

TRIUMPH GROUP INC /
Form 10-Q
November 03, 2006

United States
Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended September 30, 2006.

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Transition Period From _____ to _____

Commission File Number: **1-12235**

TRIUMPH GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

51-0347963

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

1550 Liberty Ridge, Suite 100

Wayne, PA

(Address of principal executive offices)

19087

(Zip Code)

(610) 251-1000

(Registrant's telephone number, including area code)

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

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

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

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

Common Stock, par value \$0.001 per share, 16,241,569 shares as of September 30, 2006.

TRIUMPH GROUP, INC.

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Part I. Financial Information

Item 1. Financial Statements.

Triumph Group, Inc.

Consolidated Balance Sheets

(dollars in thousands)

	SEPTEMBER 30, 2006 (unaudited)	MARCH 31, 2006
ASSETS		
Current assets:		
Cash	\$ 106,567	\$ 5,698
Accounts receivable, net	157,564	147,780
Inventories	273,591	235,878
Deferred income taxes	6,868	6,868
Prepaid expenses and other	6,744	4,894
Total current assets	551,334	401,118
Property and equipment, net	263,950	237,325
Goodwill	297,301	272,737
Intangible assets, net	48,950	49,424
Other, net	19,577	14,179
Total assets	\$ 1,181,112	\$ 974,783

	SEPTEMBER 30, 2006 (unaudited)	MARCH 31, 2006
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 84,288	\$ 73,995
Accrued expenses	64,545	68,488
Income taxes payable	4,232	5,195
Current portion of long-term debt	86,496	8,078
Total current liabilities	239,561	155,756
Long-term debt, less current portion	250,301	153,339
Deferred income taxes and other	98,378	101,985
Stockholders equity:		
Common stock, \$.001 par value, 50,000,000 shares authorized, 16,243,219 and 16,027,324 shares issued	16	16
Capital in excess of par value	266,961	260,124
Treasury stock, at cost, 1,650 and 18,311 shares	0	(455)
Accumulated other comprehensive income (loss)	320	(162)
Retained earnings	325,575	304,180
Total stockholders equity	592,872	563,703
Total liabilities and stockholders equity	\$ 1,181,112	\$ 974,783

SEE ACCOMPANYING NOTES.

Triumph Group, Inc.

Consolidated Statements of Income

(in thousands, except per share data)

(unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
Net sales	\$ 226,122	\$ 183,633	\$ 448,944	\$ 361,330
Operating costs and expenses:				
Cost of products sold	162,552	136,720	325,771	266,696
Selling, general, and administrative	31,465	25,713	64,015	51,774
Depreciation and amortization	8,827	7,982	17,577	15,913
	202,844	170,415	407,363	334,383
Operating income	23,278	13,218	41,581	26,947
Interest expense and other	3,795	3,172	7,527	6,359
Income before income taxes	19,483	10,046	34,054	20,588
Income tax expense	6,872	3,002	12,010	6,375
Net income	\$ 12,611	\$ 7,044	\$ 22,044	\$ 14,213
Earnings per share basic:				
Net income	\$ 0.78	\$ 0.44	\$ 1.37	\$ 0.89
Weighted average common shares outstanding basic	16,166	15,910	16,121	15,908
Earnings per share diluted:				
Net income	\$ 0.77	\$ 0.44	\$ 1.35	\$ 0.89
Weighted average common shares outstanding diluted	16,314	16,056	16,299	16,031
Dividends declared and paid per common share	\$ 0.04	\$ 0.00	\$ 0.04	\$ 0.00

SEE ACCOMPANYING NOTES.

Triumph Group, Inc.

Consolidated Statements of Cash Flows

(dollars in thousands)

(unaudited)

	SIX MONTHS ENDED SEPTEMBER 30,	
	2006	2005
OPERATING ACTIVITIES		
Net income	\$ 22,044	\$ 14,213
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,577	15,913
Other amortization included in interest expense	330	423
Provision for doubtful accounts receivable	407	458
Provision for deferred income taxes	290	1,800
Changes in other current assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	(5,942)	2,888
Inventories	(28,572)	(11,347)
Prepaid expenses and other	(1,356)	(1,166)
Accounts payable, accrued expenses and accrued income taxes payable	1,606	(18,351)
Other	(1,219)	2,262
Net cash provided by operating activities	5,165	7,093
INVESTING ACTIVITIES		
Capital expenditures	(26,175)	(10,473)
Proceeds from sale of assets	105	56
Cash used for businesses and intangible assets acquired	(48,047)	(9,259)
Net cash used in investing activities	(74,117)	(19,676)

	SIX MONTHS ENDED	
	SEPTEMBER 30,	
	2006	2005
FINANCING ACTIVITIES		
Net (decrease) increase in revolving credit facility borrowings	(\$31,825)	\$ 17,600
Proceeds from issuance of long term debt	201,739	
Repayment of debt and capital lease obligations	(34)	(3,220)
Payment of deferred financing costs	(5,630)	(1,314)
Proceeds from exercise of stock options, including excess tax benefit of \$472 in 2006	6,128	174
Cash dividends on common stock	(649)	
Net cash provided by financing activities	169,729	13,240
Effect of exchange rate changes on cash	92	(166)
Net change in cash	100,869	491
Cash at beginning of period	5,698	4,844
Cash at end of period	\$ 106,567	\$ 5,335
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds	\$ 12,227	\$ 6,156
Cash paid for interest	\$ 7,016	\$ 5,760

SEE ACCOMPANYING NOTES.

