TransDigm Group INC
Form 10-K
November 15, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2016
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-32833

TransDigm Group Incorporated
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
41-2101738
(I.R.S. Employer Identification No.)
1301 East 9th Street, Suite 3000, Cleveland, Ohio 44114
(Address of principal executive offices) (Zip Code)
(216) 706-2960
(Registrants' telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of March 31, 2016, based upon the last sale price of such voting and non-voting common stock on that date, was $10,869,510,353.

The number of shares outstanding of TransDigm Group Incorporated's common stock, par value $.01 per share, was 53,347,732 as of November 6, 2016.

Documents incorporated by reference: The registrant incorporates by reference in Part III hereof portions of its definitive Proxy Statement for its 2017 Annual Meeting of Stockholders.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Special Note Regarding Forward-Looking Statements

This report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and 27A of the Securities Act of 1933, as amended. Discussions containing such forward-looking statements may be found in Items 1, 1A, 2, 3, 5, 7 and 7A hereof and elsewhere within this Report generally. In addition, when used in this Report, the words “believe,” “may,” “will,” “should,” “expect,” “intend,” “plan,” “predict,” “anticipate,” “estimate” or “continue” and other words and terms of similar meaning are intended to identify forward-looking statements. Although the Company (as defined below) believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from the forward-looking statements made in this Report. The more important of such risks and uncertainties are set forth under the caption “Risk Factors” and elsewhere in this Report. Many such factors are outside the control of the Company. Consequently, such forward-looking statements should be regarded solely as our current plans, estimates and beliefs. We do not undertake, and specifically decline, any obligation, to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

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

In this report, the term “TD Group” refers to TransDigm Group Incorporated, which holds all of the outstanding capital stock of TransDigm Inc. The terms “Company,” “TransDigm,” “we,” “us,” “our” and similar terms refer to TD Group, togethe with TransDigm Inc. and its direct and indirect subsidiaries. References to “fiscal year” mean the year ending or ended September 30. For example, “fiscal year 2016” or “fiscal 2016” means the period from October 1, 2015 to September 30, 2016.

PART I

ITEM 1. BUSINESS

The Company

TransDigm Inc. was formed in 1993 in connection with a leveraged buyout transaction. TD Group was formed in 2003 to facilitate a leveraged buyout of TransDigm Inc. The Company was owned by private equity funds until its initial public offering in 2006. TD Group’s common stock is publicly traded on the New York Stock Exchange, or NYSE, under the ticker symbol “TDG.”

We believe we are a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly all commercial and military aircraft in service today. Our business is well diversified due to the broad range of products we offer to our customers. We estimate that about 90% of our net sales for fiscal year 2016 were generated by proprietary products. In addition, for fiscal year 2016, we estimate that we generated about 80% of our net sales from products for which we are the sole source provider.

Most of our products generate significant aftermarket revenue. Once our parts are designed into and sold on a new aircraft, we generate net sales from aftermarket consumption over the life of that aircraft, which is generally estimated to be approximately 25 to 30 years. A typical platform can be produced for 20 to 30 years, giving us an estimated product life cycle in excess of 50 years. We estimate that approximately 54% of our net sales in fiscal year 2016 were generated from aftermarket sales, the vast majority of which come from the commercial and military aftermarkets.

These aftermarket revenues have historically produced a higher gross margin and been more stable than sales to original equipment manufacturers, or OEMs.

Products

We primarily design, produce and supply highly engineered proprietary aerospace components (and certain systems/subsystems) with significant aftermarket content. We seek to develop highly customized products to solve specific needs for aircraft operators and manufacturers. We attempt to differentiate ourselves based on engineering, service and manufacturing capabilities. We typically choose not to compete for non-proprietary “build to print” business because it frequently offers lower

Table of Contents

margins than proprietary products. We believe that our products have strong brand names within the industry and that we have a reputation for high quality, reliability and customer support.

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

Segments

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

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

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

The Non-aviation segment includes operations that primarily develop, produce and market products for non-aviation markets. Major product offerings include seat belts and safety restraints for ground transportation applications, mechanical/electro-mechanical actuators and controls for space applications, and refueling systems for heavy equipment used in mining, construction and other industries. Primary customers of this segment are off-road vehicle suppliers and subsystem suppliers, child restraint system suppliers, satellite and space system suppliers and manufacturers of heavy equipment used in mining, construction and other industries.

For financial information about our segments, see Note 16, "Segments" to our consolidated financial statements included herein.

Sales and Marketing

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

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

Though typically performed by employees, the account manager function may be performed by independent representatives depending on the specific customer, product and geographic location. We also use a number of distributors to

Table of Contents

provide logistical support as well as serve as a primary customer contact with certain smaller accounts. Our major distributors are Aviall, Inc. (a subsidiary of The Boeing Company) and Satair A/S (a subsidiary of Airbus S.A.S.).

Manufacturing and Engineering

We maintain 57 principal manufacturing facilities. Most of our manufacturing facilities are comprised of manufacturing, distribution and engineering functions, and most facilities have certain administrative functions, including management, sales and finance. We continually strive to improve productivity and reduce costs, including rationalization of operations, developing improved control systems that allow for accurate accounting and reporting, investing in equipment, tooling, information systems and implementing broad-based employee training programs. Management believes that our manufacturing systems and equipment contribute to our ability to compete by permitting us to meet the rigorous tolerances and cost sensitive price structure of aircraft component customers.

We attempt to differentiate ourselves from our competitors by producing uniquely engineered products with high quality and timely delivery. Our engineering costs are recorded in cost of sales and in selling and administrative expenses and research and development costs are recorded in selling and administrative expenses in our consolidated statements of income. The aggregate of engineering expense and research and development expense represents approximately 7% of our operating units' aggregate costs, or approximately 4% of our consolidated net sales. Our proprietary products, and particularly our new product initiatives, are designed by our engineers and are intended to serve the needs of the aircraft component industry. These proprietary designs must withstand the extraordinary conditions and stresses that will be endured by products during use and meet the rigorous demands of our customers' tolerance and quality requirements.

We use sophisticated equipment and procedures to comply with quality requirements, specifications and Federal Aviation Administration ("FAA") and OEM requirements. We perform a variety of testing procedures as required by our customers, such as testing under different temperature, humidity and altitude levels, shock and vibration testing and X-ray fluorescent measurement. These procedures, together with other customer approved techniques for document, process and quality control, are used throughout our manufacturing facilities. Refer to Note 3, "Summary of Significant Accounting Policies" to the consolidated financial statements included herein with respect to total costs of research and development, which is incorporated herein by reference.

Customers

We predominantly serve customers in the commercial, regional, business jet and general aviation aftermarket, which accounts for approximately 37% of total sales; the commercial aerospace OEM market, comprising large commercial transport manufacturers and regional and business jet manufacturers, which accounts for approximately 29% of total sales; and the defense market, which accounts for approximately 30% of total sales. Non-aerospace sales comprise approximately 4% of our total sales.

Our customers include: (1) distributors of aerospace components; (2) worldwide commercial airlines, including national and regional airlines; (3) large commercial transport and regional and business aircraft OEMs; (4) various armed forces of the United States and friendly foreign governments; (5) defense OEMs; (6) system suppliers; and (7) various other industrial customers. For the year ended September 30, 2016, Airbus S.A.S. (which includes Satair A/S, a distributor of commercial aftermarket parts to airlines throughout the world) accounted for approximately 13% of our net sales and The Boeing Company (which includes Aviall, Inc., also a distributor of commercial aftermarket parts to airlines throughout the world) accounted for approximately 12% of our net sales. Our top ten customers for fiscal year 2016 accounted for approximately 45% of our net sales. Products supplied to many of our customers are used on multiple platforms.

Active commercial production programs include the Boeing 737, 747, 767, 777 and 787, the Airbus A318/19/20/21 (including neo), A330/A340, A350 and A380, the Bombardier CRJ's, Challenger and Learjets, the Embraer RJ's, the Cessna Citation family, the Raytheon Premier and Hawker and most Gulfstream airframes. Military platforms include aircraft such as the Boeing C-17, F-15, F-18, P-8 and V-22, the Airbus A400M, the Lockheed Martin C-130J, F-16 and F-35 Joint Strikefighter, the Northrop Grumman E-2C Hawkeye, the Sikorsky UH-60 helicopter, CH-47 Chinook and AH-64 Apache helicopters, the General Atomics Predator Drone and the Raytheon Patriot Missile. TransDigm has been awarded numerous contracts for the development of engineered products for production on the Airbus A330neo, the Boeing 737 MAX and 777X, the Embraer 175/190/195 E2, the Sikorsky S-97 and JMR helicopter.

The markets in which we sell our products are, to varying degrees, cyclical and have experienced upswings and downturns. The demand for our commercial aftermarket parts and services depends on, among other things, the breadth of our installed OEM base, revenue passenger miles (“RPMs”), the size and age of the worldwide aircraft fleet and, to a lesser extent, airline profitability. The demand for defense products is specifically dependent on government budget trends, military campaigns and political pressures.

Table of Contents

Competition

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

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

Government Contracts

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

Governmental Regulation

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

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

In addition, our businesses are subject to many other laws and requirements typically applicable to manufacturers and exporters. Without limiting the foregoing, sales of many of our products that will be used on aircraft owned by foreign entities are subject to compliance with export control laws and the manufacture of our products and the operations of our businesses, including the disposal of hazardous wastes, are subject to compliance with applicable environmental laws.

Market Channels

The commercial aerospace industry, including the aftermarket and OEM market, is impacted by the health of the global economy and geo-political events around the world. The commercial aerospace industry had shown strength with increases in revenue passenger miles, or RPMs, between 2003 and 2008, as well as increases in OEM production and backlog. However, in 2009, the global economic downturn negatively impacted the commercial aerospace industry causing RPMs to decline slightly. This market sector began to rebound in 2010 and positive growth has continued through 2016 with increases in RPMs, as well as the growth in the large commercial OEM sector (aircraft with 100 or more seats) with order announcements by The Boeing Company and Airbus S.A.S. leading to planned increases in production. The 2017 leading indicators and industry consensus suggest a continuation of current trends in the commercial transport market sector supported by continued RPM growth and increases in production at the OEM level.

The defense aerospace market is dependent on government budget constraints, the timing of orders and the extent of global conflicts. It is not necessarily affected by general economic conditions that affect the commercial aerospace industry.

Our presence in both the commercial aerospace and military sectors of the aerospace industry may mitigate the impact on our business of any specific industry risk. We service a diversified customer base in the commercial and military aerospace industry, and we provide components to a diverse installed base of aircraft, which mitigates our exposure to any individual airframe platform. At times, declines in sales in one channel have been offset by increased sales in another. However, due to differences between the profitability of our products sold to OEM and aftermarket customers, variation in product mix can cause variation in gross margin.

Table of Contents

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

There are also fluctuations in OEM and aftermarket ordering and delivery requests from quarter-to-quarter, as well as variations in product mix from quarter-to-quarter, that may cause positive or negative variations in gross profit margins since commercial aftermarket sales have historically produced a higher gross margin than sales to commercial OEMs. Again, in many instances these are timing events between quarters and must be balanced with macro aerospace industry indicators.

Commercial Aftermarket

The key growth factors in the commercial aftermarket include worldwide RPMs and the size and activity level of the worldwide fleet of aircraft. After a decline in RPMs in 2009, worldwide RPMs returned to growth between 2010 and 2016 and current industry consensus indicates that positive RPM growth will continue in 2017.

Commercial OEM Market

The commercial transport market sector, the largest sector in the commercial OEM market, grew modestly during 2016. Our commercial transport OEM shipments and revenues generally run ahead of the Boeing and Airbus airframe delivery schedules. As a result and consistent with prior years, our fiscal 2017 shipments will be a function of, among other things, the estimated 2017 and 2018 commercial airframe production rates. We have been experiencing increased sales in the large commercial OEM sector (aircraft with 100 or more seats) driven by an increase in production by The Boeing Company and Airbus S.A.S tied to previous order announcements. Industry consensus indicates this production increase will continue in 2017 and 2018, though the growth may continue to moderate and begin to flatten.

Defense

Our military business fluctuates from year to year, and is dependent, to a degree, on government budget constraints, the timing of orders and the extent of global conflicts. In recent years, defense spending has reached historic highs, due in part to the military engagements in Afghanistan and Iraq and the war on terrorism. For a variety of reasons, the military spending outlook is very uncertain. For planning purposes we assume that military related sales of our types of products to be flat in future years over the recent high levels.

Raw Materials

We require the use of various raw materials in our manufacturing processes. We also purchase a variety of manufactured component parts from various suppliers. At times, we concentrate our orders among a few suppliers in order to strengthen our supplier relationships. Most of our raw materials and component parts are generally available from multiple suppliers at competitive prices.

Intellectual Property

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

Backlog

As of September 30, 2016, the Company estimated its sales order backlog at $1,554 million compared to an estimated sales order backlog of $1,428 million as of September 30, 2015. The increase in estimated sales order backlog is primarily due to acquisitions. The majority of the purchase orders outstanding as of September 30, 2016 are scheduled for delivery within the next twelve months. Purchase orders may be subject to cancellation or deferral by the customer prior to shipment. The level of unfilled purchase orders at any given date during the year will be materially affected by the timing of the Company’s receipt of purchase orders and the speed with which those orders are filled. Accordingly, the Company’s backlog as of September 30, 2016 may not necessarily represent the actual amount of shipments or sales for any future period.

Foreign Operations

Although we manufacture a significant portion of our products in the United States, we manufacture some products in Belgium, China, Germany, Hungary, Malaysia, Mexico, Norway, Sri Lanka, Sweden, and the United Kingdom.

