pension plans during fiscal 2010. For further information, refer to footnote 15, Employee Benefit Plans in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

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

Critical Accounting Policies

The Company's critical accounting policies are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations and notes accompanying the consolidated financial statements that appear in the Annual Report on Form 10-K for the fiscal year ended March 31, 2009. Except as otherwise disclosed in the financial statements and accompanying notes included in this report, there were no material changes subsequent to the filing of the Annual Report on Form 10-K for the fiscal year ended March 31, 2009 in the Company's critical accounting policies or in the assumptions or estimates used to prepare the financial information appearing in this report.

Forward Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 relating to our future operations and prospects, including statements that are based on current projections and expectations about the markets in which we operate, and our beliefs concerning future performance and capital requirements based upon current available information. Such statements are based on our beliefs as well as assumptions made by and information currently available to us. When used in this document, words like may, might, will, expect, anticipate, believe, potential, and similar expressions are intended to identify forward looking statements. Actual results could differ materially from our current expectations. For example, there can be no assurance that additional capital will not be required or that additional capital, if required, will be available on reasonable terms, if at all, at such times and in such amounts as may be needed by us. In addition to these factors, among other factors that could cause actual results to differ materially are uncertainties relating to the integration of acquired businesses, general economic conditions affecting our business, dependence of certain of our businesses on certain key customers as well as competitive factors relating to the aviation industry. For a more detailed discussion of these and other factors affecting us, see the risk factors described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2009, filed with the SEC in May 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For information regarding our exposure to certain market risks, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended March 31, 2009. There has been no material change in this information during the period covered by this report.

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Management's Discussion and Analysis of
Financial Condition and Results of Operations
(continued)

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of December 31, 2009, we completed an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2009.

(b) Changes in internal control over financial reporting.

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

Part II. Other Information

Item 6. Exhibits.

Exhibit 4.1 Indenture, dated as of November 16, 2009, between Triumph Group, Inc. and U.S. Bank National Association, as trustee. (1)

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| | |
|--------------|---|
| Exhibit 4.2 | Form of 8% Senior Subordinated Notes due 2017 (included as Exhibit A to the Indenture filed as Exhibit 4.1). (1) |
| Exhibit 4.3 | Registration Rights Agreement, dated November 16, 2009 between Triumph Group, Inc. and the parties named therein. (1) |
| Exhibit 31.1 | Certification by Chairman and Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a). |
| Exhibit 31.2 | Certification by Executive Vice President, Chief Financial Officer and Treasurer Pursuant to Rule 13a-14(a)/15d-14(a). |
| Exhibit 32.1 | Certification of Periodic Report by Chairman and Chief Executive Officer Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.2 | Certification of Periodic Report by Executive Vice President, Chief Financial Officer and Treasurer Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

(1) Incorporated by reference to our Current Report on Form 8-K filed on November 19, 2009.

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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.

Triumph Group, Inc.
(Registrant)

/s/ Richard C. Ill
Richard C. Ill, Chairman & Chief Executive Officer
(Principal Executive Officer) February 4, 2010

/s/ M. David Kornblatt
M. David Kornblatt, Executive Vice President & Chief Financial Officer
(Principal Financial Officer) February 4, 2010

/s/ Kevin E. Kindig
Kevin E. Kindig, Vice President and Controller
(Principal Accounting Officer) February 4, 2010

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EXHIBIT INDEX

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