Triumph Group, Inc.

Consolidated Statements of Comprehensive Income

(dollars in thousands)

(unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
Net income	\$ 12,611	\$ 7,044	\$ 22,044	\$ 14,213
Other comprehensive income				
Foreign currency translation adjustment	(92)	(22)	482	(804)
Total comprehensive income	\$ 12,519	\$ 7,022	\$ 22,526	\$ 13,409

SEE ACCOMPANYING NOTES.

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Triumph Group, Inc. (the Company) have been prepared in conformity with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The Company designs, engineers and manufactures products for original equipment manufacturers of aircraft and aircraft components and repairs and overhauls aircraft components and accessories for commercial airline, air cargo carrier and military customers on a worldwide basis.

USE OF ESTIMATES

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

ACCOUNTING FOR STOCK-BASED COMPENSATION

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment, which requires companies to measure compensation cost for all share-based payments (including employee stock options) at fair value for interim or annual periods beginning after June 15, 2005. In April 2005, the U.S. Securities and Exchange Commission issued a rule allowing public companies to delay the adoption of SFAS No. 123R to annual periods beginning after June 15, 2005. As a result, the Company adopted SFAS No. 123R, using the modified-prospective transition method, beginning on April 1, 2006, and therefore, began to expense the fair value of all outstanding options over their remaining vesting periods to the extent the options were not fully vested as of the adoption date and began to expense the fair value of all options granted subsequent to March 31, 2006 over their requisite service periods. During the three and six months ended September 30, 2006, the Company recorded \$600 and \$1,164 of share-based compensation expense. Previous periods have not been restated. (See Note 7 for further details).

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARD

In June 2006, the FASB issued Financial Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of adopting this interpretation.

INTANGIBLE ASSETS

Intangible assets cost and accumulated amortization at September 30, 2006 were \$86,959 and \$38,009, respectively. Intangible assets cost and accumulated amortization at March 31, 2006 were \$83,459 and \$34,035, respectively. Intangible assets consists of two major classes: (i) product rights and licenses, which at September 30, 2006 had a weighted-average life of 11.6 years, and (ii) non-compete agreements, customer relationships and other, which at September 30, 2006 had a weighted-average life of 11.8 years. Gross cost and accumulated amortization of product rights and licenses at September 30, 2006 were \$69,452 and \$27,787, respectively, and at March 31, 2006 were \$69,452 and \$24,631, respectively. Gross cost and accumulated amortization of noncompete agreements, customer relationships and other at September 30, 2006 were \$17,507 and \$10,222, respectively, and at March 31, 2006 were \$14,007 and \$9,404, respectively. Amortization expense for the three and six months ended September 30, 2006 was \$1,972 and \$3,974, respectively. Amortization expense for the fiscal year ended March 31, 2007 and the succeeding five fiscal years by year is expected to be as follows: 2007: \$7,918; 2008: \$7,875; 2009: \$6,984; 2010: \$6,881; 2011: \$4,991; 2012: \$3,573.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation.

3. ACQUISITIONS

Effective April 1, 2006, the Company acquired the assets and business of Excel Manufacturing, Inc., through a newly organized, wholly-owned subsidiary of the Company, Triumph Structures - Wichita, Inc. The acquisition of this business adds a significant new capability to the Company's Aerospace Systems segment with the acquired company's high-speed monolithic machining processes. Triumph Structures-Wichita, Inc. specializes in complex, high speed monolithic precision machining, turning, subassemblies and sheet metal fabrication, serving domestic and international aerospace customers. Effective April 1, 2006 the Company also acquired the assets and business of Air Excellence International, Inc. and its affiliates through two newly organized, wholly-owned subsidiaries of the Company, Triumph Interiors, LLC and Triumph Interiors Limited. The acquisition of this business expands the products and services supplied by our Aftermarket Services segment and allows the Company to provide integrated interior solutions to the airline industry and maintenance service providers. Triumph Interiors, LLC and Triumph Interiors Limited specialize in refurbishing and repairing aircraft interiors such as sidewalls, ceiling panels and overhead storage bins and manufactures a full line of interior lighting and plastic components. The acquisitions of the assets and businesses of Excel Manufacturing, Inc. and Air Excellence International, Inc. and its affiliates are herein referred to as the 2007 Acquisitions. The combined purchase price of the 2007 Acquisitions of \$49,018 includes cash paid at closing, liabilities assumed and direct costs of the transactions. The excess of the combined purchase price over the preliminary estimated fair value of the net assets acquired of \$24,336 was recorded as goodwill, all of which is tax-deductible. The Company has also identified intangible assets valued at approximately \$3,500 comprised of noncompete agreements, customer relationships, and backlog. The Company has recorded its best estimate of the intangibles and property and equipment subject to appraisals; accordingly, the allocation of the purchase price is not complete and is subject to change.