Although the majority of sales of our products are made to customers (including distributors) located in the United States, our products are ultimately sold to and used by customers (including airlines and other end users of aircraft) throughout the world. A number of risks inherent in international operations could have a material adverse effect on our results of operations, including currency fluctuations, difficulties in staffing and managing multi-national operations, general economic and political uncertainties and potential for social unrest in countries in which we operate, limitations on our ability to enforce legal rights and remedies,

Table of Contents

restrictions on the repatriation of funds, change in trade policies, tariff regulation, difficulties in obtaining export and import licenses and the risk of government financed competition.

Environmental Matters

Our operations and facilities are subject to a number of federal, state, local and foreign environmental laws and regulations that govern, among other things, discharges of pollutants into the air and water, the generation, handling, storage and disposal of hazardous materials and wastes, the remediation of contamination and the health and safety of our employees. Environmental laws and regulations may require that the Company investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. Certain facilities and third-party sites utilized by the Company have been identified as potentially responsible parties under the federal superfund laws and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under applicable laws.

Employees

As of September 30, 2016, we had approximately 9,300 full-time, part-time and temporary employees. Approximately 11% of our full-time and part-time employees were represented by labor unions. Collective bargaining agreements between us and these labor unions expire at various dates ranging from November 2016 to April 2020. We consider our relationship with our employees generally to be satisfactory.

Available Information

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

ITEM 1A. RISK FACTORS

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

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

Our commercial business is directly affected by, among other factors, changes in revenue passenger miles (RPMs), the size and age of the worldwide aircraft fleet and, to a lesser extent, changes in the profitability of the commercial airline industry. RPMs and airline profitability have historically been correlated with the general economic environment, although national and international events also play a key role. For example, in the past, the airline industry has been severely affected by the downturn in the global economy, higher fuel prices, the increased security concerns among airline customers following the events of September 11, 2001, the Severe Acute Respiratory Syndrome (SARS) epidemic, and the conflicts in Afghanistan and Iraq, and could be impacted by future geopolitical or other worldwide events, such as war, terrorist acts, or a worldwide infectious disease outbreak. In addition, global market and economic conditions have been challenging with turbulence in the U.S. and international markets and economies and have prolonged declines in business and consumer spending. As a result of the substantial reduction in airline traffic resulting from these events, the airline industry incurred large losses and financial difficulties. Some carriers have also parked or retired a portion of their fleets and have reduced workforces and flights. During periods of reduced airline profitability, some airlines may delay purchases of spare parts, preferring instead to deplete existing inventories. If demand for new aircraft and spare parts decreases, there would be a decrease in demand for certain of our products. An adverse change in demand could impact our results of operations, collection of accounts receivable and our expected cash flow generation from current and acquired businesses which may adversely impact our financial condition and access to capital markets.

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

Our sales to manufacturers of large commercial aircraft, such as The Boeing Company, Airbus S.A.S, and related OEM suppliers, as well as manufacturers of business jets (which accounted for approximately 27% of our net sales in fiscal year 2016) have historically experienced periodic downturns. In the past, these sales have been affected by airline profitability, which is impacted by, among other things, fuel and labor costs, price competition, downturns in the global economy and national and international events. In addition, sales of our products to manufacturers of business jets are impacted by, among other things, downturns in the global economy. Downturns adversely affect our net sales, gross margin and net income.

Table of Contents

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

Our two largest customers for fiscal year 2016 were Airbus S.A.S. (which includes Satair A/S) and The Boeing Company (which includes Aviall, Inc.). Airbus S.A.S. accounted for approximately 13% of our net sales and The Boeing Company accounted for approximately 12% of our net sales in fiscal year 2016. Our top ten customers for fiscal year 2016 accounted for approximately 45% of our net sales. A material reduction in purchasing by one of our larger customers for any reason, including but not limited to economic downturn, decreased production, strike or resourcing, could have a material adverse effect on our net sales, gross margin and net income.

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

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

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

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

The military and defense market is significantly dependent upon government budget trends, particularly the U.S. Department of Defense (the “DOD”) budget. In addition to normal business risks, our supply of products to the United States Government is subject to unique risks largely beyond our control. DOD budgets could be negatively impacted by several factors, including, but not limited to, a change in defense spending policy by the current presidential administration, the U.S. Government’s budget deficits, spending priorities, the cost of sustaining the U.S. military presence in the Middle East and possible political pressure to reduce U.S. Government military spending, each of which could cause the DOD budget to remain unchanged or to decline. A significant decline in U.S. military expenditures could result in a reduction in the amount of our products sold to the various agencies and buying organizations of the U.S. Government.

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

A significant portion of our growth has occurred through acquisitions. Any future growth through acquisitions will be partially dependent upon the continued availability of suitable acquisition candidates at favorable prices and upon advantageous terms and conditions. We intend to pursue acquisitions that we believe will present opportunities consistent with our overall business strategy. However, we may not be able to find suitable acquisition candidates to purchase or may be unable to acquire desired businesses or assets on economically acceptable terms. In addition, we may not be able to raise the capital necessary to fund future acquisitions. Because we may actively pursue a number of opportunities simultaneously, we may encounter unforeseen expenses, complications and delays, including regulatory complications or difficulties in employing sufficient staff and maintaining operational and management oversight.

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

Acquisitions involve risks that the businesses acquired will not perform in accordance with expectations and that business judgments concerning the value, strengths and weaknesses of businesses acquired will prove incorrect. In addition, we may not be able to successfully integrate any business we acquire into our existing business. The successful integration of new businesses depends on our ability to manage these new businesses and cut excess costs. The successful integration of future acquisitions may also require substantial attention from our senior management and the management of the acquired business, which could decrease the time that they have to service, attract customers and develop new products and services or attend to other acquisition opportunities.

Table of Contents

We are subject to certain unique business risks as a result of supplying equipment and services to the U.S. Government.

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

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

Most of our U.S. Government contracts can be terminated by the U.S. Government for its convenience without significant notice. Termination for convenience provisions provide only for our recovery of costs incurred or committed, settlement expenses and profit on the work completed prior to termination.

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

Furthermore, even where the price is not based on cost, the U.S. Government may seek to review our costs to determine whether our pricing is “fair and reasonable.” Our subsidiaries are periodically subject to a pricing review. Such a review could be costly and time consuming for our management and could distract from our ability to effectively manage the business. As a result of such a review, we could be subject to providing a refund to the U.S. Government or we could be asked to enter into an arrangement whereby our prices would be based on cost or the DOD could seek to pursue alternative sources of supply for our parts. Any of those occurrences could lead to a reduction in our revenue from, or the profitability of certain of our supply arrangements with, certain agencies and buying organizations of the U.S. Government.

Moreover, U.S. Government purchasing regulations contain a number of additional operation requirements, which do not apply to entities not engaged in government contracting. Failure to comply with such government contracting requirements could result in civil and criminal penalties that could have a material adverse effect on the Company’s results of operations.

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

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

In addition to the aviation approvals, we are at times required to obtain approval from U.S. Government agencies to export our products. Failure to obtain approval to export or determination by the U.S. Government that we failed to receive required approvals or licenses could eliminate or restrict our ability to sell our products outside the United States, and the penalties that could be imposed by the U.S. Government for failure to comply with these laws could be significant.

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

We have a significant amount of indebtedness. As of September 30, 2016, our total indebtedness, excluding approximately $17 million of outstanding letters of credit, was approximately $10.2 billion, which was 106.8% of our total book capitalization as a result of our prior year dividends being funded with indebtedness and the addition of approximately $1.8 billion in net new debt during fiscal 2016. We also incurred additional indebtedness subsequent to September 30, 2016 more fully described in Note 23, “Subsequent Events” in the notes to consolidated financial statements included herein.

In addition, we may be able to incur substantial additional indebtedness in the future. For example, as of September 30, 2016, we had approximately $583 million of unused commitments under our revolving loan facility and $50 million of unused capacity under our trade receivable securitization facility (the “Securitization Facility”) (with the availability of the capacity under the Securitization Facility being dependent on the amount of our trade receivables). Although our senior secured credit facility and the indentures governing the various senior subordinated notes outstanding (the “Indentures”) contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and the indebtedness incurred in compliance with these qualifications and exceptions could be substantial. For example, if the usage of the revolving loan facility exceeds 25% of the total revolving commitments, the Company will be

Table of Contents

required to maintain a maximum consolidated net leverage ratio of net debt, as defined, to trailing four-quarter EBITDA As Defined. A breach of any of the covenants or an inability to comply with the required leverage ratio could result in a default under the senior secured credit facility or the Indentures.

Our substantial debt could also have other important consequences to investors. For example, it could:

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

In addition, all of our debt under the senior secured credit facility, which includes $5.3 billion in term loans and a revolving loan facility of $600 million, bears interest at floating rates. Accordingly, if interest rates increase, our debt service expense will also increase. Interest rate swap and cap agreements are used to manage interest rate risk associated with floating-rate borrowings under our credit facilities. For information about our interest rate swap and cap agreements, see Note 20, “Derivatives and Hedging Instruments” in the notes to the consolidated financial statements included herein.

Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness, including the Indentures. We cannot assure that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under the senior secured credit facility or otherwise in amounts sufficient to enable us to service our indebtedness. If we cannot service our debt, we will have to take actions such as reducing or delaying capital investments, selling assets, restructuring or refinancing our debt or seeking additional equity capital.

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

Our ability to make payments on and to refinance our indebtedness, including the Indentures, amounts borrowed under the senior secured credit facility, amounts due under our Securitization Facility, and to fund our operations, will depend on our ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

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

The terms of the senior secured credit facility and Indentures may restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

Our senior secured credit facility and the Indentures contain a number of restrictive covenants that impose significant operating and financial restrictions on TD Group, TransDigm Inc. and its subsidiaries (in the case of the senior secured credit facility) and TransDigm Inc. and its subsidiaries (in the case of the Indentures) and may limit their ability to engage in acts that may be in our long-term best interests. The senior secured credit facility and Indentures include covenants restricting, among

Table of Contents

other things, the ability of TD Group, TransDigm Inc. and its subsidiaries (in the case of the senior secured credit facility) and TransDigm Inc. and its subsidiaries (in the case of the Indentures) to:

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

A breach of any of these covenants could result in a default under the senior secured credit facility or the Indentures. If any such default occurs, the lenders under the senior secured credit facility and the holders of the senior subordinated notes may elect to declare all outstanding borrowings, together with accrued interest and other amounts payable thereunder, to be immediately due and payable. The lenders under the senior secured credit facility also have the right in these circumstances to terminate any commitments they have to provide further borrowings. In addition, following an event of default under the senior secured credit facility, the lenders under that facility will have the right to proceed against the collateral granted to them to secure the debt, which includes our available cash, and they will also have the right to prevent us from making debt service payments on the senior subordinated notes. If the debt under the senior secured credit facility or the senior subordinated notes were to be accelerated, we cannot assure that our assets would be sufficient to repay in full our debt.

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

Our operations and facilities are subject to a number of federal, state, local and foreign environmental laws and regulations that govern, among other things, discharges of pollutants into the air and water, the generation, handling, storage and disposal of hazardous materials and wastes, the remediation of contamination and the health and safety of our employees. Environmental laws and regulations may require that the Company investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. Certain facilities and third-party sites utilized by subsidiaries of the Company have been identified as potentially responsible parties under the federal superfund laws and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under applicable laws.

Estimates of the Company’s environmental liabilities are based on current facts, laws, regulations and technology. These estimates take into consideration the Company’s prior experience and professional judgment of the Company’s environmental advisors. Estimates of the Company’s environmental liabilities are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and cost estimates, the extent of corrective actions that may be required and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation.

Accordingly, as investigation and remediation proceed, it is likely that adjustments in the Company’s accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on the Company’s results of operations or cash flows in a given period. Based on currently available information, however, the Company does not believe that future environmental costs in excess of those accrued with respect to sites for which the Company has been identified as a potentially responsible party are likely to have a material adverse effect on the Company’s financial condition.

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

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

Although we believe that our relations with our employees are satisfactory, we cannot assure that we will be able to negotiate a satisfactory renewal of collective bargaining agreements or that our employee relations will remain stable. Because

Table of Contents

we maintain a relatively small inventory of finished goods, any work stoppage could materially and adversely affect our ability to provide products to our customers.

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

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

Our operations depend on our manufacturing facilities, which are subject to physical and other risks that could disrupt production.

A number of our manufacturing facilities are located in the greater Los Angeles area, an area known for earthquakes, and are thus vulnerable to damage. In addition, a number of our manufacturing facilities are located along the Eastern seaboard area susceptible to hurricanes. We are also vulnerable to damage from other types of disasters, including power loss, fire, explosions, floods, communications failures, terrorist attacks and similar events. Disruptions could also occur due to cyber-attacks, computer or equipment malfunction (accidental or intentional), operator error or process failures. Any disruption of our ability to operate our business could result in a material decrease in our revenues or significant additional costs to replace, repair or insure our assets, which could have a material adverse impact on our financial condition and results of operations.

Operations and sales outside of the United States may be subject to additional risks.

A number of risks inherent in international operations could have a material adverse effect on our results of operations, including currency fluctuations, difficulties in staffing and managing multi-national operations, general economic and political uncertainties and potential for social unrest in countries in which we operate, limitations on our ability to enforce legal rights and remedies, restrictions on the repatriation of funds, change in trade policies, tariff regulation, difficulties in obtaining export and import licenses and the risk of government financed competition. Furthermore, the Company is subject to laws and regulations, such as the Foreign Corrupt Practices Act, UK Bribery Act and similar local anti-bribery laws, which generally prohibit companies and their employees, agents and contractors from making improper payments for the purpose of obtaining or retaining business. Failure to comply with these laws could subject the Company to civil and criminal penalties that could materially adversely affect the Company's results of operations.