The following condensed balance sheet represents the amounts assigned to each major asset and liability caption in the aggregate for the 2007 Acquisitions:

Accounts receivable	\$ 4,118
Inventory	9,933
Prepays and other	538
Property and equipment	13,197
Goodwill	24,336
Intangible assets	3,500
Total assets	\$ 55,622
Accounts payable	\$ 4,975
Accrued expenses	4,154
Other long-term liability	7,000
Total liabilities	\$ 16,129

These acquisitions have been accounted for under the purchase method and, accordingly, are included in the consolidated financial statements from their effective dates of acquisition. These acquisitions were funded by the Company's long-term borrowings in place at the date of each respective acquisition.

The following unaudited pro forma information for the three and six months ended September 30, 2005 has been prepared assuming the 2007 Acquisitions had occurred on April 1, 2005. The pro forma information for the three and six months ended September 30, 2005 is as follows: Net sales: \$190,905 and \$374,850; Net income: \$7,577 and \$15,014; Net income per share - basic: \$0.48 and \$0.94; and Net income per share diluted: \$0.47 and \$0.94.

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

4. INVENTORIES

The components of inventories are as follows:

	SEPTEMBER 30, 2006	MARCH 31, 2006
Raw materials	\$ 34,826	\$ 27,005
Manufactured and purchased components	84,685	81,149
Work-in-process	103,575	85,597
Finished goods	50,505	42,127
Total inventories	\$ 273,591	\$ 235,878

5. LONG-TERM DEBT

Long-term debt consists of the following:

	SEPTEMBER 30, 2006	MARCH 31, 2006
Convertible senior subordinated notes	\$ 201,250	\$ 0
Senior notes	124,424	124,424
Revolving credit facility	0	31,825
Subordinated promissory notes	5,500	0
Other debt	5,623	5,168
	336,797	161,417
Less current portion	86,496	8,078
	\$ 250,301	\$ 153,339

Credit Facility

On September 18, 2006, the Company amended its existing amended and restated credit agreement (the "Credit Facility") with its lenders to permit the issuance of up to \$202,000 of convertible debt and to revise the definition of consolidated total indebtedness to exclude indebtedness under the senior notes.

On October 20, 2006, the Company amended the Credit Facility with its lenders to increase the Credit Facility to \$350,000 from \$250,000, extend the maturity date to June 30, 2011 and amend certain other terms and covenants. The Credit Facility bears interest at either (i) LIBOR plus between 0.625% and 2.00% or (ii) the prime rate or (iii) an overnight rate at the option of the company. The applicable interest rate is based upon the Company's ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization. In addition, the Company is required to pay a commitment fee of between 0.175% and 0.400% on the unused portion of the Credit Facility. The Company may allocate up to \$30,000 of the available Credit Facility for the issuance of letters of credit. The Company's obligations under the Credit Facility are guaranteed by the Company's subsidiaries.

Convertible Senior Subordinated Notes

On September 18, 2006, the Company issued \$201,250 in convertible senior subordinated notes to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended (the "Notes"). The Notes are direct, unsecured, senior subordinated obligations of the Company, and rank (i) junior in right of payment to all of the Company's existing and future senior indebtedness, (ii) equal in right of payment with any other future senior subordinated indebtedness, and (iii) senior in right of payment to all subordinated indebtedness. In connection with the issuance and sale of the Notes, the Company entered into an indenture (the "Indenture"), dated as of September 18, 2006, with The Bank of New York Trust Company, N.A., as trustee.

The Company received net proceeds from the sale of the Notes of approximately \$195,620 after deducting estimated offering expenses of approximately \$5,630. The intended use of the net proceeds from the sale was for prepayment of the Company's outstanding senior notes, including a make-whole premium, fees and expenses in connection with the prepayment, and to repay a portion of the outstanding indebtedness under the Company's Credit Facility. Because prepayment of the senior notes required prior written notice to the note holders, a portion of the net proceeds from the sale of the Notes were temporarily used to pay down the then outstanding amount under the Company's Credit Facility of \$104,950. Approximately \$5,630 in debt issuance costs have been recorded as other assets in the accompanying consolidated balance sheets. Debt issuance costs are being amortized over a period of five years.

The Notes bear interest at a fixed rate of 2.625% per annum, payable in cash semi-annually in arrears on each April 1 and October 1 beginning April 1, 2007. During the period commencing on October 6, 2011 and ending on, but excluding, April 1, 2012 and each six-month period from October 1 to March 31 or from April 1 to September 30 thereafter, the Company will pay contingent interest during the applicable interest period if the average trading price (as defined in the Indenture) of a Note for the five consecutive trading days ending on the third trading day immediately preceding the first day of the relevant six-month period equals or exceeds 120% of the principal amount of the Notes. The contingent interest payable per Note in respect of any six-month period will equal 0.25% per annum calculated on the average trading price of a Note for the relevant five trading day period. This contingent interest feature represents an embedded derivative. Since it is in the control of the Company to call the Notes at any time after October 6, 2011, the value of the embedded derivative was determined to be de minimis. Accordingly, no value has been assigned at issuance or at September 30, 2006.

The Notes mature on October 1, 2026 unless earlier redeemed, repurchased or converted. The Company may redeem the Notes for cash, either in whole or in part, anytime on or after October 6, 2011 at a redemption price equal to 100% of the principal amount of

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

If the Company undergoes a fundamental change (as defined in the Indenture), holders of the Notes will have the right, subject to certain conditions, to require the Company to repurchase for cash all or a portion of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, including contingent interest and additional amounts, if any. The carrying amount of convertible senior subordinated notes approximates fair value.

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Prepayment of Senior Notes

On October 4, 2006, the Company prepaid all of its outstanding Class A Senior Notes and Class B Senior Notes (collectively, the Senior Notes) and, accordingly, the rights of the holders of the Senior Notes under the Note Purchase Agreement, dated November 21, 2002, between the Company and such holders, as amended, ceased. The Senior Notes were prepaid with the proceeds from the Company's sale of the Notes as discussed above. Immediately prior to prepayment, \$68,375 aggregate principal amount of Class A Senior Notes, which carried a fixed rate of interest of 6.06%, were outstanding, and \$56,049 aggregate amount of Class B Senior Notes, which carried a fixed rate of interest of 5.59%, were outstanding. If the Company had not prepaid the outstanding Senior Notes, they would have matured on December 2, 2012, subject to a requirement under the Note Purchase Agreement that the Company annually prepay \$8,007 of the outstanding Class B notes starting on December 2, 2006. The Senior Notes were senior unsecured obligations of the Company and ranked junior in right of payment to the rights of the Company's secured creditors to the extent of their security in the Company's assets, equal in right of payment to the rights of creditors under the Company's other existing and future unsecured unsubordinated obligations, senior in right of payment to the rights of creditors under obligations expressly subordinated to the Senior Notes, and effectively subordinated to secured and unsecured creditors of the Company's subsidiaries.

The prepayment was made upon proper notice to the holders of the Senior Notes at a price equal to 100% of the principal amount of the outstanding Senior Notes being prepaid, plus accrued and unpaid interest of approximately \$2,466, plus a make whole premium of approximately \$4,395 based on the value of the remaining scheduled interest payments on the Senior Notes being prepaid. The Company will expense the make whole premium of \$4,395 as well as unamortized debt issuance costs related to the Senior Notes of \$692 in the third quarter of fiscal 2007.

6. EARNINGS PER SHARE

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

		THREE MONTHS ENDED SEPTEMBER 30, (in thousands)		SIX MONTHS ENDED SEPTEMBER 30, (in thousands)	
		2006	2005	2006	2005
Weighted average common shares outstanding	basic	16,166	15,910	16,121	15,908
Net effect of dilutive stock options		148	146	178	123
Weighted average common shares outstanding	diluted	16,314	16,056	16,299	16,031

7. STOCK COMPENSATION PLANS

The Company has a number of stock-related compensation plans, including stock option and restricted stock plans, which are described in Note 2 and Note 10 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the fiscal year ended March 31, 2006. Through March 31, 2006, the Company accounted for its stock option plans using the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB No. 25) and related interpretations. Under APB No. 25, generally, when the exercise price of the Company's stock options equaled the market price of the underlying stock on the date of the grant, no compensation expense was recognized. As previously noted, the Company adopted SFAS No. 123R, using the modified-prospective transition method, beginning on April 1, 2006, and therefore, began to expense the fair value of all outstanding options over their remaining vesting periods to the extent the options were not fully vested as of the adoption date and began to expense the fair value of all options granted subsequent to March 31, 2006 over their requisite service periods.

SFAS No. 123R also requires the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense to be reported as a financing cash flow (\$472 for the six months ended September 30, 2006) rather than an operating cash flow, as previously required. In accordance with Staff Accounting Bulletin (SAB) No. 107, the Company classified share-based compensation within selling, general, and administrative expenses to correspond with the same line item as the majority of the cash compensation paid to employees.

Employee options and non-employee director options generally vest over a three-year service period. Compensation expense recognized for all option grants is net of estimated forfeitures and is recognized over the awards' respective requisite service periods. The fair values relating to the option grants were estimated using a Black-Scholes option pricing model. Expected volatilities are based on historical volatility of the Company's stock and other factors, such as implied market volatility. We used historical exercise data based on the age at grant of the option holder to estimate the options' expected term, which represents the period of time that the options granted are expected to be outstanding. The Company anticipated the future option holding periods to be similar to the historical option holding periods. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company recognizes compensation expense for the fair values of these awards on a straight-line basis over the requisite service period of these awards.

The following assumptions were used to estimate the fair values of options granted:

	Six months ended September 30, 2005	
Weighted average risk-free interest rate	4.0	%
Expected dividend yield		
Weighted average volatility factor of the expected market price of the Company's common stock	.42	
Weighted average expected life of the options	6 years	

Restricted shares generally vest in full after four years. The fair value of restricted shares under the Company's restricted stock plans is determined by the product of the number of shares granted and the grant date market price of the Company's common stock. The fair value of restricted shares is expensed on a straight-line basis over the requisite service period of four years.