We face significant competition.

We operate in a highly competitive global industry and compete against a number of companies. Competitors in our product lines are both U.S. and foreign companies and range in size from divisions of large public corporations to small privately held entities. We believe that our ability to compete depends on high product performance, consistent high quality, short lead-time and timely delivery, competitive pricing, superior customer service and support and continued certification under customer quality requirements and assurance programs. We may have to adjust the prices of some of our products to stay competitive.

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

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

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

Table of Contents

We could incur substantial costs as a result of data protection concerns.
The interpretation and application of data protection laws in the U.S., Europe and elsewhere are uncertain and evolving. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. Compliance could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.
In addition, despite our efforts to protect confidential information, our facilities and systems may be vulnerable to data loss, including cyber-attacks. This could lead to negative publicity, legal claims, theft, modification or destruction of proprietary or key information, damage to or inaccessibility of critical systems, manufacture of defective products, production downtimes, operational disruptions and other significant costs, which could adversely affect our reputation, financial condition and results of operations.
We have recorded a significant amount of intangible assets, which may never generate the returns we expect.
Mergers and acquisitions have resulted in significant increases in identifiable intangible assets and goodwill. Identifiable intangible assets, which primarily include trademarks, trade names, trade secrets, and technology, were approximately $1.8 billion at September 30, 2016, representing approximately 16% of our total assets. Goodwill recognized in accounting for the mergers and acquisitions was approximately $5.7 billion at September 30, 2016, representing approximately 53% of our total assets. We may never realize the full value of our identifiable intangible assets and goodwill, and to the extent we were to determine that our identifiable intangible assets or our goodwill were impaired within the meaning of applicable accounting standards, we would be required to write-off the amount of any impairment.
The Company may be subject to risks relating to changes in its tax rates or exposure to additional income tax liabilities.
The Company is subject to income taxes in the United States and various non-U.S. jurisdictions. The Company's domestic and international tax liabilities are dependent upon the location of earnings among these different jurisdictions. The Company's future results of operations could be adversely affected by changes in the Company's effective tax rate as a result of changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets, challenges by tax authorities or changes in tax laws or regulations. In addition, the amount of income taxes paid by the Company is subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. tax authorities. If these audits result in assessments different from amounts reserved, future financial results may include unfavorable adjustments to the Company's tax liabilities, which could have a material adverse effect on the Company's results of operations.
Our stock price may be volatile, and an investment in our common stock could suffer a decline in value.
There has been significant volatility in the market price and trading volume of equity securities, which is unrelated to the financial performance of the companies issuing the securities. These broad market fluctuations may negatively affect the market price of our common stock. Shareholders may not be able to sell their shares at or above the purchase price due to fluctuations in the market price of our common stock caused by changes in our operating performance or prospects, including possible changes due to the cyclical nature of the aerospace industry and other factors such as fluctuations in OEM and aftermarket ordering, which could cause short-term swings in profit margins, or unrelated to our operating performance, including market conditions affecting the stock market generally or the stocks of aerospace companies more specifically.
Future sales of our common stock in the public market could lower our share price.
We may sell additional shares of common stock into the public markets or issue convertible debt securities to raise capital in the future. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the public markets or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities to raise capital at a time and price that we deem appropriate.
Our corporate documents and Delaware law contain certain provisions that could discourage, delay or prevent a change in control of our company.
Provisions in our amended and restated certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our amended and

restated certificate of incorporation authorizes our Board of Directors to issue up to 149,600,000 shares of “blank check” preferred stock. Without stockholder approval, the Board of Directors has the authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, holders of preferred stock could make it more difficult for a third party to acquire us. Our amended and restated certificate of incorporation also provides that the affirmative vote of the holders of at least 75% of the voting power of our issued and outstanding capital stock, voting together as a single class, is required for the alteration, amendment or repeal of certain provisions of our amended and restated certificate of incorporation and certain provisions of our amended and restated bylaws, including the provisions relating to our stockholders’ ability to call special meetings, notice provisions for stockholder business to be conducted at an annual meeting, requests for stockholder lists and corporate records, nomination and removal of directors, and filling of vacancies on our Board of Directors.

Table of Contents

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

We do not regularly declare and pay quarterly or annual cash dividends on our stock.

On July 3, 2013, June 4, 2014 and October 14, 2016, the Company’s Board of Directors authorized and declared special cash dividends of $22.00, $25.00 and $24.00, respectively, on each outstanding share of common stock and cash dividend equivalent payments to holders of options under its stock option plans.

Notwithstanding the special cash dividends declared in July 2013, June 2014 and October 2016, we do not anticipate declaring regular quarterly or annual cash dividends on our common stock or any other equity security in the foreseeable future. The amounts that may be available to us to pay future special cash dividends are restricted under our debt and other agreements. Any payment of special cash dividends on our common stock in the future will be at the discretion of our Board of Directors and will depend on our results of operations, earnings, capital requirements, financial condition, future prospects, contractual restrictions and other factors deemed relevant by our Board of Directors. Therefore, shareholders should not rely on regular quarterly or annual dividend income from shares of our common stock and should not rely on special dividends with any regularity or at all.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

TransDigm's principal owned properties as of September 30, 2016 are as follows:

Location	Reporting Segment	Square Footage
Miesbach, Germany	Power & Control	242,000
Liberty, SC	Power & Control	219,000
Waco, TX	Power & Control	218,800
Ingolstadt, Germany	Airframe	191,900
Kent, OH	Airframe	185,000
Liverpool, NY	Power & Control	177,000
Bridport, United Kingdom	Airframe	174,700
Union Gap, WA	Airframe	142,000
Phoenix, AZ	Airframe	138,700
Paks, Hungary	Airframe	137,800
Los Angeles, CA	Power & Control	131,000
Bohemia, NY	Power & Control	124,000
Westbury, NY	Power & Control	112,300
Llangeinor, United Kingdom	Airframe	110,000
Letchworth, United Kingdom	Airframe	88,200
Placentia, CA	Airframe	86,600
Addison, IL	Power & Control	83,300
Painesville, OH	Power & Control	63,900
Clearwater, FL	Power & Control	61,000
South Euclid, OH	Power & Control	60,000
Wichita, KS	Power & Control	57,000
Earlysville, VA	Power & Control	53,000
Branford, CT	Airframe	52,000
Avenel, NJ	Power & Control	48,500
Herstal, Belgium	Airframe	45,700
Rancho Cucamonga, CA	Power & Control	45,000
Valencia, CA	Airframe	38,000
Pennsauken, NJ	Airframe	38,000
Ryde, United Kingdom	Power & Control	33,200
Rancho Cucamonga, CA	Airframe	32,700
Melaka, Malaysia	Power & Control	24,800
Deerfield Beach, FL	Non-aviation	20,000

The Liberty, Waco, Kent, Union Gap, Phoenix, Los Angeles, Placentia, Addison, Painesville, South Euclid, Wichita, Avenel and Deerfield Beach properties and the two Rancho Cucamonga properties are subject to mortgage liens under our senior secured credit facility. The Bohemia property will also become subject to a mortgage lien under our senior secured credit facility. The Earlysville property is currently vacant.

TransDigm's principal leased properties as of September 30, 2016 are as follows:

Location	Reporting Segment	Square Footage
Holmestrand, Norway	Airframe	149,000
Santa Ana, CA	Airframe	144,300
Dayton, NV	Airframe	144,000

Everett, WA	Airframe	121,000
Whippany, NJ	Power & Control	115,300

14

Table of Contents

Location	Reporting Segment	Square Footage
Whippany, NJ	Power & Control	114,300
Nittambuwa, Sri Lanka	Airframe	113,000
Goldsboro, NC	Power & Control	101,000
Fullerton, CA	Airframe	100,000
Anaheim, CA	Airframe	99,900
Collegeville, PA	Airframe	90,000
Miesbach, Germany	Power & Control	81,000
Kunshan, China	Non-aviation	75,300
Camarillo, CA	Power & Control	70,000
Matamoros, Mexico	Power & Control	60,500
Elkhart, IN	Non-aviation	51,500
Tempe, AZ	Power & Control	40,200
Chongqing, China	Airframe	37,700
Northridge, CA	Power & Control	35,000
Erie, PA	Airframe	30,500
Ashford, United Kingdom	Power & Control	28,000
London, United Kingdom	Airframe	27,400
Nogales, Mexico	Airframe	27,000
Kunshan, China	Airframe	25,600
Bridgend, United Kingdom	Airframe	24,800
Memphis, TN	Power & Control	20,800
Pennsauken, NJ	Airframe	20,500
San Diego, CA	Power & Control	19,000
Lund, Sweden	Power & Control	17,600
Lake Elsinore, CA	Airframe	16,100
Cleveland, OH	Power & Control	13,100

Our Cleveland, OH and Pasadena, CA corporate facilities house our principal executive offices, and we currently lease approximately 20,100 square feet and 5,300 square feet, respectively, for those purposes. TransDigm also leases certain of its other non-material facilities. Management believes that our machinery, plants and offices are in satisfactory operating condition and that it will have sufficient capacity to meet foreseeable future needs without incurring significant additional capital expenditures.

ITEM 3. LEGAL PROCEEDINGS

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

Table of Contents

PART II

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

Market Information

Our common stock is traded on the New York Stock Exchange, or NYSE, under the ticker symbol "TDG." The following chart sets forth, for the periods indicated, the high and low sales prices of the common stock on the NYSE.

Quarterly Stock Prices

	High	Low
Fiscal 2015		
For Quarter ended December 27, 2014	$201.04	$166.61
For Quarter ended March 28, 2015	226.21	194.30
For Quarter ended June 27, 2015	232.18	211.33
For Quarter ended September 30, 2015	244.90	208.35
Fiscal 2016		
For Quarter ended January 2, 2016	$238.51	$210.22
For Quarter ended April 2, 2016	232.42	180.76
For Quarter ended July 2, 2016	268.00	218.56
For Quarter ended September 30, 2016	294.38	257.28

Holders

On November 4, 2016, there were 36 stockholders of record of our common stock. We estimate that there were approximately 48,000 beneficial stockholders as of November 4, 2016, which includes an estimated amount of stockholders who have their shares held in their accounts by banks and brokers.

Dividends

In June 2014, TD Group's Board of Directors declared and paid a special cash dividend of $25.00 on each outstanding share of common stock. No dividends were declared in fiscal 2015 or fiscal 2016. On October 14, 2016, TD Group's Board of Directors authorized and declared a special cash dividend of $24.00 on each outstanding share of common stock and cash dividend equivalent payments under options granted under its stock option plans. The record date for the special dividend was October 24, 2016, and the payment date for the dividend was November 1, 2016.

We do not anticipate declaring regular quarterly or annual cash dividends on our common stock in the near future. Any declaration of special cash dividends on our common stock in the future will be at the discretion of our Board of Directors and will depend upon our results of operations, earnings, capital requirements, financial condition, future prospects, contractual restrictions under the senior secured credit facility and Indentures, the availability of surplus under Delaware law and other factors deemed relevant by our Board of Directors. TD Group is a holding company and conducts all of its operations through direct and indirect subsidiaries. Unless TD Group receives dividends, distributions, advances, transfers of funds or other payments from our subsidiaries, TD Group will be unable to pay any dividends on our common stock in the future. The ability of any subsidiaries to take any of the foregoing actions is limited by the terms of our senior secured credit facility and Indentures and may be limited by future debt or other agreements that we may enter into.

Performance Graph

Set forth below is a line graph comparing the cumulative total return of a hypothetical investment in the shares of common stock of TD Group with the cumulative total return of a hypothetical investment in each of the S&P Midcap 400 Index, the S&P 500 Index ("S&P 500") and the S&P MidCap 400 S&P Aerospace & Defense Index based on the respective market prices of each such investment on the dates shown below, assuming an initial investment of $100 on September 30, 2011.

The following performance graph and related information shall not be deemed "soliciting material" nor to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent we specifically incorporate it by reference into such filing.

Table of Contents

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among TransDigm Group Inc., the S&P MidCap 400 Index, the S&P 500
and S&P MidCap 400 S&P Aerospace & Defense Index
*$100 invested on 9/30/11 in stock or index, including reinvestment of dividends.
Fiscal year ending September 30.

	9/30/11	9/30/12	9/30/13	9/30/14	9/30/15	9/30/16
TransDigm Group Inc.	100.00	173.71	215.42	328.96	379.07	515.97
S&P MidCap 400 Index	100.00	128.54	164.12	183.51	186.07	214.59
S&P 500	100.00	130.20	155.39	186.05	184.91	213.44
S&P MidCap 400 S&P Aerospace & Defense Index	100.00	123.91	202.38	255.90	228.69	274.73

Purchases of Equity Securities by the Issuer or Affiliated Purchaser

On October 22, 2014, our Board of Directors authorized a stock repurchase program permitting us to repurchase a portion of our outstanding stock not to exceed $300 million in the aggregate. During fiscal 2016, until the $300 million program was replaced on January 21, 2016, the Company had repurchased 452,187 shares of its common stock at a gross cost of approximately $98.7 million at the weighted-average price per share of $218.23.

On January 21, 2016, our Board of Directors authorized a stock repurchase program replacing the $300 million program with a repurchase program permitting us to repurchase a portion of our outstanding common shares not to exceed $450 million in the aggregate. As of September 30, 2016, the Company had repurchased 563,200 shares of its common stock at a gross cost of approximately $109.1 million at the weighted-average price per share of $193.67 under the $450 million stock repurchase program. During the thirteen week period ended September 30, 2016, there were no repurchases of common stock. As of September 30, 2016, approximately $340.9 million is available for repurchase under the $450 million stock repurchase program, subject to the limitations in accordance with our credit agreement as described within the Liquidity and Capital Resources section of Item 7. - “Management’s Discussion and Analysis of Financial Conditions and Results of Operations.”