During the three and six months ended September 30, 2006, the Company recorded \$600 and \$1,164, respectively, of share-based compensation expense. Total share-based compensation expense was comprised of stock option expense of \$153 and \$315 for the three and six months ended September 30, 2006, respectively, and restricted stock expense of \$447 and \$849 for the three and six months ended September 30, 2006, respectively. The Company estimates it will record share-based compensation expense of approximately \$2,300 in fiscal 2007. This estimate may be impacted by potential changes to the structure of the Company's share-based compensation plans which could impact the number of stock options granted in fiscal 2007, changes in valuation assumptions, and changes in the market price of the Company's common stock, among other things and, as a result, the actual share-based compensation expense in fiscal 2007 may differ from the Company's current estimate.

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The following table illustrates the impact of share-based compensation on reported amounts:

	Three months ended September 30, 2006		Six months ended September 30, 2006	
	As Reported	Impact of Share-Based Compensation	As Reported	Impact of Share-Based Compensation
Operating income	\$ 23,278	\$ 600	\$ 41,581	\$ 1,164
Net income	12,611	396	22,044	768
Earnings per share:				
Basic	\$ 0.78	\$ 0.02	\$ 1.37	\$ 0.05
Diluted	\$ 0.77	\$ 0.02	\$ 1.35	\$ 0.05

A summary of the Company's stock option activity and related information for its option plans for the three and six months ended September 30, 2006 was as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 31, 2006	944,096	\$ 35.28		
Granted				
Exercised	(188,302)	32.16		
Forfeited	(14,183)	34.96		
Outstanding at September 30, 2006	741,611	\$ 36.08	5.4 years	\$ 6,104
Exercisable at September 30, 2006	666,680	\$ 36.68	5.4 years	\$ 5,087

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A summary of the status of the Company's nonvested options as of September 30, 2006 and changes during the six months ended September 30, 2006, is presented below:

	Options	Weighted Average Grant Date Fair Value
Nonvested at March 31, 2006	123,154	\$ 14.29
Granted		
Vested	(43,940)	14.35
Forfeited	(4,283)	14.25
Nonvested at September 30, 2006	74,931	\$ 14.25

Expected future compensation expense relating to the 74,931 nonvested options outstanding as of September 30, 2006 is approximately \$900.

There are 52,998 nonvested restricted shares outstanding as of September 30, 2006. Expected future compensation expense on these shares is approximately \$1,530.

In April 2006, the Compensation Committee of the Company's Board of Directors approved the granting of restricted stock to several of its senior executives and employees, the number of shares of which will be determined based upon the Company's financial performance during fiscal 2007.

For purposes of pro forma disclosures, the estimated fair value of the stock options are amortized to expense over their assumed vesting periods. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, to all stock-related compensation.

	Three Months Ended September 30, 2005	Six Months Ended September 30, 2005
Net income, as reported	\$ 7,044	\$ 14,213
Add: Stock-related compensation expense included in reported net income, net of income taxes	70	140
Deduct: Stock-related compensation expense determined under the fair value method, net of income taxes	(206) (3,025)
Pro forma net income	\$ 6,908	\$ 11,328
Earnings per share:		
Basic, as reported	\$ 0.44	\$ 0.89
Basic, pro forma	\$ 0.43	\$ 0.71
Diluted, as reported	\$ 0.44	\$ 0.89
Diluted, pro forma	\$ 0.43	\$ 0.71

8. GOODWILL

The following is a summary of the changes in the carrying value of goodwill from March 31, 2006 through September 30, 2006:

	Aerospace Systems	Aftermarket Services	Total
Balance, March 31, 2006	\$ 241,777	\$ 30,960	\$ 272,737
Goodwill recognized through the 2007 Acquisitions	16,649	7,687	24,336
Effect of exchange rate changes	222	6	228
Balance, September 30, 2006	\$ 258,648	\$ 38,653	\$ 297,301

9. SEGMENTS

The Company has two reportable segments: Aerospace Systems and Aftermarket Services. The Company's Aerospace Systems segment consists of 28 operating locations and the Aftermarket Services segment consists of 18 operating locations at September 30, 2006.

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

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

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

The Company evaluates performance and allocates resources based on operating income of each reportable segment, rather than at the operating location level. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies (see Note 2).

Prior year period segment results have been changed to classify certain revenue and costs from the Aftermarket Services segment to the Aerospace Systems segment for the operations of Triumph Fabrications-Phoenix and Triumph Fabrications-Fort Worth due to the fact that most of their product line has been transitioned to aerospace OEM products. The transitioning of these business units resulted in the shift of approximately \$4,979 in revenue and \$1,744 in operating loss, previously reported in the Aftermarket Services segment, to the Aerospace Systems segment's results for the three months ended September 30, 2005, and \$9,409 in revenue and \$2,560 in operating loss for the six months ended September 30, 2005. Segment results have been adjusted to reflect these changes.