Table of Contents

During the fiscal year ended September 30, 2016, the Company received 2,548 shares as forfeiture in lieu of payment for withholding taxes on the vesting of restricted stock, the deemed gross cost of the shares was approximately $0.6 million at a weighted-average price per share of $225.58.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected historical consolidated financial and other data of TD Group for the fiscal years ended September 30, 2012 to 2016, which have been derived from TD Group's audited consolidated financial statements.

Separate historical financial information of TransDigm Inc. is not presented since the 5.50% Senior Subordinated Notes issued in October 2012 (the "2020 Notes"), the 7.50% Senior Subordinated Notes issued in July 2013 (the "2021 Notes"), the 6.00% Senior Subordinated Notes issued in June 2014 (the "2022 Notes"), the 6.50% Senior Subordinated Notes issued June 2014 (the "2024 Notes"), the 6.50% Senior Subordinated Notes issued May 2015 (the "2025 Notes") and the 6.375% Senior Subordinated Notes issued June 2016 (the "2026 Notes") (also together with the 2020 Notes, the 2021 Notes, the 2022 Notes, the 2024 Notes, the 2025 Notes, and the 2026 Notes, the "Notes") are guaranteed by TD Group and all direct and indirect domestic restricted subsidiaries of TransDigm Inc. and since TD Group has no operations or significant assets separate from its investment in TransDigm Inc.

Acquisitions of businesses and product lines completed by TD Group during the last five fiscal years are as follows:

Date	Acquisition
December 9, 2011	Harco Laboratories, Inc.
February 15, 2012	AmSafe Global Holdings, Inc.
September 17, 2012	Aero-Instruments Co., LLC
June 5, 2013	Aerosonic Corporation
June 5, 2013	Arkwin Industries, Inc.
June 28, 2013	Whippany Actuation
December 19, 2013	Airborne Global Inc. ("Airborne")
March 6, 2014	Elektro-Metall Export GmbH ("EME")
March 26, 2015	Telair Cargo Group (comprised of Telair International GmbH, Telair US LLC and Nordisk Aviation Products)
March 31, 2015	Franke Aquarotter GmbH ("Adams Rite Aerospace GmbH")
May 14, 2015	Pexco LLC ("Pexco Aerospace")
August 19, 2015	PneuDraulics, Inc. ("PneuDraulics")
January 4, 2016	Breeze-Eastern Corporation ("Breeze-Eastern")
June 23, 2016	Data Device Corporation ("DDC")
September 23, 2016	Young & Franklin Inc. / Tactair Fluid Controls Inc. ("Tactair")

All of the acquisitions were accounted for using the acquisition method. The results of operations of the acquired businesses and product lines are included in TD Group's consolidated financial statements from the effective date of each acquisition.

Table of Contents

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

	Fiscal Years Ended September 30,				
	2016	2015	2014	2013	2012
	(in thousands, except per share amounts)				
Statement of Income Data:					
Net sales	$3,171,411	$2,707,115	$2,372,906	$1,924,400	$1,700,208
Gross profit[1]	1,728,063	1,449,845	1,267,874	1,049,562	945,717
Selling and administrative expenses	382,858	321,624	276,446	254,468	201,709
Amortization of intangible assets	77,445	54,219	63,608	45,639	44,233
Income from operations[1]	1,267,760	1,074,002	927,820	749,455	699,775
Interest expense—net	483,850	418,785	347,688	270,685	211,906
Refinancing costs	15,794	18,393	131,622	30,281	—
Income from continuing operations before income taxes	768,116	636,824	448,510	448,489	487,869
Income tax provision[2]	181,702	189,612	141,600	145,700	162,900
Net income	$586,414	$447,212	$306,910	$302,789	$324,969
Net income applicable to common stock	$583,414	$443,847	$180,284	$131,546	$321,670
Denominator for basic and diluted earnings per share under the two-class method:					
Weighted-average common shares outstanding	53,326	53,112	52,748	52,258	50,996
Vested options deemed participating securities	2,831	3,494	4,245	2,822	2,886
Total shares for basic and diluted earnings per share	56,157	56,606	56,993	55,080	53,882
Net earnings per share:					
Net earnings per share[3]	$10.39	$7.84	$3.16	$2.39	$5.97
Cash dividends paid per common share	$—	$—	$25.00	$34.85	$—

	As of September 30,				
	2016	2015	2014	2013	2012
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$1,586,994	$714,033	$819,548	$564,740	$440,524
Working capital[4,5]	2,178,094	1,128,993	1,066,735	968,207	787,834
Total assets[4,5]	10,726,277	8,303,935	6,626,786	6,046,029	5,368,293
Long-term debt, including current portion[5]	10,195,607	8,349,602	7,380,738	5,658,570	3,556,935
Stockholders' (deficit) equity	(651,490)	(1,038,306)	(1,556,099)	(336,381)	1,218,834

(1) Gross profit and income from operations include the effect of charges relating to purchase accounting adjustments to inventory associated with the acquisition of various businesses and product lines for the fiscal years ended September 30, 2016, 2015, 2014, 2013 and 2012 of $23,449, $11,362, $10,441, $7,352 and $12,882, respectively.

(2) For the fiscal year ended September 30, 2016, the income tax provision was impacted by the adoption of Accounting Standards Update ("ASU") 2016-09, "Improvements to Employee Share-Based Payment Accounting." Refer to Note 4, "Recent Accounting Pronouncements," and Note 13, "Income Taxes" in the notes to the consolidated financial statements included herein for additional information.

(3) Net earnings per share is calculated by dividing net income applicable to common stock by the basic and diluted weighted average common shares outstanding.

(4) In connection with adopting ASU 2015-17, "Balance Sheet Classification of Deferred Taxes," for reporting periods ended after October 1, 2015, the Company reclassified $45,375, $37,669, $30,182 and $29,134 from current deferred income tax assets in our consolidated balance sheets as of September 2015, 2014, 2013 and 2012,

respectively, to non-

Table of Contents

current deferred income tax liabilities. Refer to Note 4, “Recent Accounting Pronouncements,” in the notes to the consolidated financial statements included herein for additional information.

(5) In connection with adopting ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” for reporting periods ended after October 1, 2015, the Company reclassified $77,740, $92,393, $72,668 and $62,190 from debt issuance costs in our consolidated balance sheets as of September 2015, 2014, 2013 and 2012, respectively, to the current portion of long-term and long-term-term debt. Refer to Note 4, “Recent Accounting Pronouncements,” in the notes to the consolidated financial statements included herein for additional information.

Non-GAAP Financial Measures

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

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

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

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

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

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

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

20

Table of Contents

	Fiscal Years Ended September 30,				
	2016	2015	2014	2013	2012
	(in thousands)				
Other Financial Data:					
Cash flows provided by (used in):					
Operating activities	$668,930	$520,938	$541,222	$470,205	$413,885
Investing activities	(1,443,046)	(1,679,149)	(329,638)	(502,442)	(876,292)
Financing activities	1,646,835	1,054,947	43,973	156,195	527,186
Depreciation and amortization	121,670	93,663	96,385	73,515	68,227
Capital expenditures	43,982	54,871	34,146	35,535	25,246
Ratio of earnings to fixed charges(1)	2.6x	2.5x	2.3x	2.6x	3.3x
Other Data:					
EBITDA(2)	$1,373,636	$1,149,272	$892,583	$792,689	$768,002
EBITDA As Defined(2)	$1,495,196	$1,233,654	$1,073,207	$900,278	$809,019

(1) For purposes of computing the ratio of earnings to fixed charges, earnings consist of earnings from continuing operations before income taxes plus fixed charges. Fixed charges consist of interest expense, amortization of debt issuance costs and the portion (approximately 33%) of rental expense that management believes is representative of the interest component of rental expense.

(2) EBITDA represents earnings from continuing operations before interest, taxes, depreciation and amortization. EBITDA As Defined represents EBITDA plus, as applicable for each relevant period, certain adjustments as set forth in the reconciliation of net income to EBITDA and EBITDA As Defined and the reconciliation of net cash provided by operating activities to EBITDA and EBITDA As Defined presented below. See "Non-GAAP Financial Measures" for additional information and limitations regarding these non-GAAP financial measures.

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

	Fiscal Years Ended September 30,				
	2016	2015	2014	2013	2012
	(in thousands)				
Net income	$586,414	$447,212	$306,910	$302,789	$324,969
Adjustments:					
Depreciation and amortization expense	121,670	93,663	96,385	73,515	68,227
Interest expense, net	483,850	418,785	347,688	270,685	211,906
Income tax provision(1)	181,702	189,612	141,600	145,700	162,900
EBITDA	1,373,636	1,149,272	892,583	792,689	768,002
Adjustments:					
Inventory purchase accounting adjustments(2)	23,449	11,362	10,441	7,352	12,882
Acquisition integration costs(3)	18,539	12,554	7,239	10,942	7,896
Acquisition transaction-related expenses(4)	15,711	12,289	3,480	8,139	5,880
Acquisition earn-out adjustments(5)	—	—	—	—	(5,000)
Other acquisition accounting adjustments	—	—	—	—	(2,792)
Non-cash stock and deferred compensation expense(6)	48,306	31,500	26,332	48,884	22,151
Refinancing costs(7)	15,794	18,393	131,622	30,281	—
Other, net (8)	(239)	(1,716)	1,510	1,991	—
EBITDA As Defined	$1,495,196	$1,233,654	$1,073,207	$900,278	$809,019

(1) For the period ended September 30, 2016, the income tax provision was impacted by the adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." Refer to Note 4, "Recent Accounting Pronouncements," and Note 13, "Income Taxes" in the notes to the consolidated financial statements included herein for additional information.

21

Table of Contents

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

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

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

(5) Represents the reversal of the earn-out liability related to the Dukes Aerospace acquisition based on lower growth projections relative to the required growth targets of the four-year earn-out arrangement.

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

(7) For the period ended September 30, 2016, represents debt issuance costs expensed in conjunction with the refinancing of our 2013 Tranche C Term Loans in June 2016. For the period ended September 30, 2015, represents debt issuance costs expensed in conjunction with the refinancing of our 2013 Tranche B Term Loans in May 2015. For the period ended September 30, 2014, represents debt issuance costs including the premium paid to redeem our 2018 Notes in June 2014. For the period ended September 30, 2013, represents debt issuance costs expensed in conjunction with the refinancing of our 2010 Term Loans and 2011 Term Loans in February 2013.

(8) Primarily represents foreign currency transaction gain or loss on intercompany loans to be settled and gain or loss on sale of fixed assets.

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

	Fiscal Years Ended September 30,				
	2016	2015	2014	2013	2012
	(in thousands)				
Net cash provided by operating activities	$668,930	$520,938	$541,222	$470,205	$413,885
Adjustments:					
Changes in assets and liabilities, net of effects from acquisitions of businesses	110,905	24,322	(27,967)	(71,618)	(11,749)
Net gain on sale of real estate	—	—	804	—	—
Interest expense, net[1]	467,639	402,988	333,753	258,752	199,362
Income tax provision—current[2]	175,894	188,952	151,016	148,314	138,100
Non-cash stock and deferred compensation expense[3]	(48,306)	(31,500)	(26,332)	(48,884)	(22,151)
Excess tax benefit from exercise of stock options[2]	—	61,965	51,709	66,201	50,555
Refinancing costs[4]	(1,426)	(18,393)	(131,622)	(30,281)	—
EBITDA	1,373,636	1,149,272	892,583	792,689	768,002
Adjustments:					
Inventory purchase accounting adjustments[5]	23,449	11,362	10,441	7,352	12,882
Acquisition integration costs[6]	18,539	12,554	7,239	10,942	7,896
Acquisition transaction-related expenses[7]	15,711	12,289	3,480	8,139	5,880
Acquisition earn-out adjustments[8]	—	—	—	—	(5,000)
Other acquisition accounting adjustments	—	—	—	—	(2,792)
Non-cash stock and deferred compensation expense[3]	48,306	31,500	26,332	48,884	22,151
Refinancing costs[4]	15,794	18,393	131,622	30,281	—
Other, net[9]	(239)	(1,716)	1,510	1,991	—
EBITDA As Defined	$1,495,196	$1,233,654	$1,073,207	$900,278	$809,019

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

Table of Contents

(2) For the period ended September 30, 2016, the income tax provision and Excess tax benefit from exercise of stock options were impacted by the adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." Refer to Note 4, "Recent Accounting Pronouncements," and Note 13, "Income Taxes" in the notes to the consolidated financial statements included herein for additional information.

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

(4) For the period ended September 30, 2016, represents debt issuance costs expensed in conjunction with the refinancing of our 2013 Tranche C Term Loans in June 2016. For the period ended September 30, 2015, represents debt issuance costs expensed in conjunction with the refinancing of our 2013 Tranche B in May 2015. For the period ended September 30, 2014, represents debt issuance costs including the premium paid to redeem our 2018 Notes in June 2014. For the period ended September 30, 2013, represents debt issuance costs expensed in conjunction with the refinancing of our 2010 Term Loans and 2011 Term Loans in February 2013.

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

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

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

(8) Represents the reversal of the earn-out liability related to the Dukes Aerospace acquisition based on lower growth projections relative to the required growth targets of the four-year earn-out arrangement.