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Selected financial information for each reportable segment is as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2006	2005	2006	2005
Net sales:				
Aerospace systems	\$ 179,709	\$ 145,357	\$ 353,902	\$ 283,933
Aftermarket services	47,017	39,358	96,484	79,168
Elimination of inter-segment sales	(604)	(1,082)	(1,442)	(1,771)
	\$ 226,122	\$ 183,633	\$ 448,944	\$ 361,330
Income before income taxes:				
Operating income (expense):				
Aerospace systems	\$ 25,348	\$ 15,482	\$ 45,646	\$ 30,882
Aftermarket services	1,876	515	3,993	2,687
Corporate	(3,946)	(2,779)	(8,058)	(6,622)
	23,278	13,218	41,581	26,947
Interest expense and other	3,795	3,172	7,527	6,359
	\$ 19,483	\$ 10,046	\$ 34,054	\$ 20,588
Depreciation and amortization:				
Aerospace systems	\$ 6,353	\$ 5,864	\$ 12,756	\$ 11,763
Aftermarket services	2,407	2,086	4,710	4,086
Corporate	67	32	111	64
	\$ 8,827	\$ 7,982	\$ 17,577	\$ 15,913
Capital expenditures:				
Aerospace systems	\$ 8,138	\$ 3,864	\$ 14,872	\$ 6,264
Aftermarket services	4,886	1,594	11,158	4,176
Corporate	20	19	145	33
	\$ 13,044	\$ 5,477	\$ 26,175	\$ 10,473

	SEPTEMBER 30,	MARCH 31,
	2006	2006
Total Assets:		
Aerospace systems	\$ 806,617	\$ 737,864
Aftermarket services	230,795	212,335
Corporate	143,700	24,584
	\$ 1,181,112	\$ 974,783

During the three months ended September 30, 2006 and 2005, the Company had foreign sales of \$50,635 and \$40,076, respectively. During the six month period ended September 30, 2006 and 2005, the Company had foreign sales of \$100,667 and \$85,038, respectively.

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

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

OVERVIEW

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

Financial highlights for the second quarter fiscal 2007 include:

- Net sales for the second quarter of fiscal 2007 increased 23% to \$226.1 million
- Operating income in the second quarter of fiscal 2007 increased 76% to \$23.3 million
- Net income for the second quarter of fiscal 2007 increased 79% to \$12.6 million
- Backlog increased 39% during the quarter to \$1.1 billion

For the quarter ended September 30, 2006, net sales totaled \$226.1 million, a 23% increase from last year's second quarter net sales of \$183.6 million. Net income for the second quarter of fiscal 2007 increased 79% to \$12.6 million, or \$0.77 per diluted common share, versus \$7.0 million, or \$0.44 per diluted common share, for the second quarter of the prior year. During the quarter, we generated \$4.6 million of cash flow from operating activities.

RESULTS OF OPERATIONS**Quarter ended September 30, 2006 compared to quarter ended September 30, 2005**

	Quarter Ended September 30, 2006 (in thousands)	2005
Net Sales	\$ 226,122	\$ 183,633
Segment Operating Income	\$ 27,224	\$ 15,997
Corporate General and Administrative Expenses	(3,946)	(2,779)
Total Operating Income	23,278	13,218
Interest Expense and Other	3,795	3,172
Income Tax Expense	6,872	3,002
Net Income	\$ 12,611	\$ 7,044

Net sales increased by \$42.5 million, or 23.1%, to \$226.1 million for the quarter ended September 30, 2006 from \$183.6 million for the quarter ended September 30, 2005. The acquisitions of the assets and businesses of Excel Manufacturing, Inc. and Air Excellence International, Inc. and its affiliates, herein referred to as the 2007 Acquisitions, contributed \$13.4 million of the net sales increase. Excluding the effects of the 2007 Acquisitions, organic sales growth was \$29.1 million, or 15.8%.

The Aerospace Systems segment benefited primarily from increased sales to our OEM customers driven by increased aircraft build rates, while the increase in sales for our Aftermarket Services segment was the result of increased demand for our services as a result of growth in global air traffic.

Segment operating income increased by \$11.2 million or 70.2%, to \$27.2 million for the quarter ended September 30, 2006 from \$16.0 million for the quarter ended September 30, 2005. Operating income growth was a direct result of margins attained on increased sales volume as described above and the contribution of \$4.0 million from the 2007 Acquisitions, partially offset by increases in payroll, healthcare, litigation costs and costs associated with the startup of our new Thailand maintenance and repair facility.

Corporate general and administrative expenses increased by \$1.2 million, or 42.0%, to \$3.9 million for the quarter ended September 30, 2006 from \$2.8 million for the quarter ended September 30, 2005, primarily due to recognition of stock-based compensation and increased bonus accruals.

Interest expense and other increased by \$0.6 million, or 19.6%, to \$3.8 million for the quarter ended September 30, 2006 compared to \$3.2 million for the prior year period. This increase was due to higher average borrowings outstanding and increased interest rates on our variable rate debt.

The effective income tax rate for the quarter ended September 30, 2006 was 35.3% compared to 29.9% for the quarter ended September 30, 2005. The increase in the tax rate was primarily due to the expiration of the federal research and development tax credit and costs associated with the construction of our new Thailand maintenance and repair facility that were not tax benefited. The prior year quarter ended September 30, 2005 included a \$0.3 million reduction of income tax expense resulting from adjusting the income tax accrual to the filed tax return.