(9) Primarily represents foreign currency transaction gain or loss on intercompany loans to be settled and gain or loss on sale of fixed assets.

Table of Contents

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

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

Overview

For fiscal year 2016, we generated net sales of $3,171.4 million, gross profit of $1,728.1 million or 54.5% of sales, and net income of $586.4 million. We believe we have achieved steady, long-term growth in sales and improvements in operating performance since our formation in 1993 due to our competitive strengths and through execution of our value-driven operating strategy. More specifically, focusing our businesses on our value-driven operating strategy of obtaining profitable new business, carefully controlling the cost structure and pricing our highly engineered value-added products to fairly reflect the value we provide and the resources required to do so has historically resulted in improvements in gross profit and income from operations over the long term.

Our selective acquisition strategy has also contributed to the growth of our business. The integration of certain acquisitions into our existing businesses combined with implementing our proven operating strategy has historically resulted in improvements of the financial performance of the acquired business.

Our key competitive strengths and the elements of our business strategy are set forth in more detail below.

We believe our key competitive strengths include:

Large and Growing Installed Product Base with Aftermarket Revenue Stream. We provide components to a large and growing installed base of aircraft to which we supply aftermarket products. We estimate that our products are installed on approximately 95,000 commercial transport, regional transport, military and general aviation fixed wing turbine aircraft and rotary wing aircraft.

Diversified Revenue Base. We believe that our diversified revenue base reduces our dependence on any particular product, platform or market channel and has been a significant factor in maintaining our financial performance. Our products are installed on almost all of the major commercial aircraft platforms now in production. We expect to continue to develop new products for military and commercial applications.

Significant Barriers to Entry. We believe that the niche nature of our markets, the industry's stringent regulatory and certification requirements, the large number of products that we sell and the investments necessary to develop and certify products create barriers to entry for potential competitors.

Our business strategy is made up of two key elements: (1) a value-driven operating strategy focused around our three core value drivers and (2) a selective acquisition strategy.

Value-Driven Operating Strategy. Our three core value drivers are:

- Obtaining Profitable New Business. We attempt to obtain profitable new business by using our technical expertise and application skill and our detailed knowledge of our customer base and the individual niche markets in which we operate. We have regularly been successful in identifying and developing both aftermarket and OEM products to drive our growth.
- Improving Our Cost Structure. We are committed to maintaining and continuously improving our lean cost structure through detailed attention to the cost of each of the products that we offer and our organizational structure, with a focus on reducing the cost of each.
- Providing Highly Engineered Value-Added Products to Customers. We focus on the engineering, manufacturing and marketing of a broad range of highly engineered niche products that we believe provide value to our customers. We believe we have been consistently successful in communicating to our customers the value of our products. This has generally enabled us to price our products to fairly reflect the value we provide and the resources required to do so.

Selective Acquisition Strategy. We selectively pursue the acquisition of proprietary aerospace component businesses when we see an opportunity to create value through the application of our three core value-driven operating strategies. The aerospace industry, in particular, remains highly fragmented, with many of the companies in the industry being small private businesses or small non-core operations of larger businesses. We have significant experience among our management team in executing acquisitions and integrating acquired businesses into our company and culture. As of the date of this report, we have successfully acquired 58 businesses and/or product lines since our formation in 1993. Many of these acquisitions have been integrated into an existing TransDigm production facility, which enables a higher production capacity utilization, which in turn improves gross profit levels due to the ability to spread the fixed manufacturing overhead costs over higher production volume.

Acquisitions and divestitures during the previous three fiscal years are more fully described in Note 2, “Acquisitions” in the notes to the consolidated financial statements included herein.

Critical Accounting Policies

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

Below are those policies applied in preparing our financial statements that management believes are the most dependent on the application of estimates and assumptions. For additional accounting policies, see Note 3, “Summary of Significant Accounting Policies” in the notes to the consolidated financial statements included herein.

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

Management estimates the allowance for doubtful accounts based on the aging of the accounts receivable and customer creditworthiness. The allowance also incorporates a provision for the estimated impact of disputes with customers. Management’s estimate of the allowance amounts that are necessary includes amounts for specifically identified credit losses and estimated credit losses based on historical information. The determination of the amount of the allowance for doubtful accounts is subject to significant levels of judgment and estimation by management. Depending on the resolution of potential credit and other collection issues, or if the financial condition of any of the Company’s customers were to deteriorate and their ability to make required payments were to become impaired, increases in these allowances may be required. Historically, changes in estimates in the allowance for doubtful accounts have not been significant.

Inventories: Inventories are stated at the lower of cost or market. Cost of inventories is generally determined by the average cost and the first-in, first-out (FIFO) methods and includes material, labor and overhead related to the manufacturing process. Because the Company sells products that are installed on airframes that can be in-service for 25 or more years, it must keep a supply of such products on hand while the airframes are in use. Where management estimated that the current market value was below cost or determined that future demand was lower than current inventory levels, based on historical experience, current and projected market demand, current and projected volume trends and other relevant current and projected factors associated with the current economic conditions, a reduction in inventory cost to estimated net realizable value was made by recording a provision included in cost of sales. Although management believes that the Company’s estimates of excess and obsolete inventory are reasonable, actual results may differ materially from the estimates and additional provisions may be required in the future. In addition, in accordance with industry practice, all inventories are classified as current assets as all inventories are available and necessary to support current sales, even though a portion of the inventories may not be sold within one year. Historically, changes in estimates in the net realizable value of inventories have not been significant.

Goodwill and Other Intangible Assets: In accordance with ASC 805, “Business Combinations,” the Company uses the acquisition method of accounting to allocate costs of acquired businesses to the assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition. The excess costs of acquired businesses over the fair values of the assets acquired and liabilities assumed were recognized as goodwill. The valuations of the acquired assets and liabilities will impact the determination of future operating results. In addition to using management estimates and negotiated amounts, the Company used a variety of information sources to determine the estimated fair values of acquired assets and liabilities including third-party appraisals for the estimated value and lives of identifiable intangible assets. Fair value adjustments to the Company’s assets and liabilities are recognized and the results of operations of the acquired business are included in our consolidated financial statements from the effective date of the merger or acquisition.

Intangible assets other than goodwill are recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed or exchanged, regardless of the Company’s intent to do so. Goodwill and identifiable intangible assets are recorded at their estimated fair value on the date of acquisition and are reviewed at least annually for impairment based on cash flow projections and fair value estimates.

Table of Contents

GAAP requires that the annual, and any interim, impairment assessment be performed at the reporting unit level. The reporting unit level is one level below an operating segment. Substantially all goodwill was determined and recognized for each reporting unit pursuant to the accounting for the merger or acquisition as of the date of each transaction. With respect to acquisitions integrated into an existing reporting unit, any acquired goodwill is combined with the goodwill of the reporting unit.

At the time of goodwill impairment testing, management determines the estimated fair value through the use of a discounted cash flow valuation model incorporating discount rates commensurate with the risks involved for each reporting unit. If the calculated estimated fair value is less than the current carrying value, impairment of goodwill of the reporting unit may exist. The use of a discounted cash flow valuation model to determine estimated fair value is common practice in impairment testing. The key assumptions used in the discounted cash flow valuation model for impairment testing includes discount rates, growth rates, cash flow projections and terminal value rates. Discount rates are set by using the Weighted Average Cost of Capital (“WACC”) methodology. The WACC methodology considers market and industry data as well as company specific risk factors for each reporting unit in determining the appropriate discount rates to be used. The discount rate utilized for each reporting unit is indicative of the return an investor would expect to receive for investing in such a business.

Management, considering industry and company-specific historical and projected data, develops growth rates, sales projections and cash flow projections for each reporting unit. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant WACC and low long-term growth rates. As an indicator that each reporting unit has been valued appropriately through the use of the discounted cash flow valuation model, the aggregate of all reporting unit’s estimated fair value is reconciled to the total market capitalization of the Company.

The Company had 32 reporting units with goodwill as of the first day of the fourth quarter of fiscal 2016, the date of the last annual impairment test. The estimated fair values of each of the reporting units was substantially in excess of their respective carrying values, and therefore, no goodwill impairment was recorded. The Company performed a sensitivity analysis on the discount rate, which is a significant assumption in the calculation of fair values. With a one percentage point increase in the discount rate, the reporting units would continue to have fair values substantially in excess of their respective carrying values.

Management tests indefinite-lived intangible assets for impairment at the asset level, as determined by appropriate asset valuation at the time of acquisition. The impairment test for indefinite-lived intangible assets consists of a comparison between the estimated fair values and carrying values. If the carrying amounts of intangible assets that have indefinite useful lives exceed their estimated fair values, an impairment loss will be recognized in an amount equal to the difference. Management utilizes the royalty savings valuation method to determine the estimated fair value for each indefinite-lived intangible asset. In this method, management estimates the royalty savings arising from the ownership of the intangible asset. The key assumptions used in estimating the royalty savings for impairment testing include discount rates, royalty rates, growth rates, sales projections and terminal value rates. Discount rates used are similar to the rates developed by the WACC methodology considering any differences in company-specific risk factors between reporting units and the indefinite-lived intangible assets. Royalty rates are established by management with the advice of valuation experts and periodically substantiated by valuation experts. Management, considering industry and company-specific historical and projected data, develops growth rates and sales projections for each significant intangible asset. Terminal value rate determination follows common methodology of capturing the present value of perpetual sales estimates beyond the last projected period assuming a constant WACC and low long-term growth rates.

The discounted cash flow and royalty savings valuation methodologies require management to make certain assumptions based upon information available at the time the valuations are performed. Actual results could differ from these assumptions. Management believes the assumptions used are reflective of what a market participant would have used in calculating fair value considering the current economic conditions.

Stock-Based Compensation: The cost of the Company’s stock-based compensation is recorded in accordance with ASC 718, “Stock Compensation.” The Company uses a Black-Scholes-Merton option pricing model to estimate the grant-date fair value of the stock options awarded. The Black-Scholes-Merton model requires assumptions regarding the expected volatility of the Company's common shares, the risk-free interest rate, the expected life of the stock options award and the Company's dividend yield. The Company utilizes historical data in determining these assumptions. An increase or decrease in the assumptions or economic events outside of management's control could have an impact on the Black-Scholes-Merton model.

Income Taxes: The Company estimates income taxes in each jurisdiction in which it operates. This involves estimating taxable earnings, specific taxable and deductible items, the likelihood of generating sufficient future taxable income to utilize deferred tax assets and possible exposures related to future tax audits. To the extent these estimates change, adjustments to deferred and accrued income taxes are made in the period in which the changes occur. Historically, such adjustments have not been significant.

Table of Contents

Results of Operations

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

	Fiscal Years Ended September 30,					
	2016	2016 % of Sales	2015	2015 % of Sales	2014	2014 % of Sales
Net sales	$3,171,411	100.0 %	$2,707,115	100.0 %	$2,372,906	100.0 %
Cost of sales	1,443,348	45.5	1,257,270	46.4	1,105,032	46.6
Selling and administrative expenses	382,858	12.1	321,624	11.9	276,446	11.7
Amortization of intangible assets	77,445	2.4	54,219	2.0	63,608	2.7
Income from operations	1,267,760	40.0	1,074,002	39.7	927,820	39.1
Interest expense, net	483,850	15.3	418,785	15.5	347,688	14.7
Refinancing costs	15,794	0.5	18,393	0.7	131,622	5.5
Income tax provision	181,702	5.7	189,612	7.0	141,600	6.0
Net Income	$586,414	18.5 %	$447,212	16.5 %	$306,910	12.9 %

Fiscal year ended September 30, 2016 compared with fiscal year ended September 30, 2015

Total Company

Net Sales. Net organic sales and acquisition sales and the related dollar and percentage changes for the fiscal years ended September 30, 2016 and 2015 were as follows (amounts in millions):

	Fiscal Years Ended			
	September 30, 2016	September 30, 2015	Change	% Change Total Sales
Organic sales	$2,762.2	$2,707.1	$55.1	2.0 %
Acquisition sales	409.2	—	409.2	15.1 %
	$3,171.4	$2,707.1	$464.3	17.1 %

Acquisition sales represent sales of acquired businesses for the period up to one year subsequent to their acquisition date. The amount of acquisition sales shown in the table above was attributable to the acquisitions of Breeze-Eastern and Data Device Corporation in fiscal year 2016 and the acquisitions of PneuDraulics, Pexco Aerospace, Adams Rite Aerospace GmbH and Telair Cargo Group in fiscal year 2015.

Commercial aftermarket organic sales increased by $61.3 million, or 6.1%, commercial OEM organic sales decreased by $8.8 million, or 1.1%, and defense organic sales were flat when comparing the fiscal year ended September 30, 2016 to the fiscal year ended September 30, 2015.

Cost of Sales and Gross Profit. Cost of sales increased by $186.0 million, or 14.8%, to $1,443.3 million for the fiscal year ended September 30, 2016 compared to $1,257.3 million for the fiscal year ended September 30, 2015. Cost of sales and the related percentage of total sales for the fiscal years ended September 30, 2016 and 2015 were as follows (amounts in millions):

	Fiscal Years Ended			
	September 30, 2016	September 30, 2015	Change	% Change
Cost of sales—excluding costs below	$1,405.6	$1,235.1	$170.5	13.8 %
% of total sales	44.3 %	45.6 %		
Inventory purchase accounting adjustments	23.4	11.4	12.0	105.3 %
% of total sales	0.7 %	0.4 %		
Acquisition integration costs	8.3	6.1	2.2	36.1 %
% of total sales	0.3 %	0.2 %		
Stock compensation expense	6.0	4.7	1.3	27.7 %
% of total sales	0.2 %	0.2 %		
Total cost of sales	1,443.3	1,257.3	$186.0	14.8 %
% of total sales	45.5 %	46.4 %		

Gross profit	$1,728.1	$1,449.8	$278.3	19.2 %
Gross profit percentage	54.5 %	53.6 %	0.9 %	

The increase in the dollar amount of cost of sales during the fiscal year ended September 30, 2016 was primarily due to increased volume associated with the sales from acquisitions and organic sales growth.

Table of Contents

Gross profit as a percentage of sales increased by 0.9 percentage points to 54.5% for the fiscal year ended September 30, 2016 from 53.6% for the fiscal year ended September 30, 2015. The dollar amount of gross profit increased by $278.3 million, or 19.2%, for the fiscal year ended September 30, 2016 compared to the comparable period last year due to the following items:

- Gross profit on the sales from the acquisitions indicated above (excluding acquisition-related costs) was approximately $171.2 million for the fiscal year ended September 30, 2016, which represented gross profit of approximately 42% of the acquisition sales. The lower gross profit margin on the acquisition sales reduced gross profit as a percentage of consolidated sales by approximately 2 percentage points.
- Organic sales growth described above, application of our three core value-driven operating strategies (obtaining profitable new business, continually improving our cost structure, and providing highly engineered value-added products to customers), and positive leverage on our fixed overhead costs spread over a higher production volume, resulted in a net increase in gross profit of approximately $122.6 million for the fiscal year ended September 30, 2016.
- Slightly offsetting the increases in gross profit was the impact of higher inventory purchase accounting adjustments, acquisition integration costs and stock compensation expense charged to cost of sales of approximately $15.5 million.

Selling and Administrative Expenses. Selling and administrative expenses increased by $61.3 million to $382.9 million, or 12.1% of sales, for the fiscal year ended September 30, 2016 from $321.6 million, or 11.9% of sales, for the comparable period last year. Selling and administrative expenses and the related percentage of total sales for the fiscal years ended September 30, 2016 and 2015 were as follows (amounts in millions):

	Fiscal Years Ended			
	September 30, 2016	September 30, 2015	Change	% Change
Selling and administrative expenses—excluding costs below	$ 314.5	$ 276.1	$ 38.4	13.9 %
% of total sales	9.9 %	10.2 %		
Stock compensation expense	42.4	26.8	15.6	58.2 %
% of total sales	1.3 %	1.0 %		
Acquisition-related expenses	26.0	18.7	7.3	39.0 %
% of total sales	0.8 %	0.7 %		
Total selling and administrative expenses	$ 382.9	$ 321.6	$ 61.3	19.1 %
% of total sales	12.1 %	11.9 %		

The increase in the dollar amount of selling and administrative expenses during the fiscal year ended September 30, 2016 is primarily due to higher selling and administrative expenses relating to recent acquisitions of approximately $44.8 million, which was approximately 11% of acquisition sales, and higher acquisition-related and stock compensation expenses of $7.3 million and $15.6 million, respectively.

Amortization of Intangible Assets. Amortization of intangible assets increased to $77.4 million for the fiscal year ended September 30, 2016 from $54.2 million for the comparable period last year. The net increase of $23.2 million was primarily due to the acquisitions of Breeze-Eastern and Data Device Corporation in fiscal 2016 and full year amortization recorded on the acquisitions made during fiscal 2015.

Refinancing Costs. Refinancing costs of $15.8 million were recorded during the year ended September 30, 2016 representing debt issuance costs expensed in connection with the debt financing activity in June 2016. Included within the $15.8 million was approximately $1.4 million of unamortized debt issuance costs written off. Refinancing costs of $18.4 million were recorded during the fiscal year ended September 30, 2015 representing debt issuance costs expensed in conjunction with the debt financing activity in May 2015. Included within the $18.4 million was approximately $10.2 million of unamortized debt issuance costs written off.

Interest Expense-net. Interest expense-net includes interest on borrowings outstanding, amortization of debt issuance costs and revolving credit facility fees offset by interest income. Interest expense-net increased $65.1 million, or 15.5%, to $483.9 million for the fiscal year ended September 30, 2016 from $418.8 million for the comparable period last year. The net increase in interest expense-net was primarily due to an increase in the weighted average level of outstanding borrowings, which was approximately $8,834 million for the fiscal year ended September 30, 2016 and approximately $7,827 million for the fiscal year ended September 30, 2015 in addition to a slight increase in the weighted average cash interest rate during the fiscal year ended September 30, 2016 of 5.3% compared to the weighted average cash interest rate during the comparable prior period of 5.2%. The increase in weighted average level of borrowings was primarily due to the issuance of the 2026 Notes for $950 million in June 2016, the additional incremental term loans of $950 million in June 2016, the issuance of the 2025 Notes for $450 million in May 2015 and the additional incremental term loans of $1.0 billion in May 2015. The weighted average interest rate for cash interest payments on total borrowings outstanding at September 30, 2016 was 5.2%.

Table of Contents

Income Taxes. Income tax expense as a percentage of income before income taxes was approximately 23.7% for the fiscal year ended September 30, 2016 compared to 29.8% for the fiscal year ended September 30, 2015. The Company’s effective tax rate for these periods was less than the Federal statutory tax rate due primarily to excess tax benefits on equity compensation, foreign earnings taxed at rates lower than the U.S. statutory rates, and the domestic manufacturing deduction. The decrease in the effective tax rate for the fiscal year ended September 30, 2016 compared to the fiscal year ended September 30, 2015 was primarily due to the excess tax benefits on equity compensation and foreign earnings taxed at rates lower than the U.S. statutory rate.

Net Income. Net income increased $139.2 million, or 31.1%, to $586.4 million for the fiscal year ended September 30, 2016 compared to net income of $447.2 million for the year ended September 30, 2015, primarily as a result of the factors referred to above.

Earnings per Share. The basic and diluted earnings per share were $10.39 for the fiscal year ended September 30, 2016 and $7.84 per share for the fiscal year ended September 30, 2015. Net income for the fiscal year ended September 30, 2016 of $586.4 million was decreased by dividend equivalent payments of $3.0 million resulting in net income available to common shareholders of $583.4 million. Net income for the fiscal year ended September 30, 2015 of $447.2 million was decreased by dividend equivalent payments of $3.4 million resulting in net income available to common shareholders of $443.8 million. The increase in earnings per share of $2.55 per share to $10.39 per share is a result of the factors referred to above.

Business Segments

Segment Net Sales. Net sales by segment for the fiscal years ended September 30, 2016 and 2015 were as follows (amounts in millions):

	Fiscal Years Ended September 30,						Change	% Change	
	2016	% of Sales		2015	% of Sales				
Power & Control	$1,621.7	51.1	%	$1,330.1	49.1	%	$291.6	21.9	%
Airframe	1,447.9	45.7	%	1,280.7	47.3	%	167.2	13.1	%
Non-aviation	101.8	3.2	%	96.3	3.6	%	5.5	5.7	%
	$3,171.4	100.0	%	$2,707.1	100.0	%	$464.3	17.2	%

Organic sales for the Power & Control segment decreased $21.2 million, or a decrease of 1.6%, when compared to the fiscal year ended September 30, 2015. The organic sales decrease resulted primarily from decreases in commercial OEM sales ($31.4 million, a decrease of 9.3%) and in defense sales ($20.6 million, a decrease of 4.0%) partially offset by an increase in commercial aftermarket sales ($32.1 million, an increase of 7.1%). Acquisition sales for the Power & Control segment totaled $312.8 million, or an increase of 23.5%, resulting from the acquisitions of Breeze-Eastern and Data Device Corporation in fiscal year 2016 and the acquisitions of PneuDraulics, Telair International GmbH and Telair US LLC in fiscal year 2015.

Organic sales for the Airframe segment increased $70.7 million, or an increase of 5.5%, when compared to the fiscal year ended September 30, 2015. The organic sales increase primarily resulted from increases in commercial aftermarket ($29.3 million, an increase of 5.3%), commercial OEM sales ($19.6 million, an increase of 4.5%) and defense sales ($21.6 million, an increase of 7.7%). Acquisition sales for the Airframe segment totaled $96.5 million, or an increase of 7.5%, resulting from the acquisitions of Pexco Aerospace, Adams Rite Aerospace GmbH and Nordisk Aviation Products in fiscal year 2015.

Sales for the Non-aviation segment increased $5.5 million when compared to the fiscal year ended September 30, 2015. The sales increase was primarily due to an increase in commercial OEM sales of approximately $3.0 million. There was no impact from acquisitions in the results of the Non-aviation segment.

EBITDA As Defined. EBITDA As Defined by segment for the fiscal years ended September 30, 2016 and 2015 were as follows (amounts in millions):

	Fiscal Years Ended September 30,						Change	% Change	
	2016	% of Segment Sales		2015	% of Segment Sales				
Power & Control	$787.4	48.6	%	$653.0	49.1	%	$134.4	20.6	%
Airframe	709.9	49.0	%	585.5	45.7	%	124.4	21.2	%

Non-aviation	28.2	27.7	%	22.4	23.3	%	5.8	25.9	%
	$1,525.5	48.1	%	$1,260.9	46.6	%	$264.6	21.0	%

Organic EBITDA As Defined for the Power & Control segment increased approximately $22.9 million for the fiscal year ended September 30, 2016 compared to the fiscal year ended September 30, 2015. EBITDA As Defined from the acquisitions

29

Table of Contents

of Breeze-Eastern and Data Device Corporation in fiscal year 2016 and the acquisitions of PneuDraulics, Telair International GmbH and Telair US LLC in fiscal year 2015 was approximately $111.5 million for the fiscal year ended September 30, 2016.

Organic EBITDA As Defined for the Airframe segment increased approximately $76.9 million for the fiscal year ended September 30, 2016 compared to the fiscal year ended September 30, 2015. EBITDA As Defined from the fiscal year 2015 acquisitions of Pexco Aerospace, Adams Rite Aerospace GmbH and Nordisk Aviation Products was approximately $47.5 million for the fiscal year ended September 30, 2016.

EBITDA As Defined for the Non-aviation segment increased approximately $5.8 million for the fiscal year ended September 30, 2016 compared to the fiscal year ended September 30, 2015. There was no impact from acquisitions in the results of the Non-aviation segment.

Fiscal year ended September 30, 2015 compared with fiscal year ended September 30, 2014

Total Company

Net Sales. Net organic sales and acquisition sales and the related dollar and percentage changes for the fiscal years ended September 30, 2015 and 2014 were as follows (amounts in millions):

	Fiscal Years Ended		Change	% Change Total Sales	
	September 30, 2015	September 30, 2014			
Organic sales	$2,450.9	$ 2,372.9	$ 78.0	3.3	%
Acquisition sales	256.2	—	256.2	10.8	%
	$2,707.1	$ 2,372.9	$ 334.2	14.1	%

Acquisition sales represent sales of acquired businesses for the period up to one year subsequent to their acquisition dates. The amount of acquisition sales shown in the table above was attributable to the acquisitions of Telair Cargo Group, Adams Rite Aerospace GmbH, Pexco Aerospace and PneuDraulics in fiscal 2015 and Airborne and EME in fiscal 2014.

Commercial aftermarket sales increased $36.9 million, or an increase of 4.2%, defense sales increased $29.8 million, or an increase of 4.3%, and commercial OEM sales increased $16.4 million, or an increase of 2.4%, for the fiscal year ended September 30, 2015 compared to fiscal year ended September 30, 2014.

Cost of Sales and Gross Profit. Cost of sales increased by $152.3 million, or 13.8%, to $1,257.3 million for the fiscal year ended September 30, 2015 compared to $1,105.0 million for the fiscal year ended September 30, 2014. Cost of sales and the related percentage of total sales for the fiscal years ended September 30, 2015 and 2014 were as follows (amounts in millions):

	Fiscal Years Ended						
	September 30, 2015		September 30, 2014		Change	% Change	
Cost of sales—excluding acquisition-related costs below	$ 1,235.1		$ 1,084.5		$ 150.6	13.9	%
% of total sales	45.6	%	45.7	%			
Inventory purchase accounting adjustments	11.4		10.4		1.0	9.6	%
% of total sales	0.4	%	0.4	%			
Acquisition integration costs	6.1		6.1		—	—	%
% of total sales	0.2	%	0.3	%			
Stock compensation expense	4.7		4.0		0.7	17.5	%
% of total sales	0.2	%	0.2	%			
Total cost of sales	$ 1,257.3		$ 1,105.0		$ 152.3	13.8	%
% of total sales	46.6	%	45.5	%			
Gross profit	$ 1,449.8		$ 1,267.9		$ 181.9	14.3	%
Gross profit percentage	53.6	%	53.4	%	0.2 %		

The increase in the dollar amount of cost of sales during the fiscal year ended September 30, 2015 was primarily due to increased volume associated with the sales from acquisitions and organic sales growth.

Gross profit as a percentage of sales increased by 0.2 percentage points to 53.6% for the fiscal year ended September 30, 2015 from 53.4% for the fiscal year ended September 30, 2014. The dollar amount of gross profit increased by $181.9 million, or 14.3%, for the fiscal year ended September 30, 2015 compared to the comparable period last year due to the following items:

- Gross profit on the sales from the acquisitions indicated above (excluding acquisition-related costs) was approximately $100 million for the fiscal year ended September 30, 2015, which represented gross profit of approximately 39% of

Table of Contents

the acquisition sales. The lower gross profit margin on the acquisition sales reduced gross profit as a percentage of consolidated sales by approximately 2 percentage points.