Business Segment Performance

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

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

Business Segment Performance Three months ended September 30, 2006 compared to three months ended September 30, 2005

	Quarter Ended September 30, 2006 (in thousands)	2005	% Change	% of Total Sales		2006	2005
NET SALES							
Aerospace Systems	\$ 179,709	\$ 145,357	23.6	% 79.5	%	79.2	%
Aftermarket Services	47,017	39,358	19.5	% 20.8	%	21.4	%
Elimination of inter-segment sales	(604)	(1,082)	(44.2)	%(0.3)	%)	(0.6)	%)
Total Net Sales	\$ 226,122	\$ 183,633	23.1	% 100.0	%	100.0	%

	Quarter Ended September 30, 2006 (in thousands)	2005	% Change	% of Segment Sales		2006	2005
SEGMENT OPERATING INCOME							
Aerospace Systems	\$ 25,348	\$ 15,482	63.7	% 14.1	%	10.7	%
Aftermarket Services	1,876	515	264.3	% 4.0	%	1.3	%
Corporate	(3,946)	(2,779)	42.0	% n/a	%)	n/a	%)
Total Segment Operating Income	\$ 23,278	\$ 13,218	76.1	% 10.3	%	7.2	%

Prior year period segment results have been changed to classify certain revenue and costs from the Aftermarket Services segment to the Aerospace Systems segment for the operations of Triumph Fabrications-Phoenix and Triumph Fabrications-Fort Worth as most of their product line has been transitioned to aerospace OEM products. The transitioning of these business units resulted in the shift of approximately \$5.0 million in revenue and \$1.7 million in operating loss for the quarter ended September 30, 2005, previously reported in the Aftermarket Services segment, to the Aerospace Systems segment. Segment results have been adjusted to reflect these changes.

Aerospace Systems: The Aerospace Systems segment net sales increased by \$34.4 million, or 23.6%, to \$179.7 million for the quarter ended September 30, 2006 from \$145.4 million for the quarter ended September 30, 2005. The increase was primarily due to increased sales to our OEM customers driven by increased aircraft build rates and the net sales contributed from the acquisition of the assets and business of Excel Manufacturing, Inc. (now Triumph Structures-Wichita).

Aerospace Systems segment operating income increased by \$9.9 million, or 63.7%, to \$25.3 million for the quarter ended September 30, 2006 from \$15.5 million for the quarter ended September 30, 2005. Operating income increased primarily due to margins attained on increased sales volume and the margins contributed from the Triumph Structures-Wichita acquisition, partially offset by increases in payroll, healthcare and litigation costs.

Aftermarket Services: The Aftermarket Services segment net sales increased by \$7.7 million, or 19.5%, to \$47.0 million for the quarter ended September 30, 2006 from \$39.4 million for the quarter ended September 30, 2005. This increase was primarily due to global air traffic growth, resulting in increased demand for our repair and overhaul services and the net sales contributed from the acquisition of the assets and business of Air Excellence International, Inc. and its affiliates (now Triumph Interiors).

Aftermarket Services segment operating income increased by \$1.4 million, or 264.3%, to \$1.9 million for the quarter ended September 30, 2006 from \$0.5 million for the quarter ended September 30, 2005. Operating income increased primarily due to margins attained on increased sales volume and the contribution from the acquisition of Triumph Interiors partially offset by increases in payroll, healthcare and costs associated with the start up of our new Thailand maintenance and repair facility.

Six months ended September 30, 2006 compared to six months ended September 30, 2005

	Six Months Ended September 30, 2006		2005
	(in thousands)		
Net Sales	\$ 448,944		\$ 361,330
Segment Operating Income	49,639		\$ 33,569
Corporate General and Administrative Expenses	(8,058)	(6,622
Total Operating Income	41,581		26,947
Interest Expense and Other	7,527		6,359
Income Tax Expense	12,010		6,375
Net Income	\$ 22,044		\$ 14,213

Net sales increased by \$87.6 million, or 24.2%, to \$448.9 million for the six months ended September 30, 2006 from \$361.3 million for the six months ended September 30, 2005. The 2007 Acquisitions contributed \$25.6 million. Excluding the effects of the 2007 Acquisitions, organic sales growth was \$62.0 million, or 17.2%.

The Aerospace Systems segment benefited primarily from increased sales to our OEM customers driven by increased aircraft build rates, while the increase in sales for our Aftermarket Services segment was the result of increased demand for our services as a result of growth in global air traffic.

Segment operating income increased by \$16.1 million or 47.9%, to \$49.6 million for the six months ended September 30, 2006 from \$33.5 million for the six months ended September 30, 2005. Operating income growth was a direct result of margins attained on increased sales volume as described above and the contribution of \$7.8 million from the 2007 Acquisitions, partially offset by increases in payroll, healthcare, litigation costs and costs associated with the startup of our new Thailand maintenance and repair facility.

Corporate general and administrative expenses increased by \$1.4 million, or 21.7%, to \$8.1 million for the six months ended September 30, 2006 from \$6.6 million for the six months ended September 30, 2005, primarily due to recognition of stock-based compensation and increased bonus accruals partially offset by decreased regulatory costs.

Interest expense and other increased by \$1.2 million, or 18.4%, to \$7.5 million for the six months ended September 30, 2006 compared to \$6.4 million for the prior year period. This increase was due to higher average borrowings outstanding resulting from the 2007 Acquisitions and our capital expenditures.