- Organic sales growth described above, application of our three core value-driven operating strategies (obtaining profitable new business, continually improving our cost structure, and providing highly engineered value-added products to customers), and positive leverage on our fixed overhead costs spread over a higher production volume, resulted in a net increase in gross profit of approximately $83 million for the fiscal year ended September 30, 2015.
- Slightly offsetting the increases in gross profit was the impact of higher inventory purchase accounting adjustments charged to cost of sales of approximately $1 million.

Selling and Administrative Expenses. Selling and administrative expenses increased by $45.2 million to $321.6 million, or 11.9% of sales, for the fiscal year ended September 30, 2015 from $276.4 million, or 11.6% of sales, for the comparable period last year. Selling and administrative expenses and the related percentage of total sales for the fiscal years ended September 30, 2015 and 2014 were as follows (amounts in millions):

	Fiscal Years Ended			
	September 30, 2015	September 30, 2014	Change	% Change
Selling and administrative expenses—excluding costs below	$ 276.1	$ 249.4	$ 26.7	10.7 %
% of total sales	10.2 %	10.5 %		
Stock compensation expense	26.8	22.4	4.4	19.6 %
% of total sales	1.0 %	0.9 %		
Acquisition-related expenses	18.7	4.6	14.1	306.5 %
% of total sales	0.7 %	0.2 %		
Total selling and administrative expenses	$ 321.6	$ 276.4	$ 45.2	16.4 %
% of total sales	11.9 %	11.6 %		

The increase in the dollar amount of selling and administrative expenses during the fiscal year ended September 30, 2015 is primarily due to higher selling and administrative expenses relating to recent acquisitions of approximately $23 million, which was approximately 9% of acquisition sales, and higher acquisition-related and stock compensation expenses of $14.1 million and $4.4 million, respectively.

Amortization of Intangible Assets. Amortization of intangible assets decreased to $54.2 million for the fiscal year ended September 30, 2015 from $63.6 million for the comparable period last year. The net decrease of $9.4 million was primarily due to order backlog amortization expense from prior acquisitions becoming fully amortized.

Refinancing Costs. Refinancing costs of $18.4 million were recorded during the fiscal year ended September 30, 2015 representing debt issuance costs expensed in connection with the debt financing activity in May 2015. Included within the $18.4 million was approximately $10.2 million of unamortized debt issuance costs written off. Refinancing costs of $131.6 million were recorded during the fiscal year ended September 30, 2014 representing debt issuance costs expensed in conjunction with the repurchase of the 2018 Notes. The $131.6 million expense consisted of the premium of $121.1 million paid to redeem the 2018 Notes and the write-off of debt issuance costs of $10.5 million.

Interest Expense-net. Interest expense-net includes interest on borrowings outstanding, amortization of debt issuance costs and revolving credit facility fees offset by interest income. Interest expense-net increased $71.1 million, or 20.4%, to $418.8 million for the fiscal year ended September 30, 2015 from $347.7 million for the comparable period last year. The net increase in interest expense-net was primarily due to an increase in the weighted average level of outstanding borrowings, which was approximately $7,827 million for the fiscal year ended September 30, 2015 and approximately $6,310 million for the fiscal year ended September 30, 2014 slightly offset by a decrease in the weighted average cash interest rate during the fiscal year ended September 30, 2015 of 5.2% compared to the weighted average cash interest rate during the comparable prior period of 5.3%. The increase in weighted average level of borrowings was primarily due to the issuance of the 2025 Notes for $450.0 million in May 2015 and the additional incremental term loan of $1,000.0 million in May 2015. The weighted average interest rate for cash interest payments on total borrowings outstanding at September 30, 2015 was 5.0%.

Income Taxes. Income tax expense as a percentage of income before income taxes was approximately 29.8% for the fiscal year ended September 30, 2015 compared to 31.6% for the fiscal year ended September 30, 2014. The

Company's effective tax rate for these periods was less than the Federal statutory tax rate due primarily to the domestic manufacturing deduction, foreign earnings taxed at rates lower than the U.S. statutory rates, and a discrete adjustment from filing fiscal 2014 and 2013 U.S. income tax returns. The decrease in the effective tax rate for the fiscal year ended September 30, 2015 compared to the fiscal year ended September 30, 2014 was primarily due to the ability to recognize the benefit from the utilization of foreign tax

Table of Contents

credits in the current and future years, foreign earnings taxed at rates lower than the U.S. statutory rate, and a discrete adjustment related to the closing of the fiscal year 2012 and 2013 IRS examination.

Net Income. Net income increased $140.3 million, or 45.7%, to $447.2 million for the fiscal year ended September 30, 2015 compared to net income of $306.9 million for the year ended September 30, 2014, primarily as a result of the factors referred to above.

Earnings per Share. The basic and diluted earnings per share were $7.84 for the fiscal year ended September 30, 2015 and $3.16 per share for the fiscal year ended September 30, 2014. Net income for the fiscal year ended September 30, 2015 of $447.2 million was decreased by dividend equivalent payments of $3.4 million resulting in net income available to common shareholders of $443.8 million. Net income for the fiscal year ended September 30, 2014 of $306.9 million was decreased by dividend equivalent payments of $126.6 million resulting in net income available to common shareholders of $180.3 million. The increase in earnings per share of $4.68 per share to $7.84 per share is a result of the factors referred to above.

Business Segments

Segment Net Sales. Net sales by segment for the fiscal years ended September 30, 2015 and 2014 were as follows (amounts in millions):

	Fiscal Years Ended September 30,				Change	% Change
	2015	% of Sales	2014	% of Sales		
Power & Control	$1,330.1	49.1 %	$1,161.8	49.0 %	$168.3	14.5 %
Airframe	1,280.7	47.3 %	1,115.6	47.0 %	165.1	14.8 %
Non-aviation	96.3	3.6 %	95.5	4.0 %	0.8	0.8 %
	$2,707.1	100.0 %	$2,372.9	100.0 %	$334.2	14.1 %

Organic sales for the Power & Control segment increased approximately $32 million when compared to the fiscal year ended September 30, 2014. The sales increase was primarily due to an increase in defense sales of approximately $23 million, or an increase of 5.0%. Acquisition sales for the Power & Control segment totaled $136 million, or an 11.7% increase in segment sales, resulting from the acquisitions of Telair International, Telair US and PneuDraulics in fiscal 2015.

Organic sales for the Airframe segment, increased approximately $45 million when compared to the fiscal year ended September 30, 2014. The sales increase was primarily due to an increase in commercial aftermarket sales of approximately $34 million, or an increase of 7.2%, and an increase in commercial OEM sales of approximately $12 million, or an increase of 3.1%. Acquisition sales for the Airframe segment totaled $120 million, or a 10.8% increase in segment sales, resulting from the acquisitions of Nordisk Aviation Products, Adams Rite Aerospace GmbH and Pexco Aerospace in fiscal 2015 and Airborne and EME in fiscal 2014.

Sales for the Non-aviation segment increased approximately $0.8 million when compared to the fiscal year ended September 30, 2014. The sales increase was primarily due to an increase in commercial OEM sales of approximately $0.6 million. There was no impact from acquisitions in the results of the Non-aviation segment.

EBITDA As Defined. EBITDA As Defined by segment for the fiscal years ended September 30, 2015 and 2014 were as follows (amounts in millions):

	Fiscal Years Ended September 30,					
	2015	% of Segment Sales	2014	% of Segment Sales	Change	% Change
Power & Control	$653.0	49.1 %	$585.6	50.4 %	$67.4	11.5 %
Airframe	585.5	45.7 %	494.1	44.3 %	91.4	18.5 %
Non-aviation	22.4	23.3 %	18.5	19.3 %	3.9	21.1 %
	$1,260.9	46.6 %	$1,098.2	46.3 %	$162.7	14.8 %

Organic EBITDA As Defined for the Power & Control segment increased approximately $26 million for the fiscal year ended September 30, 2015 compared to the fiscal year ended September 30, 2014. EBITDA As Defined from the acquisitions in fiscal years 2015 and 2014 was approximately $41 million for the fiscal year ended September 30, 2015.

Organic EBITDA As Defined for the Airframe segment increased approximately $49 million for the fiscal year ended September 30, 2015 compared to the fiscal year ended September 30, 2014. EBITDA As Defined from the acquisitions in fiscal years 2015 and 2014 was approximately $42 million for the fiscal year ended September 30, 2015.

Table of Contents

EBITDA As Defined for the Non-aviation segment increased approximately $4 million for the fiscal year ended September 30, 2015 compared to the fiscal year ended September 30, 2014. There was no impact from acquisitions in the results of the Non-aviation segment.

Backlog

For information about our backlog, see Item 1. - “Business.”

Foreign Operations

Our direct sales to foreign customers were approximately $1,169.5 million, $881.1 million, and $735.9 million for fiscal years 2016, 2015 and 2014, respectively. Sales to foreign customers are subject to numerous additional risks, including foreign currency fluctuations, the impact of foreign government regulations, political uncertainties and differences in business practices. There can be no assurance that foreign governments will not adopt regulations or take other action that would have a direct or indirect adverse impact on the business or market opportunities of the Company within such governments’ countries. Furthermore, there can be no assurance that the political, cultural and economic climate outside the United States will be favorable to our operations and growth strategy.

Inflation

Many of the Company’s raw materials and operating expenses are sensitive to the effects of inflation, which could result in changing operating costs. The effects of inflation on the Company’s businesses during the fiscal years 2016, 2015 and 2014 were immaterial.

Liquidity and Capital Resources

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

We continually evaluate our debt facilities to assess whether they most efficiently and effectively meet the current and future needs of our business. The Company evaluates from time to time the appropriateness of its current leverage, taking into consideration the Company’s debt holders, equity holders, credit ratings, acquisition opportunities and other factors. The Company’s debt leverage ratio, which is computed as total debt divided by EBITDA As Defined for the applicable twelve-month period, has varied widely during the Company’s history, ranging from approximately 3.5 to 7.0. Our debt leverage ratio at September 30, 2016 was approximately 6.8.

The Company regularly engages in discussions with respect to potential acquisitions and investments. However, there can be no assurance that the Company will be able to consummate an agreement with respect to any future acquisition. The Company’s acquisition strategy may require substantial capital, and no assurance can be given that the Company will be able to raise any necessary funds on acceptable terms or at all. If the Company incurs additional debt to finance acquisitions, total interest expense will increase.

If the Company has excess cash, it may consider methods by which it can provide cash to its debt or equity holders through a dividend, prepayment of indebtedness, repurchase of stock, repurchase of debt or other means. Whether the Company undertakes additional stock repurchases or other aforementioned activities will depend on prevailing market conditions, the Company’s liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. In addition, the Company may issue additional debt if prevailing market conditions are favorable to doing so.

The Company’s ability to make scheduled interest payments on, or to refinance, the Company’s indebtedness, or to fund non-acquisition related capital expenditures and research and development efforts, will depend on the Company’s ability to generate cash in the future. This is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond its control.

As a result of the debt financings in June 2016 and October 2016, interest payments will increase going forward in line with the terms of the related debt agreements. Based on its current levels of operations and absent any disruptive events, management believes that the continued application of our three core value-driven operating strategies (obtaining profitable new business, continually improve our cost structure and providing highly engineered value-added products to customers), will provide the internally generated funds, combined with the borrowings available under our revolving loan facility, to finance its operations, non-acquisition related capital expenditures, research and development efforts and long-term indebtedness obligations through at least fiscal 2017. There can be no assurance, however, that the Company’s business will generate sufficient cash flow from operating activities or that future borrowings will be available to the Company under the senior secured credit facility in an amount sufficient to enable it to pay its indebtedness or to fund its other liquidity needs. The Company may need to refinance all or a portion of its indebtedness on or before maturity. Also, to the extent the Company

Table of Contents

accelerates its growth plans, consummates acquisitions or has lower than anticipated sales or increases in expenses, the Company may also need to raise additional capital. In particular, increased working capital needs occur whenever the Company consummates acquisitions or experiences strong incremental demand. There can be no assurance that the Company will be able to raise additional capital on commercially reasonable terms or at all.

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

Operating Activities. The Company generated $668.9 million of net cash from operating activities during fiscal 2016 compared to $520.9 million during fiscal 2015, a net increase of $148.0 million. The increase is primarily attributable to a $139.2 million increase in income from operations. Other items impacting the change in net cash from operating activities were items adjusting net income for non-cash expenses and income, which increased by $33.4 million when excluding the impact of the Company's adoption of ASU 2016-09 in fiscal 2016. The prospective adoption of ASU 2016-09 in fiscal 2016 (as further detailed in Note 4 to the consolidated financial statements included herein) resulted in an increase in net cash flow from operating activities of approximately $43.6 million compared to a decrease in net cash flow from operating activities of approximately $62.0 million in fiscal 2015. Partially offsetting the increase in net cash from operating activities was higher interest payments of $49.7 million and higher income tax payments of $55.9 million. The increase in interest payments is attributable to timing differences of the payments and the increase in principal from the June 2016 and May 2015 debt financing activities. The increase in income tax payments is attributable to higher income before income taxes and lower excess tax benefits on share-based payment arrangements compared to fiscal 2015.

Changes in trade accounts receivable, inventories, and accounts payable provided approximately $48.3 million less cash flow when compared to fiscal 2015. The change in trade accounts receivable during fiscal 2016 was a use of $80.1 million in cash compared to a use of cash of $25.4 million in fiscal 2015, which is an additional use of cash of $54.7 million year over year. The higher use of cash in fiscal 2016 compared to fiscal 2015 is attributable to the timing of sales and collections on trade accounts receivable that resulted from stronger sales in the latter half of the fourth quarter which pushed collections on the related trade accounts receivable into fiscal 2017. The Company has also had a higher volume of sales and trade accounts receivable with foreign jurisdictions, which historically have had longer collection periods. Days sales outstanding at September 30, 2016 increased to 54 days from 50 days sales outstanding at September 30, 2015.

The change in inventories was a use of cash of $2.1 million in fiscal 2016 compared to a use of cash of $26.0 million in fiscal 2015. The decrease in the use of cash in fiscal 2016 was primarily attributable to the stronger sales volume in the latter half of the fourth quarter of fiscal 2016 which depleted on-hand inventory levels at a higher rate than during the fourth quarter of fiscal 2015 in connection with increased monitoring of inventory management. Inventory turnover was at 2.22 at September 30, 2016 compared to 2.60 at September 30, 2015.

The change in accounts payable during fiscal 2016 was a use of cash of $6.7 million compared to a source of cash of $13.5 million in fiscal 2015. The increase in the use of cash was primarily attributable to a lower volume of purchases in response to the increased monitoring of inventory management during the fourth quarter of fiscal 2016 as well as the timing of payments to vendors.

The Company generated $520.9 million of net cash from operating activities during fiscal 2015 compared to $541.2 million during fiscal 2014. The net decrease of $20.3 million was due primarily to higher interest payments due to the Company's current debt structure offset by an increase in income from operations.

Investing Activities. Net cash used in investing activities was $1,443.0 million during fiscal 2016 consisting primarily of cash paid in connection with the acquisitions of Breeze-Eastern, Data Device Corporation and Tactair for $1,401.5 million and capital expenditures of $44.0 million during the fiscal year ended September 30, 2016. Slightly offsetting the cash outflows was receipt of a $2.0 million working capital settlement from the PneuDraulics acquisition in the second quarter of fiscal 2016. The Company expects its capital expenditures in fiscal year 2017 to be between $85 million and $90 million. The Company's capital expenditures incurred from year to year are primarily for projects that are consistent with our three core value-driven operating strategies (obtaining profitable new business, continually improve our cost structure and providing highly engineered value-added products to customers).

Net cash used in investing activities was $1,679.1 million during fiscal 2015 consisting primarily of the acquisitions of Telair Cargo Group, Adams Rite Aerospace GmbH, Pexco Aerospace and PneuDraulics for a total of $1,624.3 million and capital expenditures of $54.9 million.

Net cash used in investing activities was $329.6 million during fiscal 2014 consisting primarily of the acquisitions of Airborne and EME for a total of $311.9 million and capital expenditures of $34.1 million offset by the cash proceeds on the sale of real estate of $16.4 million.

Table of Contents

Financing Activities. Net cash provided by financing activities during fiscal 2016 was $1,646.8 million, which was primarily comprised of net proceeds from the 2016 term loans of $1,725.9 million, net proceeds from the 2026 Notes of $939.6 million and $30.1 million of cash proceeds from the exercise of stock options. These increases were partially offset by $834.4 million of repayments on our existing term loans, $207.8 million in treasury stock purchases under the Company's share repurchase programs and the impact from the prospective adoption of ASU 2016-09 which resulted in the excess tax benefits related to share-based payment arrangements being classified within operating activities beginning in fiscal 2016. In October 2016, the Company completed additional financing in connection with the tendering of its 2021 Notes and declaration of a special dividend of $24.00 per common share along with cash dividend equivalent payments on options granted under its stock option plans. The total cash payment related to the special dividend and dividend equivalent payments in the first quarter of fiscal 2017 will be approximately $1,400 million. Refer to Note 23, "Subsequent Events," to our consolidated financial statements included herein for further details.

Net cash provided by financing activities during fiscal 2015 was $1,054.9 million, which comprised $1,505.7 million of net proceeds under our Tranche E Term Loans, $445.3 million of net proceeds from our 2025 Notes, and $123.6 million of cash for tax benefits related to share-based payment arrangements and from the exercise of stock options offset by $1,025.3 million of repayments on our term loans and $3.4 million of dividend equivalent payments.

Net cash provided by financing activities during fiscal 2014 was $44.0 million, which comprised $2,326.4 million of net proceeds from our 2022 Notes and 2024 Notes, $805.4 million of additional net proceeds under our 2014 Term Loans, $199.2 million of net proceeds from the trade receivable securitization facility, and $78.4 million of cash for tax benefits related to share-based payment arrangements and from the exercise of stock options offset by $1,451.4 million of dividends and dividend equivalent payments, $1,721.0 million for the repurchase of our 2018 Notes, $159.9 million of treasury stock purchases, and $33.1 million of repayments on the 2014 Term Loans.

Description of Senior Secured Term Loans and Indentures

Senior Secured Credit Facilities

On June 9, 2016, TD Group and certain subsidiaries of TransDigm entered into Amendment No. 1 to the Second Amended and Restated Credit Agreement (the "Credit Agreement"). Refer to Note 11, "Debt" to our Consolidated Financial Statements included herein for further information regarding the Tranche F Term Loans, the conversion of a portion of the existing Tranche C Term Loans to Tranche F Term Loans, the repricing of the Tranche E Terms Loans and the increase to the Revolving Commitments.

TransDigm has $5,289 million in fully drawn term loans (the "Term Loan Facility") and a $600 million revolving credit facility. The Term Loan Facility consists of four tranches of term loans as follows (aggregate principal amount disclosed is as of September 30, 2016):

Term Loan Facility	Aggregate Principal	Maturity Date	Interest Rate
Tranche C	$1,228 million	February 28, 2020	LIBO rate (1) +3.00%
Tranche D	$807 million	June 4, 2021	LIBO rate (1) + 3.00%
Tranche E	$1,518 million	May 14, 2022	LIBO rate (1) + 3.00%
Tranche F	$1,736 million	June 9, 2023	LIBO rate (1) + 3.00%

(1) LIBO rate is subject to a floor of 0.75%.

The Term Loan Facility requires quarterly aggregate principal payments of $13.3 million. The revolving commitments consist of four tranches which includes up to $100 million of multicurrency revolving commitments. At September 30, 2016, the Company had $17 million in letters of credit outstanding and $583 million in borrowings available under the revolving commitments.

The interest rates per annum applicable to the loans under the Credit Agreement will be, at TransDigm's option, equal to either an alternate base rate or an adjusted LIBO rate for one, two, three or six-month (or to the extent agreed to by each relevant lender, nine or twelve-month) interest periods chosen by TransDigm, in each case plus an applicable margin percentage. The adjusted LIBO rate is subject to a floor of 0.75%. At September 30, 2016, the applicable interest rate was 3.75% on the Tranche C, Tranche D, Tranche E and Tranche F Term Loans.

Under the terms of the Credit Agreement, TransDigm is entitled, on one or more occasions, to request additional revolving commitments, additional term loans or a combination thereof, to the extent that the existing or new lenders agree to provide such additional commitments provided that, among other conditions, our consolidated net leverage ratio would be no

Table of Contents

greater than 7.25 to 1.00 and the consolidated secured net debt ratio would be no greater than 4.25 to 1.00, in each case, after giving effect to such additional revolving commitments or additional term loans.

The Credit Agreement requires mandatory prepayments of principal based on certain percentages of Excess Cash Flow (as defined in the Credit Agreement), commencing 90 days after the end of each fiscal year, subject to certain exceptions. In addition, subject to certain exceptions (including, with respect to asset sales, the reinvestment in productive assets), TransDigm will be required to prepay the loans outstanding under the Credit Agreement at 100% of the principal amount thereof, plus accrued and unpaid interest, with the net cash proceeds of certain asset sales and issuance or incurrence of certain indebtedness. No prepayments were required during the fiscal year ended September 30, 2016.

Interest rate swaps and caps used to hedge and offset, respectively, the variable interest rates on the credit facility are described in Note 20, "Derivatives and Hedging Activities" to the consolidated financial statements included herein.

On October 14, 2016, the Company entered into an Incremental Term Loan Assumption Agreement (the "Assumption Agreement") with Credit Suisse AG, as administrative agent and collateral agent, and as a lender, in connection with the 2016 term loans. The Assumption Agreement, among other things, provides for (i) additional tranche F term loans in an aggregate principal amount equal to $650 million, which were fully drawn on October 14, 2016 (the "Initial Additional Tranche F Term Loans"), and (ii) additional delayed draw tranche F term loans in an aggregate principal amount not to exceed $500 million, which were fully drawn on October 27, 2016 (the "Delayed Draw Additional Tranche F Term Loans", and together with the Initial Additional Tranche F Term Loans, the "Additional Tranche F Term Loans"), the proceeds of which were used to repurchase its 7.50% Senior Subordinated Notes due 2021 in connection the tender offer announced on October 13, 2016. The terms and conditions that apply to the Additional Tranche F Term Loans are substantially the same as the terms and conditions that apply to the Tranche F Term Loans under the 2016 term loans immediately prior to the Assumption Agreement.

Indentures

Senior Subordinated Notes	Aggregate Principal	Maturity Date	Interest Rate
2020 Notes	$550 million	October 15, 2020	5.50%
2021 Notes[(1)]	$500 million	July 15, 2021	7.50%
2022 Notes	$1,150 million	July 15, 2022	6.00%
2024 Notes	$1,200 million	July 15, 2024	6.50%
2025 Notes	$450 million	May 15, 2025	6.50%
2026 Notes	$950 million	June 15, 2026	6.375%

(1) On October 14, 2016, the Company entered into an Incremental Term Loan Assumption Agreement in which part of the proceeds will be used to repurchase its 2021 Notes in the first quarter of fiscal 2017. Refer to Note 23, "Subsequent Events" to the consolidated financial statements included herein for further details.

The 2020 Notes, 2021 Notes, the 2022 Notes, the 2024 Notes, the 2025 Notes and the 2026 Notes were issued at a price of 100% of the principal amount. Such notes do not require principal payments prior to their maturity. Interest under the Notes is payable semi-annually. The Notes represent unsecured obligations of TransDigm Inc. ranking subordinate to TransDigm Inc.'s senior debt, as defined in the applicable Indentures.

The Notes are subordinated to all of TransDigm's existing and future senior debt, rank equally with all of its existing and future senior subordinated debt and rank senior to all of its future debt that is expressly subordinated to the Notes. The Notes are guaranteed on a senior subordinated unsecured basis by TD Group and its wholly-owned domestic subsidiaries named in the indentures. The guarantees of the Notes are subordinated to all of the guarantors' existing and future senior debt, rank equally with all of their existing and future senior subordinated debt and rank senior to all of their future debt that is expressly subordinated to the guarantees of the Notes. The Notes are structurally subordinated to all of the liabilities of TD Group's non-guarantor subsidiaries. The Notes contain many of the restrictive covenants included in the 2014 Term Loans. TransDigm is in compliance with all the covenants contained in the Notes.

Certain Restrictive Covenants in Our Debt Documents

The term loans and the Indentures governing the Notes contain restrictive covenants that, among other things, limit the incurrence of additional indebtedness, the payment of dividends, transactions with affiliates, asset sales, acquisitions,

mergers and consolidations, liens and encumbrances, and prepayments of other indebtedness.
Pursuant to the Amendment to the Credit Agreement and subject to certain conditions, TransDigm may make certain additional restricted payments, including to declare or pay dividends or repurchase stock, in an aggregate amount not to exceed

Table of Contents

$1,500 million on or prior to December 31, 2016. Subsequent to December 31, 2016, the aggregate amount of restricted payments remaining, not to exceed $500 million, may be made solely to the extent that the proceeds are used to repurchase stock. On October 14, 2016, the Company announced that TD Group's Board of Directors authorized and declared a special cash dividend of $24.00 on each outstanding share of common stock and cash dividend equivalent payments on options granted under its stock option plans. The record date for the special dividend was October 24, 2016, and the payment date for the dividend was November 1, 2016. The total cash payment related to the special dividend and dividend equivalent payments in the first quarter of fiscal 2017 will be approximately $1,400 million. Refer to Note 23, "Subsequent Events," to our consolidated financial statements included herein for further details.

In addition, under the Credit Agreement, if the usage of the revolving credit facility exceeds 25% of the total revolving commitments, the Company will be required to maintain a maximum consolidated net leverage ratio of net debt, as defined, to trailing four-quarter EBITDA As Defined. A breach of any of the covenants or an inability to comply with the required leverage ratio could result in a default under the Credit Agreement or the Indentures.

If any such default occurs, the lenders under the Credit Agreement and the holders of the Notes may elect to declare all outstanding borrowings, together with accrued interest and other amounts payable thereunder, to be immediately due and payable. The lenders under the Credit Agreement also have the right in these circumstances to terminate any commitments they have to provide further borrowings. In addition, following an event of default under the Credit Agreement, the lenders thereunder will have the right to proceed against the collateral granted to them to secure the debt, which includes our available cash, and they will also have the right to prevent us from making debt service payments on the Notes.

As of September 30, 2016, the Company was in compliance with all of its debt covenants.

Trade Receivables Securitization

For information about our trade receivables securitization, see Note 11, "Debt" to our consolidated financial statements included herein.

Stock Repurchase Program

For information about our stock repurchase programs, see Note 15, "Capital Stock" to our consolidated financial statements included herein.

Contractual Obligations

The following is a summary of contractual cash obligations as of September 30, 2016 (in millions):

	2017	2018	2019	2020	2021	2022 and thereafter	Total
Senior Secured Term Loans[1]	$53.1	$53.1	$53.1	$1,230.3	$805.5	$3,093.6	$5,288.7
2020 Notes	—	—	—	—	550.0	—	550.0
2021 Notes[3]	—	—	—	—	500.0	—	500.0
2022 Notes	—	—	—	—	—	1,150.0	1,150.0
2024 Notes	—	—	—	—	—	1,200.0	1,200.0
2025 Notes	—	—	—				