The effective tax rate was 35.3% for the six months ended September 30, 2006 and 31.0% for the six months ended September 30, 2005. The increase in tax rate was primarily due to the expiration of the federal research and development tax credit and cost associated with the construction of our new Thailand maintenance and repair facility that were not tax benefited. The first six months ended September 30, 2005 included a \$0.3 million reduction of income tax expense resulting from adjusting the income tax accrual to the filed tax return.

Business Segment Performance Six months ended September 30, 2006 compared to six months ended September 30, 2005

	Six Months Ended September 30, 2006 (in thousands)		2005	% Change	% of Total Sales		
	2006	2005			2006	2005	
NET SALES							
Aerospace Systems	\$ 353,902	\$ 283,933		24.6	% 78.8	% 78.6	%
Aftermarket Services	96,484	79,168		21.9	% 21.5	% 21.9	%
Elimination of inter-segment sales	(1,442)	(1,771)		(18.6)	%(0.3)	%(0.5)	%)
Total Net Sales	\$ 448,944	\$ 361,330		24.2	% 100.0	% 100.0	%

	Six Months Ended September 30, 2006 (in thousands)		2005	% Change	% of Segment Sales		
	2006	2005			2006	2005	
SEGMENT OPERATING INCOME							
Aerospace Systems	\$ 45,646	\$ 30,882		47.8	% 12.9	% 10.9	%
Aftermarket Services	3,993	2,687		48.6	% 4.1	% 3.4	%
Corporate	(8,058)	(6,622)		21.7	% n/a	n/a	
Total Segment Operating Income	\$ 41,581	\$ 26,947		54.3	% 9.3	% 7.5	%

Prior year period segment results have been changed to classify certain revenue and costs from the Aftermarket Services segment to the Aerospace Systems segment for the operations of Triumph Fabrications-Phoenix and Triumph Fabrications-Fort Worth as most of their product line has been transitioned to aerospace OEM products. The transitioning of these business units resulted in the shift of approximately \$9.4 million in revenue and \$2.6 million in operating loss for the six months ended September 30, 2005, previously reported in the Aftermarket Services segment, to the Aerospace Systems segment. Segment results have been adjusted to reflect these changes.

Aerospace Systems: The Aerospace Systems segment net sales increased by \$70.0 million, or 24.6%, to \$353.9 million for the six months ended September 30, 2006 from \$283.9 million for the six months ended September 30, 2005. The increase was primarily due to increased sales to our OEM customers driven by increased aircraft build rates and the net sales contributed from the acquisition of the assets and business of Excel Manufacturing, Inc. (now Triumph Structures-Wichita).

Aerospace Systems segment operating income increased by \$14.8 million, or 47.8%, to \$45.6 million for the six months ended September 30, 2006 from \$30.9 million for the six months ended September 30, 2005. Operating income increased primarily due to margins attained on increased sales volume and the margins contributed from the Triumph Structures-Wichita acquisition, partially offset by increases in payroll, healthcare and litigation costs.

Aftermarket Services: The Aftermarket Services segment net sales increased by \$17.3 million, or 21.9%, to \$96.5 million for the six months ended September 30, 2006 from \$79.2 million for the six months ended September 30, 2005. This increase was primarily due to global air traffic growth, resulting in increased demand for our repair and overhaul services and the net sales contributed from the acquisition of the assets and business of Air Excellence International, Inc. and its affiliates (now Triumph Interiors).

Aftermarket Services segment operating income increased by \$1.3 million, or 48.6%, to \$4.0 million for the six months ended September 30, 2006 from \$2.7 million for the six months ended September 30, 2005. Operating income increased primarily due to margins attained on increased sales volume and the contribution from the acquisition of Triumph Interiors partially offset by increases in payroll, healthcare and costs associated with the start up of our new Thailand maintenance and repair facility.

Liquidity and Capital Resources

Our working capital needs are generally funded through cash flows from operations and borrowings under our credit arrangements. During the six months ended September 30, 2006, we generated approximately \$5.2 million of cash flows from operating activities, used approximately \$74.1 million in investing activities and generated approximately \$169.7 million in financing activities.

In April 2006, the Company acquired the assets and business of Excel Manufacturing, Inc., located in Wichita, Kansas. In April 2006, the Company also acquired the assets and business of Air Excellence International, Inc. and its affiliates which is headquartered in Pittsburgh, PA, and operates three other strategically located facilities: Dallas, TX, Portland, OR and Shannon, Ireland. The total cash paid at these closings of approximately \$39.5 million was funded by borrowings under the Company's revolving credit facility.

On September 18, 2006, the Company amended its existing amended and restated credit agreement (the "Credit Facility") with its lenders to permit the issuance of up to \$202.0 million of convertible debt and to revise the definition of consolidated total indebtedness to exclude indebtedness under the senior notes.

On September 18, 2006, the Company issued \$201.3 million in convertible senior subordinated notes to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended (the "Notes"). The Notes are direct, unsecured, senior subordinated obligations of the Company, and rank (i) junior in right of payment to all of the Co